The Economic Club of New York

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Randall L. Stephenson
Chairman and Chief Executive Officer
AT&T

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Interviewer: Becky Quick
Co-Anchor, CNBC's Squawk Box
Anchor, On the Money

Introduction

Chairman Terry J. Lundgren

I'd like to welcome our students here. We always like to try to invite students from our local universities, and we have students from Brooklyn College, from NYU Stern School of Business as well as Fordham University. So we want to welcome our students here. Also, we have members of our pilot class, 2017, of the Economic Club of New York Fellows Program. This is a program of aspiring Economic Club members, those who we believe are excelling in management, nominated by the Board of Directors of the Economic Club, that we're exposing to the Club and hope that we're planting the seed and the bug for them to become eventual members.

It's a great pleasure for me to introduce a long-time good friend, Randall Stephenson, who is the Chairman and CEO of AT&T of course. Randall was named to his current position in 2007. Since then, AT&T has positioned itself to become a global leader in the rapidly converging telecommunications, media, and technology category, TMT, and providing integrated solutions that range from premium video, entertainment, high-speed internet and mobility to IP network services, security, and the internet of things. AT&T is the largest pay TV provider in the United States and one of the largest in the world. The company offers video entertainment to more than 25 million customers in the United States and almost 20 million customers in Latin America through Sky Mexico.

AT&T is also one of the world's largest companies in the TMT category with more than $163 billion in 2016 revenues and 33 consecutive years of dividend growth. Over the last five years, AT&T has invested more than $140 billion in the United States, including capital investments in wireless and wire line networks, in acquisitions in wireless spectrum and operations. The company has committed $400 million since 2008 to its signature philanthropic initiative, AT&T Aspire, which drives innovation in education to promote student success in school as well as in the workplace.

I've known Randall for several years. And it's not because we have a business relationship, which I hear about constantly whenever we are together. But, I actually know Randall from the things outside of AT&T, which are really quite impressive that he takes these roles of leadership in other categories. He was Chairman of the Business Roundtable as one example, which is a big job. And he, Randall has also led AT&T's breakthrough called "It Can Wait" campaign, an education and awareness program that's educating drivers that distraction while driving is never an option. The program has amassed more than 15 million pledges of support.

Randall began his career at Southwestern Bell Telephone in 1982 in Oklahoma. He served as the company's CFO from 2001 to 2004. And from 2004 to 2007, he served as the Chief Operating Officer. He was promoted to AT&T's Board of Directors in 2005. As I said, he became CEO in 2007. He's a member of the Board of Directors of Emerson Electric Company and of Boeing. And he's a member of the PGA Tour Policy Board and National President of the Boy Scouts of

America. Randall received his bachelor's in accounting from the University of Central Oklahoma and his Master of Accountancy from the University of Oklahoma.

We're delighted to have as our interviewer, Becky Quick, co-anchor of CNBC's Squawk Box and anchor of On the Money. And I'm sure, between the two of them, we're going to have a great conversation. It's obviously a very timely conversation and I'm looking forward to hearing from both of you. So, please take your seats, and welcome. (Applause)

BECKY QUICK: Well, good afternoon everybody. It is a pleasure to be here with all of you. And it's a pleasure to be here with you, Randall, by the way. Thank you very much, Terry, for having us.

RANDALL STEPHENSON: Yes, thank you, Terry.

BECKY QUICK: So, Randall, what's new with you? (Laughter)

RANDALL STEPHENSON: Thanksgiving was good. (Laughter)

BECKY QUICK: Quiet.

RANDALL STEPHENSON: Quiet. Actually, it wasn't quiet. I came to the Macy's parade. It was terrific.

BECKY QUICK: We're here today, and this is a very fortunate time for all of us to be getting to sit down with you.

RANDALL STEPHENSON: For you. Maybe not for me.

BECKY QUICK: For us, not necessarily for you, but it is a pretty eventful time for AT&T. You all have just come out with a court filing last night and so we have a lot to talk about today. I guess the way I'd like to get into this is just looking back ten years ago, you made the move at AT&T to buy T-Mobile. The Department of Justice stepped in and said no and you backed down. Why this time, with Time Warner, are you deciding to fight the government?

RANDALL STEPHENSON: A very different situation. On this particular one, first of all, we have access to the courts. And with T-Mobile, we had a difficult time getting the case into the courts and there were some administrative maneuvering that kept us out of the courts. On this particular case, the Department of Justice chose to file the suit and so we see absolutely nothing in this case that is anti-competitive, lawfully anti-competitive. And so, as a result, looking at the facts of the case, we feel like we have a darn good case and we feel like this is one worth taking and pursuing into the courts. So, given access to the courts, we're going to go in and let the judge be the arbiter and see where we come out on this, but we like where we are.

BECKY QUICK: Let's talk about the court filing, your response that you gave to the government's case that it filed. You lay out some reasons why you think that this is not going to stand. Why don't you sum it up a little bit for people who have not read the file.

RANDALL STEPHENSON: Well, look, the government's complaint contends, for the government's complaint to be effective, they have to demonstrate two things. They have to demonstrate, first of all, that Direct TV has market power. Definitionally, they have market power. They also have to demonstrate that Turner Networks, a subsidiary of Time Warner has market power. And you have to have both of those for their complaint to hold. And if you just start with Direct TV, do they have market power? You know, as we think about why did we do this deal, we're looking at a competitive environment that's very different than the one the Department of Justice is looking at. We're looking at Netflix with 100 million subscribers. And we're looking at Amazon Prime, that they give premium content that they're developing on their own to their subscribers, which are at least 60 million subscribers. We don't know exactly how many they have in the U.S. but at least 60 million. You look at Google and you look at Facebook, delivering their content to billions of customers around the world. And these are all now vertically integrating content with distribution. And the government contends that with AT&T, with 25 million subscribers, that somehow we have market power. We don't understand that. We don't think that holds up in a court of law. And if you look at just the traditional competitors that the government is looking at, the cable companies and the satellite providers, even those, virtually every major market in the United States – Direct TV is number two or number three in each of those. So, to establish a position that's premised on Direct TV having market power, we think is difficult to prove. In fact, we think it just doesn't fit with reality. Turner Network, Turner Network has TNT, TBS, CNN. Do they have market power? And, in a world where premium content is now prolific, if you look at just scripted TV series, since 2010, the number has doubled. Scripted TV series are everywhere. And to suggest that Turner Network, whose market share of total media viewed is somewhere in the single digits in terms of market share of total media viewed, to suggest that that has market power seems to be quite a stretch in our mind. And so the government has said there's market power in both places and the reason that they have filed a lawsuit is they believe that putting these two together will cause prices to go up. And what's the mechanism by which prices would go up? Turner can now go to the cable distributors and say we're negotiating rates and we now are prepared to blackout our content to you. And when we black it out, what's going to happen? Your customers will leave you and go to Direct TV. And so, as a result, there's going to be the ability to raise prices. We think that is patently false. We don't think that premise holds water. But there's a model that suggests perhaps that it does. So what we did in our filing yesterday is we said if there is truly that concern, that this blackout provision would give the ability for the market to raise prices or Turner to raise prices, that we're prepared to take that off the table.

BECKY QUICK: That you will not enforce a blackout on any...

RANDALL STEPHENSON: Turner Networks yesterday sent to all the distributors a contract that said once this deal closes, if you choose to sign this, we commit to never blocking out your content for the next seven years and we will submit all contract disputes to baseball-style arbitration. That issue should be addressed with a simple remedy like that. We will not block out, we will not black out content, so this issue of saying we're going to black you out and the subscribers will come to Direct TV, that's gone. And in terms of pricing, how do we ensure they get market-based pricing? Submit it to baseball-style arbitration.

BECKY QUICK: There's a lot to go through, so let's break down some of these things. First of all, it puts you in a kind of strange position of arguing that, no, Direct TV, that I bought not long ago, is not very powerful when it comes to the market. And, by the way, Turner is not very powerful, which is the opposite message that you might be expecting to hear if you're a Wall Street investor or analyst.

RANDALL STEPHENSON: I don't think so...

BECKY QUICK: It raises the question why is this such a great property for you? Why do you want it?

RANDALL STEPHENSON: When we submitted Direct TV, the acquisition of Direct TV to the FCC, we never suggested it had market power. We did not. Nor did the FCC, I think, find that it had market power. And so, you know, we've never suggested that we have "definitionally market power." Why did we do Direct TV? We have been working, over the last few years, to build what we think is a very impressive distribution mechanism for video, particularly in the world of wireless communications. We think it's really important to be able to distribute premium video to our 150 million wireless endpoints out there across the North American region. And so we build this great platform, it's high speed, it can accommodate video, it's a very impressive distribution mechanism, and what we were trying to do is put together content to deliver to those customers. Trying to get the rights to distribute just over our wireless networks is really hard. We thought paring this with a Direct TV product so, as Terry mentioned, it's a large pay TV distribution network in North America, even Latin America. Acquiring Direct TV gave us the ability and it gave us the position to go in and negotiate those rights that we've been trying to get for years with all the premium content players to distribute content to our mobile customers. We bought Direct TV, something we've been trying to do for years. We got it done within a year. And within a year after acquiring Direct TV, we launched a product called Direct TV Now. It's a product that's in the marketplace today – a premium suite of channels delivered to mobile, delivered to your home TV, delivered to wherever you want it, for $35 a month. Now, this is something that's, it's a demonstrated great consumer benefit, by putting the two together, getting the leverage, getting the ability to bundle these services with your wireless product. You know, by the way, if you want that product with AT&T Wireless, it's $20 a month. I mean this is a really great deal for the consumer. We're having great success with it. We'll probably hit a million subscribers this quarter, within a year of launching the product. And so, that was what this was all about. We're gaining so much conviction in terms of the power of coming to market with a wireless product and delivered seamlessly to our customers throughout North America that we've said we really think we're going to create some great opportunities for content distributors – new distribution opportunities. We said, why don't we want to own some of that premium content? Because there are things we want to do with premium content that we've been having a hard time to do. And that is the ability to integrate social media with premium content. Think about Game of Thrones. It is a haven for social media interaction. The ability to bring that, integrate it with an experience of Game of Thrones would be very powerful, but getting the IP rights, intellectual property rights, and the agreements to do that, is really hard. Just like trying to get the rights to distribute wirelessly was hard. What we know is when you own assets like this, your ability to effect those kinds of relationships changes. It happens fast. Direct TV Now happened in a year. We are convinced, once we own Time Warner, the ability to begin to integrate that content differently for our customers, produce new experiences for our customers, will happen much quicker. So that's the premise for doing all this. It has absolutely nothing to do with a backward-looking view of the world where we say the way Turner can now price their content to cable distributors is the reason we're doing this. It has nothing to do with this deal. That's the reason we made this concession right off the bat. That is irrelevant for what we're trying to do with this deal.

BECKY QUICK: So, taking some of the government's arguments away before you even go before it.

RANDALL STEPHENSON: Right.

BECKY QUICK: I read one article that summed it up like this. They said that you are going to war with the government, making your last stand, and anything less than all-out victory would be fatal. Is that an oversell or do you think that's an accurate description?

RANDALL STEPHENSON: Well, all-out victory would be just to approve the merger with no conditions. I think what we demonstrated yesterday, we're prepared to make concessions, if you will. What we put in the filing yesterday is a concession, that we would actually take away a right Turner has to blackout their content if they can't get to a contractual agreement. We've taken that off the table. So, I think we have demonstrated a willingness to make reasonable concessions to address legitimate concerns the government may have. If there are concerns they have that are not legitimate, than those are the kinds of things you do litigate.

BECKY QUICK: What kind of illegitimate concerns are you referring to?

RANDALL STEPHENSON: I made some statements last week that, you know, I'm getting a lot of questions about selling assets. Would we sell assets as a condition for doing this deal? And my worry about selling assets is the message that it sends. There's a lot of noise around this deal as it relates to CNN. And as you begin to talk about selling assets, it starts to give a hint, a perception, or a belief that you're selling these to address a concern that some may have with CNN. We're going to do nothing that would lend credence to an idea that we're actually making concessions to address somebody's concern with CNN. We're not going to do that. That begins to have hints of First Amendment issues, and so we're just not going to be party to those kinds of things. We can't be.

BECKY QUICK: Do you suspect that that's the reason Justice has changed their mind? And let's talk about the players involved here. Makan Delrahim is the head of the Anti-trust Division. He was a lobbyist on behalf of Comcast and their purchase of NBC-Universal. And a year ago he spoke on Canadian television, just over a year ago, and said of this deal, your deal, I don't see this as a major anti-trust problem. I think these folks would have an easier route towards approval. What do you think happened 13 months later for the government to take such a different view and for him, in particular, Delrahim, to take such a different view?

RANDALL STEPHENSON: Look, Becky, I don't know. And I've said this consistently, I do not know. I don't know what's in Mr. Delrahim's mind. I don't know what's in the Justice Department's mind. I have no insight to that. I think the question keeps getting raised persistently and one can understand why people would raise the question given the time line that you just went through and given a lot of the facts surrounding this case that are out there. And so a logical person going through the time line of comments, quotes, Mr. Delrahim's position, and then it changing, it's a logical question to ask. But I don't know. I don't know if, you know, what is behind Mr. Delrahim, if there's a change in motives. He gave a speech a couple of weeks ago about the idea that he does not like behavioral remedies on deals. And so, is his dislike of behavioral remedies the basis of changing his opinion on this? You know I can't get inside his mind and understand. All I can do is read the complaint. And it's a complaint that went through what I just told you, that they believe, they contend that we have market power in both Turner and Direct TV. That's a hard one for them to prove, I believe.

BECKY QUICK: You may feel very confident in your case and everything that you've talked about today – when the deal closes, when we do this – but, you're also asking for a very speedy trial. You want to see this go by February 20. The government has asked for a trial date of May 7, which is after this deal is supposed to have closed, or at least begun closing. What happens? Is there a point where if you don't get a speedy trial, if this gets dragged out, you say, okay, it's not worth it?

RANDALL STEPHENSON: Well, first of all, start with speedy trial. We're 14 months into this deal. We basically did our final submission to the government and said the data request is complete back in March. Fourteen months into this deal, the government has taken 19 depositions of the highest ranking executives of both companies. The government has 25 million pages of documents in their possession. Fourteen months, they have all this information, they have all these depositions, they should be ready for trial, it seems to us. And to think about getting 18 months into this thing before you begin a trial begins to push the limits of patience it would seem. And so from our standpoint, we're ready to litigate. We've been working on this.

We've had our litigators sitting in all the depositions, been going through all the document discovery and so forth with them. We're ready. We think it's time for this case to be drawn to a closure. One way or the other, let's get it to closure. And so, a February 20 trial, you know, which is going to be 16 months into this deal, seems like a reasonable ask from our standpoint. In terms of your question about April 22, the contract with Time Warner has a provision that the deal expires on April 22. It's an important date, and it's a relevant date. And for the government, in their pleading basically articulating that that's a date that can just be extended, it's not as easy as that might sound. I mean you get 18 months into a deal and, you know, you want to do an extension, there are a lot of questions to be asked. And so, from our view, equity, fairness would suggest that we need to make sure that we have this case drawn to closure as fast as possible and well before that April 22 date.

BECKY QUICK: You know, you can be right, but you've heard people say you can't fight City Hall, the government has deep pockets and they can do just about anything they want. Even if you win this case, there's nothing to say that they won't appeal. And if that happens, and if things get dragged out, is there a point where you say enough is enough?

RANDALL STEPHENSON: I don't know. I don't even know how to answer the question. Right now, we have before us a lawsuit that we are going to litigate, and we will take it through to completion. You know, actually we stand ready to negotiate a settlement. We've indicated a willingness to agree to concessions that would address the government's concerns. And, by the way, these concessions that we are proposing are within the Department of Justice's own guidelines. And the Department of Justice has consistently said, particularly as it relates to vertical mergers, that the remedies for any competitive harm, alleged competitive harm, should match the degree of the competitive harm. And so the competitive harm that the Justice is litigating here, we don't think, we don't think there's any, but if there is any, there should be tailored remedies to those competitive harms rather than taking a sledgehammer or meat axe approach, you know, and talking about divestitures of assets or just denying or blocking the deal in general.

BECKY QUICK: Does it frustrate you?

RANDALL STEPHENSON: Yes. (Laughter)

BECKY QUICK: I mean many of these things, the concessions, many of these concessions are the ones that NBC, Universal, and Comcast agreed to. Does it frustrate you to be offering these concessions? Does it tick you off?

RANDALL STEPHENSON: This is the core of the issue in my mind. And it's one of the reasons that I feel so strongly about this, and that is that we believe at issue here is just basic rule of law. And when you have a situation that for a half of a century vertical mergers have been evaluated a particular way, and they've been evaluated, and there have been remedies and there are guidelines for what remedies are available for these types of mergers. For 50 years, this has been the way the law has been interpreted and implemented and executed. And to suddenly wake up on a merger that is less complicated than one that was just recently approved – NBC-Comcast – one that is less complicated and has less market power issues than that one has, and to go from very targeted structural remedies to a meat axe approach of just blocking the thing, to us, just strikes at the heart of rule of law. And when you're business people, when you're a business man, rule of law is everything. I mean rule of law, if you don't know how M&A is going to be evaluated, if you don't know how your investments are going to be evaluated, it's really hard to run a large capital-intensive business like AT&T. It's really hard to take anything to a board of directors and articulate what can you expect as it relates to the government's reaction to this deal. All we have to go on is the law, precedent, and guidelines by the regulators themselves. And so when suddenly those are thrown up in the air, one has to just ask where are we then? Where are we? What kind of, how do we go about even just basic decision-making in a company like AT&T? And that's why we're being so assertive on this and why we think this particular case is so important. Because we think rule of law is at issue here.

BECKY QUICK: Randall, you and I have talked about this in the past. Under the Obama administration, you had many complaints as a business leader for some of the exact things that you're laying out right now. What do you think of the Trump administration in your vantage point as the CEO of AT&T, as a business leader, former head of the Business Roundtable? How would you assess things so far?

RANDALL STEPHENSON: So, look, there's a lot of debate around President Trump. And I have probably been one of his biggest defenders in terms of public policy from the standpoint of, set aside any legislative achievements or anything so far, the one thing that has manifested itself over the early part of his presidency has been the regulatory burden has been rationalized. In our industry, it has been rationalized. We have had as predictable regulation as we've had in my career almost. It's been really, really a good situation to have a regulatory framework that we look at and we say, wow, from a businessman's standpoint or a business person's standpoint, decision-making has been simplified from just the plain regulation imposed on our business. That's a good thing. I look at the opportunity for tax reform. This is big. The implication of this for the U.S. economy if the House or the Senate bill, either one of these, is passed, it is a major significant item for the U.S. economy. I can't overstate how important I think a tax bill that makes the U.S. corporate taxes a competitive regime around the globe. That's big. It's significant. So, I've had that umbrella that I've been working under. Now, I've come into this situation with the Department of Justice where suddenly what I contend is a really excellent environment from a regulatory predictability standpoint, and now all of a sudden I find myself, wow, what was that? Right? I suddenly find myself, from an M&A, capital allocations standpoint, asking, you know, what is predictable? What can my board plan on? So, I've had a little curve ball thrown here, all right, and I'm trying to process this. I think it's a reasonable question to ask: what does this mean for business people in the United States of America if the Justice Department's complaint here is upheld?

BECKY QUICK: Let's dig through some of these other issues. You bring up tax reform and regulation, net neutrality, also a big issue for your industry, but let's start with tax reform because that is what is front and center in Washington these days. You have said that if tax reform is passed, you will spend at AT&T another billion dollars on capital expenditures. I believe AT&T is the top capital expenditure in terms of...$22 billion?

RANDALL STEPHENSON: We have been for the last five years the largest in America.

BECKY QUICK: The largest in America, spending $22 billion. How do you come up with a number of billion dollars if tax reform goes through? What's the math behind that?

RANDALL STEPHENSON: It's very conservative because I know we'll spend at least that. Seriously. If we have this kind of tax reform, it's a capital-freeing event, right, and you are freed up from capital, to invest more capital. And we have so many initiatives and projects that we would like to invest more in. 5G is really critical for us right now, especially in a world where you're about to own premium entertainment content, the ability to have 5G technology deployed ubiquitously around all the major metropolitans in the United States, wirelessly, just low latency, fast access to premium content is a big deal to us. Connected cars or autonomous cars require 5G. And so we would love to go faster with 5G, and going faster means you have to get more fiber in the ground. And so when you look at a tax bill like the House or the Senate bill, either one, they have major incentives for capital investment in them. We would take full advantage of those incentives to accelerate a lot of this investment that we're doing. So a billion dollars is an easy number for us to commit to because I think we'd do at least that. And so, by the way, I just, I don't think we are alone. In fact, I'm quite confident we're not alone here. If you look at capital investment in the United States over the last number of years, we have been investing as a percentage of our economy at the lowest level since World War II. To me, that's a staggering idea, that we have been investing in the United States at that low a level, and one must ask why? Why are you investing at such a low level? And I just think we're in a global economy now and capital flows freely. It's like water, it goes to the point of least resistance. And there are just a lot of places around the world where it's more beneficial and economic to invest versus the United States with the highest tax rate in the developed world. Suddenly you bring that tax rate down to a competitive level, you are just inherently going to attract more capital. It's more attractive to invest in the United States of America. So I don't think AT&T is alone. I'm quite confident you're going to see all of America begin to invest more. The beauty of the investment, when you're investing at historically low levels, it should not be a surprise that your productivity levels are at historically low levels. We've had a sustained low level of productivity in this country for quite some time. When you don't invest, you don't drive productivity. When you don't drive productivity, you don't get what? You don't get wage growth. These are all connected. I don't think these are independent ideas and independent thoughts. So I do believe, that's why I think tax reform, corporate tax reform, business tax reform is so important. It will drive investment which will drive productivity which will drive wage gains, and then we have this virtuous cycle that I get so excited about. So this is why we're all in on this.

BECKY QUICK: Let me throw out a couple of things that we hear from people on Squawk Box who argue against it. One is that, oh, corporations pay an average of 20 to 25% anyway. I know that's not the case with AT&T. You all pay closer to 33% the last few years?

RANDALL STEPHENSON: I mean pay versus our book rate, we have probably one of the most, one of the best tax organizations in America. And so what we do is, because the tax rate in the U.S. is so high, 35%, what does our government do? They say, wow, capital investment seems to be a little light, what can we do to stimulate it? So they put in place accelerated depreciation. We start to just kind of nickel and dime it and we find ways to get companies to do certain things. So we've had bonus depreciation, where if we invest we get accelerated depreciation. We take full advantage of those. We invest heavily. So our tax rate, we tend to keep low. We invested a lot of money in our pension plans, right? So we take advantage of things that the government wants to do to incentivize certain behavior. So our tax rate we've kept below that 35% threshold.

BECKY QUICK: But you're still paying at the high end. I guess when you look at the corporate tax code and there have been so many people who have said what you have said and said that this is a great plan, however, in combining it with the individual tax code that's come through, there have been a lot of Republicans and a lot of Conservatives who have had problems with it. So Larry Kudlow, who was one of the advisors on the corporate tax code, has said he doesn't like the individual tax code. We had Senator Bob Corker on the show yesterday. He said you could throw it out the window for all he could care about it. Do you worry that by combining these two it's going to trip things up politically and be too much of a push?

RANDALL STEPHENSON: No, I don't worry about it. I, as you've heard me say, I think the economic driver behind the business tax reform is so powerful that I don't get myself too concerned about the personal side of this thing. And, look, I think my taxes are probably going to go up. My personal taxes are going to go up. I'm wholly ambivalent about this. I do think it's important that we find a way to have middle tax relief in this, even if it's nominal. I think it's really important to do just from an equity standpoint, right, and from a political standpoint. And I'm not, what I would call, terribly well-versed on the personal side of this, but from my standpoint, the driver of this is the business tax reform. And I'll say it again, if you get investment going and you get productivity going, then you get wage gain going. We invest another billion dollars – every billion dollars AT&T invests is 7,000 hard hat jobs, all right. These are not entry level jobs. These are 7,000 jobs of people putting fiber in ground, hard hat jobs that make $70,000, $80,000 a year. And that's why I think the drivers of this are so important.

BECKY QUICK: Let's talk about finding employees because that's something we've talked about in the past where you have had trouble finding qualified employees, particularly engineers, to go into some of these things. What are you all doing as a result?

RANDALL STEPHENSON: So, this is, we kind of eased our way into this, but something significant has happened at AT&T in this regard, because our business is changing radically. You know we're going from a business that's about implementing, installing hardware in machines and networks to a business that's being driven by software and a business that's being driven by data. And so, when you have hundreds of thousands of employees, you can't just say we're just going to bring new employees in. It just doesn't work that way, right? You can't find enough employees with the skill sets you need. And so, it was almost five or six years ago, we said, look, this is maybe the most strategic, difficult logistical issue we are facing. It's how do we re-scale our employees. And we said trying to do it the old-fashioned way is just not going to work. And so we engaged in a process and we invested heavily in a mechanism whereby we made tools available for our employees, and it's a very impressive training and educational capabilities, everything from a masters in computer science degree at Georgia Tech, which you can now get a fully-accredited degree at a Top 5 engineering school, at George Tech, for $6,000 – a masters in computer science at Georgia Tech. We pay for the whole thing, but we were behind this, we invested in it heavily. We have hundreds of employees taking advantage of this. We implemented a number of nano-degrees and certifications and so forth for the new technologies and the new skills. Then just a complete new set of curriculum for our employees to begin equipping themselves with these new skills. Putting all that out there is one thing. What we found is very important, and I'm convinced this is a model for the governments around the United States of America. What you have to do, though, is connect that with the jobs and the opportunities within AT&T. So, if you're at AT&T today and you were looking for a new position, you go into the HR site, you click on it, you look at that position. The first thing it tells you is are the numbers of AT&T doing this or are they doing this? If they're doing this, you probably don't have much interest in looking at that position. If they're doing this, that looks good to you, you like the pay. What skills do you need? You click, here are the certifications or badges you need. You click on those. Here is this training I told you about. You either need to go to Georgia Tech. You need a nano-degree. You need this particular badge or certification. The training is all here. It's available for you. You get after it and we put you to work. Millions of courses completed. Employees are getting certified at an amazing rate. And I gotta tell you, I look at this and it's one of the most gratifying things we've done at AT&T in my 35 years. I'm really excited about this. I think this whole ecosystem is something very important that we ought to think about, how do we then take this to society and make this kind of capability available broadly?

BECKY QUICK: You know, you talk about these jobs that are out there, and I think of you, who has been the CEO at AT&T for the last ten years. Terry mentioned your path to getting there. Is that something you always planned on doing yourself? Going through that path?

RANDALL STEPHENSON: Yes, when I started, I kind of laid out a progression in terms of what I wanted to achieve and it's worked out almost exactly...(Laughter)

BECKY QUICK: As you had planned. I bring this up because when we were talking backstage, I learned something about you that I had never known before.

RANDALL STEPHENSON: You're going to bring this up?

BECKY QUICK: I am going to bring this up.

RANDALL STEPHENSON: It's true about Lundgren too, though.

BECKY QUICK: It is. It's something you two have in common – the wandering paths and ways of getting here. What was your major, your first major?

RANDALL STEPHENSON: My first major was the same as T. Boone Pickens and Terry Lundgren, and it was animal husbandry. (Laughter)

BECKY QUICK: It's a little different than where we might have expected you today. What happened? What changed your path?

RANDALL STEPHENSON: Well, it's interesting. I had a professor at Oklahoma State. For some reason, getting an animal husbandry major required you to take an accounting course. (Laughter) And Dr. Bud Lacy, I took an accounting course from this guy, and it was funny, he handed me back my third test. I'm in this class, I'm not even paying much attention to this class. I just kind of, I did it because I had to. And he handed me my test back and he said see me after class. And I came to see him right after class and he said you got 100 on that test. And I said, yes, sir. And he said, well, I don't give those out. You have a certain aptitude. That's the third one of these I've given to you and you have an aptitude. You ought to consider whether this is something that you want to do. And that afternoon I had an AI class, which to all of you here, does not mean artificial intelligence. When you're in animal husbandry, it's a different AI. And I was in an AI class and I found myself in a very compromising position on a 105 degree day with a mamma cow. And I thought, Bud Lacy's words began to ring in my mind and I found myself going and talking to Bud, and the next thing I know, I'm a business major majoring in accounting.

BECKY QUICK: In air-conditioned rooms.

RANDALL STEPHENSON: Yes, in an air-conditioned room.

BECKY QUICK: You know, I have a lot of things that I want to talk to you...

RANDALL STEPHENSON: That wasn't on TV, was it? (Laughter)

BECKY QUICK: I'm not sure, not sure. I have a lot of things I want to talk to you about, but I know we're running short on time. So, I'll run through a couple of things with you. Very quickly, net neutrality. I want to make sure we touch on that. Ajit Pai is expected to rule on this. There have been very vociferous arguments against getting rid of the net neutrality laws. Your stance on this, your take on this, and what it means for the industry.

RANDALL STEPHENSON: I was at a dinner with Glenn and Bob last night and a woman came up to me and she said are you familiar with this net neutrality issue? I said I am. And she said, what do you think? I mean I'm scared to death about this. And I said, what are you afraid of? And she said, well, that it goes away. I said, and then what happens? And she said, I don't know, you tell me. And I thought it's very interesting. If Ajit Pai's rules, that he has proposed, which basically says that those rules of Title II, what I'll call common carry or heavy regulation on the internet and on wireless communications, if what he is proposing goes through on December 14, it's going to be a lot like Y2K. We're all going to wake up, we've got our water bottles stored and we've got all of our food in the closet and so forth and we're ready kind of, for Armageddon to happen. It's going to be a lot like that. We're going to wake up and we're not going to notice any difference. In a year from December 15, we're going to wake up and there's still not going to be any difference because what is being proposed is that those rules where we just put this mish-mash of rules over the last few years on all of this stuff, that all goes away and the way we will be regulated is by our stated terms and conditions. We have terms and conditions out there today that says AT&T will not block any websites. We will not throttle and we will do no unfair discrimination – fast lane, slow lanes. Those are in our terms and conditions today. These rules go away. We will be regulated by those terms and conditions, our adherence to those terms and conditions. By the way, the exact same way that Google, Facebook, Twitter, and Amazon are regulated by those same terms and conditions. There is no difference. You're not going to notice any difference in how your internet works. You're not going to notice any difference in how your wireless works. No change. We'll be regulated by what we say we will do. Now, some would say, but you can change your terms and conditions. Yes. AT&T, if these rules go through, we could come out and say we've changed our minds, we're going to start blocking websites. I don't think that would be a very savvy move on the part of AT&T. We have to be very transparent. There's a requirement here of transparency. These rules will require total transparency at all internet service providers, all wireless providers in this regard. And so, I would tell you, I think this is a lot of emotion and a lot of rhetoric over nothing. The reason we were so emphatic and have been so strong that these rules need to change is that these rules had become a basis under the prior FCC administration for regulating rates and regulating prices for wireless and regulating service delivery of broadband. So, some areas that, by Congress statute says this needs to be light-touch regulation. They put in place a regime that was allowing very heavy-touch regulation. So, let's just go back, no blocking, no throttling, no unfair prioritization of traffic. Look, these are logical things. I would tell you, there's nobody in this room, I would suggest to you, who thinks there should not be a differentiation of speed for certain services. Does anybody have interest in autonomous cars? If you do, you want paid prioritization. You don't want your car operating on best efforts delivery of bandwidth. If you have any expectation of medical using wireless networks for surgery or EMS or those types of things, you don't want an elimination or an outlawing of paid prioritization. You want those kinds of services available, but you want us to be transparent about it. And so that's where we're headed. We're headed to a role of total transparency, and I think it can be regulated very effectively that way.

BECKY QUICK: Randall, in an era where a lot of CEOs duck and cover and don't like to take stances, political stances or anything that's going to alienate potentially half of their customer base, you've been outspoken about a lot of things. With the Boy Scouts, your leadership role there, you decided to start admitting girls and you gave a speech to AT&T employees where, among other things, you defended Black Lives Matter and you told your employees that tolerance is for cowards. Maybe you can explain a little bit about that and then just talk about when and why business leaders, you think, should stand up when it comes to divisive issues.

RANDALL STEPHENSON: What's been termed the Black Lives Matter talk, it was intended to be an internal talk with the family, you know, our employees, and it got captured on video and it went viral. But, you know, why did I feel compelled to make that talk? If you go back over a year ago, what was going on, you know, the situation in Ferguson, Missouri and the shootings in Louisiana and Dallas, the five police officers that were shot in Dallas, and there was so much going on, and our employees, you know, we have 275,000 employees in the United States, and they were all trying to put this in context. And we have a very diverse workforce as well. And as a CEO, you have an obligation to your employees to try to at least help them put it in context. I didn't feel like any of our political leaders were putting it in any kind of context. And so I just felt obligated to talk to our employee base and talk about this issue. And, you know, everybody was saying we needed to exercise tolerance. I said, no, we don't need to exercise tolerance, that's why I said tolerance is for cowards. You need to step out and understand what people are experiencing. Why do our Black employees feel, perceive, that they're being treated inappropriately by law enforcement? And I said, a lot of you in this room may not agree that they are. It doesn't really matter. You ought to understand why they believe they are. Whether you think they are or not, why do they feel they're being treated that way? We need to reach out, whether it's the LGBT community, we need to begin to just have a dialogue and talk about this stuff. And it was just trying to help our employees put this into context and initiate a conversation. It had a profound impact internally at AT&T. The dialogues began and it's been really important for our company. And so my threshold on these kinds of things is if you're going to speak out, is it relevant to your employees? Is it relevant to your companies and trying to help your employees manage through things? We had an issue in Texas with the Bathroom Bill. You know our politicians were trying to pass a Bathroom Bill and it was craziness. And so we felt obligated to step out and speak out on this as well because we had a lot of employees that were affected. The same thing with DACA and the immigration issues. When your employees are affected, I think you have an obligation to step up and be heard on these issues. Some of them are more pervasive than just your employee base, but I just do think you have an obligation to your people.

BECKY QUICK: Great. Randall, I want to thank you for your time and thank all of you for indulging us.

RANDALL STEPHENSON: Thank you. Thank you for the invitation.

(Applause)

CHAIRMAN TERRY J. LUNDGREN: So I think that was an excellent conversation. I think it helped us all learn more about why Randall feels that this merger, as one example, is so important, and not just for AT&T and Time-Warner, but for customers as well. And I think Becky did an excellent job of helping us all learn more about Randall, the person, not necessarily the CEO, and know that he's just a normal guy. Also, I wanted to say to all of you that we have one more event coming up. Our final event of the year will be on December 5. It will be an evening dinner with Dr. Henry Kissinger. We still have some tables available so I hope you'll give us, get on our website and sign up for that really important event. Enjoy your lunch everyone. Thanks for being here.