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Two months ago, AT&T Inc. Chief Executive Randall Stephenson stopped by Time Warner Inc. Chief Executive Jeff Bewkes's offices in New York for a lunch of salmon, while musing about the increasing convergence of the media and telecommunications industries.

During their lunch, Mr. Stephenson surprised Mr. Bewkes by suggesting that AT&T buy Time Warner, according to people familiar with the matter. Mr. Bewkes said it wasn't for sale, but at the right price he would consider an offer, the people said, signaling that a deal was possible. Mr. Stephenson walked away with his mind swirling with the possibilities that Time Warner's premium content—top brands such as HBO, CNN and Warner Bros.—could bring to the streaming video service he was trying to build. "If you were ever going to do something like this, this is the content you'd like to use as an anchor tenant," he said in an interview Sunday.

From that point forward, things proceeded at breakneck speed, culminating Saturday night in the biggest deal of the year as AT&T announced it was buying Time Warner for $107.50 a share—a 36% premium to where its stock was trading before the news of a deal started to trickle out late last week. The $85.4 billion cash-and-stock deal will forge a conglomerate that both produces content and distributes it, uniting AT&T's millions of pay-TV and wireless customers with Time Warner's extensive cache of media content, including the prized HBO premium network, cable networks TBS and TNT, and the Warner Bros. film and TV studio.

The mammoth combination would mark the crowning achievements of both company's CEOs, technocrats less known for deal making earlier in their tenures. They said they expect the deal to close by the end of 2017, though it is likely to face a stringent regulatory review. For Mr. Stephenson, the transaction could solidify his moving away from the U.S. wireless market—where further consolidation was blocked in 2011 when regulators halted his attempted $39 billion purchase of T-Mobile US Inc.

After buying DirecTV last year, this latest deal transforms the former regional telephone company into a major media conglomerate. He's betting that wading further into television and video will generate new sources of growth, and that buying Time Warner will provide a hedge against increasing programming costs. "Premium content always wins. It has been true on the big screen, the TV screen and now it is proving true on the mobile screen," said Mr. Stephenson, who will lead the new company, according to a

Morning Call
Convicted ex-Attorney General Kathleen Kane faces sentencing

Saturday news release.

For Mr. Bewkes, a cerebral Stanford M.B.A. known for his financial acumen, the sale is considered a triumph after he walked away from an $85-a-share offer from 21st Century Fox Inc. two years ago, saying it undervalued his company. (21st Century Fox and Wall Street Journal-owner News Corp share common ownership.) It also represents a strategic departure after he spent his nearly nine years as CEO slimming down the onetime media behemoth to focus on content, eschewing distribution businesses. He unwound the disastrous AOL merger and spun out the Time Warner Cable distribution business and Time Inc. magazines. Mr. Bewkes plans to stay for an interim period following the close of the deal to help with the transition.

From the time that AT&T agreed to purchase DirecTV in 2014 for $49 billion as part of a major shift toward video, analysts had expected the company to go after a media acquisition. In the spring, AT&T took a hard look at Starz, though it lost out to Lions Gate Entertainment Corp., which signed a deal at the end of June. In early August, the company decided to go after a bigger fish—Time Warner, according to people familiar with the matter. After Mr. Stephenson's lunch with Mr. Bewkes on Aug. 25, AT&T enlisted boutique investment bank Perella Weinberg Partners to work alongside its law firm, Sullivan & Cromwell LLP, according to people familiar with the matter.

Around early September, Time Warner brought in boutique investment bank Allen & Co. to work with its law firm Cravath, Swaine & Moore LLP. Discussions concerning due diligence and price took place last month, according to people familiar with the situation. By the middle of this month, the two companies had a "handshake deal," the people said, and bigger banks were brought in. J.P. Morgan Chase & Co. was hired to help AT&T with financing, while Bank of America Corp. came in shortly before the deal was signed to round out a bridge loan. Time Warner brought in Citigroup Inc. and Morgan Stanley around the weekend before the agreement was announced. The deal teams hammered out final details in Sullivan & Cromwell's Midtown Manhattan offices throughout the past week.

Part of the need for speed came from pressure from other bidders. Tech giants including Apple kicked the tires on Time Warner as recently as a few months ago, and Apple Inc. continues to monitor the situation, according to people familiar with the matter. Time Warner has agreed to pay a $1.7 billion breakup fee if another company outbids AT&T's offer, said a person familiar with the plans. AT&T, meanwhile, would pay $500 million if the deal gets blocked, this person said.

Time Warner and AT&T said they aim to be the first U.S. wireless company to compete nationwide with cable firms by providing an online-video bundle akin to a traditional pay-TV package. With its newfound scale from the DirecTV acquisition, AT&T has spent the past year aggressively negotiating deals with content owners so it can launch the DirecTV Now over-the-top video service by year's end. "It will disrupt the traditional entertainment model and push the boundaries on mobile content availability for the benefit of customers," the companies said. – ***Wall Street Journal***

AT&T Inc.'s blockbuster $85.4 billion deal to buy Time Warner Inc. promises to reshape the media landscape—if the companies can navigate a series of obstacles, including possible opposition from U.S. antitrust authorities and objections by lawmakers and media and telecom rivals.

Even before the deal was announced Saturday night, members of Congress, industry groups and Republican presidential nominee Donald Trump began to question it, contending the combination of AT&T's millions of wireless and pay-television subscribers with Time Warner's stable of TV networks and programming would limit competition and hurt consumers. Mr. Trump said if elected he wouldn't approve the deal "because it's too much concentration of power in the hands of too few."

Former presidential candidate Bernie Sanders on Sunday called on the administration to block the merger. "This deal would mean higher prices and fewer choices for the American people," Mr. Sanders wrote on Twitter. On NBC's "Meet the Press" Sunday, Democratic Vice Presidential nominee Tim Kaine said he shared the "concerns and questions" raised by Democratic Minnesota Sen. Al Franken that the deal could lead to higher costs and fewer choices. "Pro-competition and less concentration, I think, is generally helpful, especially in the media."

Experts compared the deal to the acquisition by Comcast of NBCUniversal, which went through in 2011 after 13 months of review. U.S. regulatory officials and rivals have expressed concerns that some government conditions regarding Comcast's behavior, such as its requirement to not weigh in on strategic decisions at streaming service Hulu, were tough to monitor and enforce.

AT&T Chief Executive Randall Stephenson played down the objections from lawmakers, politicians and industry groups, arguing the combination of a content provider and a distributor didn't increase industry concentration and wasn't the kind of deal regulators take issue with. "It is going to have to go through a regulatory review process that is dictated by rules, regulations and laws," Mr. Stephenson said in an interview. "I can't control what the politicians say and feel about it." AT&T affirmed Sunday that it would continue to run Time Warner's media assets autonomously amid concerns among current and former staff particularly at CNN that editorial independence might be compromised. "CNN is an American symbol of independent journalism and First Amendment free speech. My board and I are clear—CNN will remain completely independent from an editorial perspective," Mr. Stephenson said in a statement.

AT&T is no stranger to Washington politics, including the bitter memory of having its 2011 acquisition of T-Mobile US Inc. blocked. Its political-action committee has been one of the top corporate contributions. Regulators' questions will likely focus on whether AT&T would favor content acquired from Time Warner, if the merger would lead to higher prices, or if it would widen the playing field by making AT&T a stronger competitor. AT&T will likely have to meet conditions set by antitrust reviewers at the Justice Department as well as face regulators from the Federal Communications Commission, who will also likely conduct a public interest review of the deal. "Avoiding any kind of regulatory review is always a benefit," Mr. Stephenson said. "But we aren't naive. We aren't thinking that that won't happen." The Justice Department and FCC both declined to comment.

In the 2016 election, AT&T's PAC has given a total of $4.2 million to hundreds of candidates and groups in both parties, including $70,000 to a joint fundraising committee for House Speaker Rep. Paul Ryan (R., Wis.) and the maximum $5,000 to Sen. Chuck Schumer (D., N.Y.), considered the likely successor of departing Senate Minority Leader, Harry Reid of Nevada.

It was also a major donor to both political conventions, giving $1.5 million to the host committee for the Democratic convention and $4.2 million to the host committee for the Republican convention. Mr. Stephenson is a longtime Republican donor. He gave $1,000 to Mr. Ryan in March, and last December gave $30,000 to the Republican National Committee, according to Federal Election Commission records. He supported Republican presidential nominee Mitt Romney in 2012 and hasn't donated to Mr. Trump. Time Warner CEO Jeff Bewkes has a far more sparse donation record. He hasn't donated to any campaigns this election cycle, according to FEC records.

Media companies and industry rivals such as Walt Disney Co., which called for "close regulatory scrutiny" on Saturday, are expected to lobby for tough conditions that are enforceable, given the shadow of Comcast-NBCUniversal. Because this deal combines a content provider and a distributor instead of two direct rivals, lawyers, lobbyists and regulatory officials say divestitures are unlikely.

An FCC review could be sticky, especially if the majority of it is conducted by current Chairman Tom Wheeler, who has proved to be tough toward the telecom and cable industries. People close to him note that Mr. Wheeler may end up staying well into 2017 if Democratic candidate Hillary Clinton wins the presidency. "AT&T is no stranger to DOJ antitrust review and they are no stranger to FCC review if that is needed here," said Amanda Wait, a former Federal Trade Commission lawyer who now practices at law firm Hunton & Williams LLP.

In 2009, Comcast offered a variety of early concessions such as increasing children's programming when it acquired a controlling stake in NBCUniversal, something AT&T did with its DirecTV acquisition when it was announced in 2014 but not this time with Time Warner. Charter Communications Inc., when it scooped up Time Warner Cable Inc., also announced from the outset it wouldn't impose data caps on its broadband customers or charge content providers like Netflix Inc. for traffic handoffs to its broadband network for several years.

Industry executives believe AT&T will have a hard time shaking off worries in Washington it would favor Time Warner content on its vast combined wireline broadband and mobile footprint. For Dallas-based AT&T, the task of negotiating Washington will fall on Robert Quinn, who recently stepped into the top policy job having worked his way up through the carrier. His victories include shepherding the AT&T-BellSouth merger through an FCC commission with two Republicans and two Democrats, where the tiebreaker Republican had recused himself. The approval was unanimous. "He knows how to cut deals and compromise," said Sam Feder, a managing partner at Jenner & Block LLP and a former FCC general counsel. – ***Wall Street Journal***

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