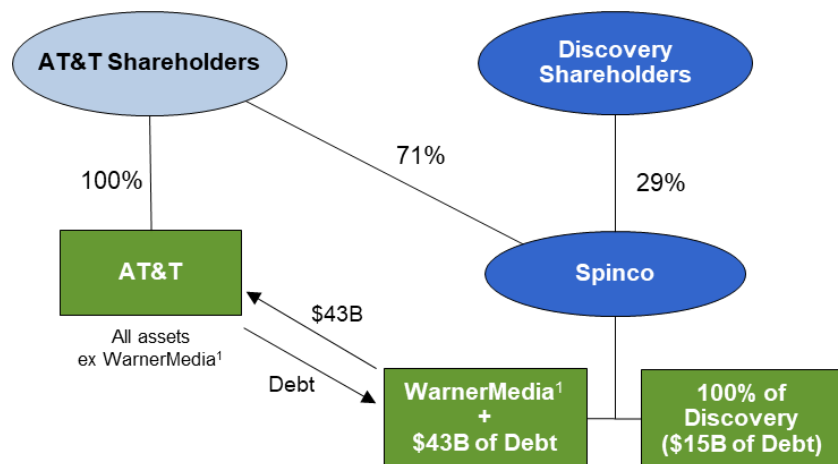


Case Study: AT&T's Reverse Morris Trust with Discovery

Transaction Overview

- On May 17, 2021, AT&T Inc. (“AT&T”) and Discovery, Inc. (“Discovery”) announced a definitive agreement to combine AT&T’s entertainment, sports and news assets (“WarnerMedia”) with Discovery, whose businesses include nonfiction and international entertainment and sports, in a Reverse Morris Trust (“RMT”) transaction to create a standalone global entertainment company.
 - AT&T will transfer WarnerMedia to a newly-formed corporation (“Spinco”).
 - In connection with the separation, AT&T will receive \$43 billion (subject to adjustment) in a combination of cash, Spinco debt securities, and WarnerMedia’s retention of certain debt.
 - AT&T will distribute shares of Spinco to its shareholders by way of a pro rata dividend, an exchange offer, or both.
 - A newly-formed subsidiary of Discovery will subsequently merge with Spinco, with Spinco as the surviving entity and a wholly-owned subsidiary of Discovery. Spinco shareholders will receive solely Discovery stock in the merger.
- Immediately after the RMT transaction, AT&T shareholders will own stock representing 71% of Spinco and Discovery shareholders will own stock representing 29% of Spinco.
- Discovery’s current multiple classes of shares will be consolidated to a single class.

Transaction Structure



¹ Excludes Certain assets including Xandr and Crunchyroll

- Spinco’s Board of Directors will consist of 13 members, 7 initially appointed by AT&T, including the chairperson of the board, and 6 initially appointed by Discovery, including current Discovery President and CEO David Zaslav, who will lead the proposed new company.
- The RMT transaction is expected to be tax-free to AT&T and AT&T’s shareholders and is expected to close mid-2022, subject to regulatory approvals and approval by Discovery’s shareholders.

For more information, please contact Linda Swartz, the Chair of Cadwalader’s Tax Group, at linda.swartz@cwt.com or 212 504 6062.