

Material Federal Income Tax Consequences of the Liberty/Ventures Combination to Holders of TCI Ventures Group Tracking Stock

It is a non-waivable condition of the Liberty/Ventures Combination that TCI receive an opinion from Baker & Botts, L.L.P., counsel to TCI, that:

- the Liberty/Ventures Combination should be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code;
- TCI should be a party to the reorganization within the meaning of Section 368(b) of the Code;
- no gain or loss should be recognized by TCI as a result of the Liberty/Ventures Combination; and
- no gain or loss should be recognized by a shareholder of TCI as a result of the Liberty/Ventures Combination with respect to shares of TCI Ventures Group Tracking Stock reclassified solely into Liberty/Ventures Group Tracking Stock.

The effect of any cash received by a TCI shareholder in lieu of a fractional share of Liberty/Ventures Group Tracking Stock is discussed below.

As indicated previously, opinions of counsel are not equivalent to rulings from the IRS, and the conclusions expressed in such opinions could be challenged by the IRS. Certain of the conclusions expressed in the aforesaid opinions are dependent on the Liberty Media Group Tracking Stock and TCI Ventures Group Tracking Stock being common stock of TCI. Also, as indicated previously, there is an absence of express authority dealing with this issue, but counsel to TCI believes it unlikely that the IRS would prevail in a court of law on this issue due to the particular rights inherent in such tracking stocks.

Assuming that the Liberty/Ventures Combination qualifies as a reorganization within the meaning of Section 368(a) of the Code:

- the aggregate tax basis of Liberty/Ventures Group Tracking Stock received by TCI shareholders in the exchange will be the same as the aggregate tax basis of TCI Ventures Group Tracking Stock surrendered in exchange therefor, excluding any basis allocable to fractional share interests in Liberty/Ventures Group Tracking Stock for which cash is received; and
- the holding period of Liberty/Ventures Group Tracking Stock received by TCI shareholders in the exchange will include the period during which TCI Ventures Group Tracking Stock surrendered in exchange therefor was held, *provided* that such shares of TCI Ventures Group Tracking Stock were held as capital assets at the effective time of the exchange.

A holder of TCI Ventures Group Tracking Stock who receives cash in the exchange in lieu of a fractional share interest in Liberty/Ventures Group Tracking Stock will be treated as having received the fractional share interest and then having sold such interest for the cash received. This sale will generally result in the recognition of gain or loss for U.S. federal income tax purposes measured by the difference between the amount of cash received and the tax basis of TCI Ventures Group Tracking Stock allocable to such fractional share interest, which gain or loss will be capital gain or loss, *provided* that TCI Ventures Group Tracking Stock was held as a capital asset at the effective time of the exchange. In addition, in the case of an individual holder of TCI Ventures Group Tracking Stock, any such capital gain will generally be subject to a maximum U.S. federal income tax rate of 20% if the shareholder's holding period in TCI Ventures Group Tracking Stock was more than one year at the effective time of the exchange.

The foregoing discussion under this section “—Material Federal Income Tax Consequences” is only a summary of the material U.S. federal income tax consequences of the Merger and of the Liberty/Ventures Combination. It is not a complete analysis or listing of all potential tax effects relevant to the Merger Agreement, the Merger and the Liberty/Ventures Combination. The discussion does not address the tax consequences that may be relevant to a particular TCI shareholder or AT&T shareholder subject to special

treatment under certain U.S. federal income tax laws, such as dealers in securities, banks, insurance companies, tax-exempt organizations, non-U.S. persons and shareholders who acquired their TCI shares or AT&T shares pursuant to the exercise of options or otherwise as compensation, nor any consequences arising under the laws of any state, locality or foreign jurisdiction. Moreover, the tax consequences to holders of AT&T options or TCI options are not discussed. In rendering the opinions referred to in this section, respective counsel for the companies will rely upon factual representations made by AT&T, Merger Sub and TCI in the Merger Agreement and related documents and in certificates to be executed in connection with the Merger. The discussion is based upon the Code, Treasury regulations thereunder and administrative rulings and court decisions as of the date hereof. All of the foregoing are subject to change and any such change could affect the continuing validity of this discussion. We urge you to consult your own tax advisors concerning the U.S. federal, state and local and foreign tax consequences of the Merger and the Liberty/Ventures Combination to you.

AT&T has received the opinion of Wachtell, Lipton, Rosen & Katz to the effect that the foregoing discussion under this section “—Material Federal Income Tax Consequences,” insofar as it relates to the U.S. federal income tax consequences of the Merger, is accurate in all material respects, and TCI has received the opinion of Baker & Botts, L.L.P. to the effect that the foregoing discussion under this section “—Material Federal Income Tax Consequences,” insofar as it relates to the U.S. federal income tax consequences of the Merger and the Liberty/Ventures Combination, is accurate in all material respects.

Regulatory Matters

HSR Act and Antitrust

AT&T and TCI have observed the notification and waiting period requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the “**HSR Act**”). The HSR Act provides for an initial 30-calendar-day waiting period following the filing with the U.S. Federal Trade Commission (the “**FTC**”) and the Antitrust Division of the U.S. Department of Justice (the “**Antitrust Division**”) of certain Notification and Report Forms by the parties to the Merger. The HSR Act further provides that, if, within the initial 30-calendar-day waiting period, the FTC or the Antitrust Division issues a request for additional information or documents, the waiting period will be extended until 11:59 p.m. on the 20th day after the date of substantial compliance by the filing parties with such request. Only one such extension of the initial waiting period is permitted under the HSR Act; however, the filing parties may voluntarily extend the waiting period.

On September 3, 1998, AT&T and TCI filed the Notification and Report Forms with the Antitrust Division and the FTC for review in connection with the Merger. On October 2, 1998, the Antitrust Division requested additional information from the companies. The parties substantially complied with the request on November 19, 1998 and the waiting period under the HSR Act expired on December 9, 1998.

TCI, AT&T and the Antitrust Division have executed and filed a Stipulation, dated December 30, 1998 (the “**Stipulation**”), containing a proposed form of final judgment (the “**Proposed Final Judgment**”), that the parties thereto propose be entered by the U.S. District Court for the District of Columbia in connection with the Merger. If, following compliance with the requirements of the Antitrust Procedures and Penalties Act, 15 U.S.C. § 16, the court approves the Proposed Final Judgment, a final judgment would be entered on substantially the same terms as those contained in the Proposed Final Judgment and TCI and AT&T would be bound thereby. Notwithstanding the foregoing, the Antitrust Division has reserved the right to withdraw its consent to the Proposed Final Judgment contained in the Stipulation at any time prior to the entry of a final judgment by such court.

The Proposed Final Judgment requires TCI to transfer, prior to the consummation of the Merger, all of its beneficial ownership interests in Sprint Corporation’s PCS tracking stock (“**Sprint PCS Stock**”) to a trustee acceptable to the Antitrust Division (the “**Trustee**”) pursuant to a form of trust agreement approved by the

Antitrust Division (the “**Trust Agreement**”) for the purpose of accomplishing the divestiture described below and in the Proposed Final Judgment. The Trustee will not be a director, officer, manager, agent or employee of AT&T or of Liberty Media Corporation.

The Proposed Final Judgment requires the divestiture by the Trustee on or before May 23, 2002 of that portion of the shares of Sprint PCS Stock beneficially owned by the New Liberty Media Group sufficient to cause the New Liberty Media Group to beneficially own no more than 10% of the outstanding Sprint PCS Stock on a fully diluted basis (assuming the issuance of all shares of Sprint PCS Stock ultimately issuable in respect of the applicable securities of Sprint upon the exercise, conversion or other issuance thereof in accordance with the terms of such securities). On or before May 23, 2004, the Trustee must divest the remainder of the Sprint PCS Stock beneficially owned by the New Liberty Media Group.

Pursuant to the Proposed Final Judgment, the Trust Agreement will grant the Trustee the sole right to sell Sprint PCS Stock beneficially owned by the New Liberty Media Group and will provide that all decisions regarding such divestiture will be made by the Trustee without discussion or consultation with AT&T or TCI; however, the Proposed Final Judgment provides that the Trustee shall consult with the Liberty Board regarding such divestiture (other than certain directors of Liberty Media Corporation expected to be appointed by AT&T following the Merger and any director, officer or shareholder of Liberty Media Corporation that owns more than 0.10% of the outstanding common stock of AT&T). The Trustee will have the power and authority to accomplish such divestiture only in a manner reasonably calculated to maximize the value of Sprint PCS Stock to the holders of New Liberty Media Group Tracking Stock.

The Proposed Final Judgment provides that the Trustee will be instructed to not vote Sprint PCS Stock beneficially owned by the New Liberty Media Group so long as such securities are held by the Trustee.

The Proposed Final Judgment also generally prohibits the acquisition by Liberty Media Corporation of additional Sprint PCS Stock (other than in connection with the exercise of certain warrants or the conversion of shares of Sprint PCS preferred stock) without the prior written consent of the Antitrust Division.

Notwithstanding expiration of the waiting period, the FTC, the Antitrust Division and others could take action under the antitrust laws to challenge the Merger, including seeking to enjoin the consummation of the Merger, seeking the divestiture by AT&T of all or part of the stock or assets of TCI or of other business conducted by AT&T, or seeking to subject AT&T or TCI to certain operating conditions, before or after the Merger is completed. There can be no assurance that a challenge to the Merger will not be made or that, if such a challenge is made, AT&T will prevail. The obligations of AT&T and TCI to consummate the Merger are subject to the condition that there be no decree, order or injunction of a court of competent jurisdiction that prohibits the consummation of the Merger.

Injunctions

The obligations of AT&T and TCI to consummate the Merger are subject to the condition that there be no preliminary or permanent injunction or other order by any court or governmental or regulatory authority of competent jurisdiction, including any state governmental or regulatory authorities, prohibiting consummation of the Merger or permitting such consummation only subject to any condition or restriction that has or would have a material adverse effect (as defined in the Merger Agreement) on TCI or on the TCI Group or on the Liberty/Ventures Group (or an effect on AT&T and its subsidiaries that, were such effect applied to TCI and its subsidiaries, would constitute a material adverse effect on TCI or on the TCI Group).

Federal Communications Commission

In addition, AT&T and TCI are required to obtain approvals from the FCC. On September 14, 1998, AT&T and TCI filed the required applications with the FCC seeking approval of the transfer of control to AT&T of the FCC licenses and authorizations held by certain TCI subsidiaries. In evaluating such applications,

the FCC will consider whether AT&T is qualified to control such licenses and authorizations and whether the public interest, convenience and necessity will be served by such transfer of control. As required, the FCC is seeking public comments on the applications. Initial comments by interested parties were filed on October 29, 1998 and reply comments were filed November 13, 1998.

Several parties who have submitted comments to the FCC as part of its review of the Merger have advocated that, as a condition to its approval, the FCC require that AT&T and TCI unbundle their cable facilities and make them available to competitors. There can be no assurance that the FCC will not impose such obligations on AT&T and TCI as a condition to its approval of the Merger or at some later date. Depending on the nature of any such obligations, such obligations could jeopardize or delay completion of the Merger if imposed by the FCC as a condition to its approval, or lessen the anticipated benefits of the Merger if imposed by the FCC as a condition to the Merger or at a later date.

State and Local Governmental Authorities

The Merger is also subject to certain state and local governmental approvals or actions. TCI and AT&T have filed applications and formal notifications in connection with the Merger in nine states and with approximately 970 local franchising authorities. The filings seek the level of review appropriate under each state's laws or local franchise authority's franchise agreement. Where approval or consent is required for transfers of control of cable television franchises, the governing legal standard is the legal, technical and financial qualifications of the company acquiring control. Where approval is required for transfer of control of regulated telephony service providers, the governing legal standard is typically whether the transaction is "in the public interest." As of January 6, 1999, approval had been obtained or deemed obtained under federal law from approximately 585 state and local franchise authorities. This represents approximately 28% of the total TCI subscribers in addition to the approximately 41% of TCI subscribers for which no approval is necessary.

In addition, several parties have advocated to various local franchise authorities, from whom consent to the change of control in TCI is required, that such local franchise authorities impose, as a condition to their approval, that AT&T and TCI unbundle their cable facilities and make them available to competitors. AT&T and TCI firmly believe that such action by a local franchise authority would be unlawful as a result of, among other things, preemption by the Cable Television Consumer Protection and Competition Act of 1992, as amended, and the Telecommunications Act. However, as of January 6, 1999, two local franchise authorities (representing in the aggregate approximately .5% of TCI subscribers) have imposed such a condition and other local franchise authorities (representing in the aggregate approximately 7%-8% of TCI subscribers) have indicated that they are considering imposing such a condition. There can be no assurance that additional local franchise authorities will not seek to impose such a condition. The imposition of such a condition could reduce the economic benefits to AT&T of the Merger. TCI and AT&T currently intend to contest any such conditions imposed by local franchise authorities. If such conditions were imposed and if it were ultimately determined that AT&T's failure to comply with any such condition were unlawful, AT&T could face financial penalties or potential loss of the applicable local franchise.

Pursuant to the Merger Agreement, it is a condition to AT&T's obligation to consummate the Merger that all required state and local governmental authorizations be obtained without any condition that has or would have a material adverse effect on TCI (or an effect on AT&T and its subsidiaries that, were such effect applied to TCI and its subsidiaries, would constitute a material adverse effect on TCI), except for such authorizations the failure of which to have been made or obtained does not and would not, individually or in the aggregate, have a material adverse effect on TCI (or an effect on AT&T and its subsidiaries that, were such effect applied to TCI and its subsidiaries, would constitute a material adverse effect on TCI).

As a result, depending on the nature of any such conditions, such conditions could jeopardize or delay completion of the Merger or lessen the anticipated benefits of the Merger if AT&T were to consummate this Merger notwithstanding such conditions or if such conditions were imposed at a later date.

Foreign Regulatory Filings

Under Regulation (EEC) No. 4064/89 of the Council of the European Union, the Merger may not be consummated until the Commission of the European Communities (the “**European Commission**”) has granted its approval thereof. The requisite notification was filed with respect to the Merger with the European Commission on November 3, 1998. The European Commission approved the Merger on December 4, 1998.

AT&T and TCI are not aware of any other foreign governmental approvals or actions that may be required for consummation of the Merger. However, AT&T and TCI conduct operations in a number of foreign countries, some of which have voluntary and/or post-merger notification systems. Should any other approval or action be required, AT&T and TCI currently contemplate that such approval or action would be sought. The failure to make any such filings or to obtain any such approvals is not anticipated to have a material effect on the Merger or the combined company.

AT&T and TCI believe that they will obtain all material required regulatory approvals prior to the Special Meetings. However, it is not certain that all such approvals will be received by such time and governmental authorities may impose unfavorable conditions for granting the required approvals.

Appraisal Rights

TCI Shareholders

TCI Common Stock. TCI is a Delaware corporation. Section 262 of the DGCL provides appraisal rights (sometimes referred to as “dissenters’ rights”) under certain circumstances to shareholders of a Delaware corporation that is involved in a merger. However, Section 262 appraisal rights are not available to shareholders of a corporation whose securities are listed on a national securities exchange or NASDAQ/NM and whose shareholders are not required to accept in exchange for their stock anything other than stock of another corporation listed on a national securities exchange or NASDAQ/NM or stock of the surviving corporation of the merger and, in either case, cash in lieu of fractional shares. Because all series of TCI Common Stock are traded on NASDAQ/NM, and because holders of TCI Common Stock will receive AT&T Common Stock or New Liberty Media Group Tracking Stock in the Merger, which will be traded on the NYSE, shareholders of TCI Common Stock will not have appraisal rights with respect to the Merger.

TCI Preferred Stock. Record holders of TCI Convertible Preferred Stock that follow the appropriate procedures are entitled to appraisal rights under Section 262 in connection with the Merger. Because TCI Class B Preferred Stock is traded on NASDAQ/NM and because holders of TCI Class B Preferred Stock will continue to hold Class B junior preferred stock of the Surviving Corporation, holders of TCI Class B Preferred Stock will not be entitled to appraisal rights with respect to the Merger.

The following discussion is not a complete statement of the law pertaining to appraisal rights under the DGCL and is qualified in its entirety by the full text of Section 262, which is reprinted in its entirety as Appendix G to this Proxy Statement/Prospectus. All references in Section 262 to a “shareholder” and in this discussion to a “record holder” are to the record holder of the shares of TCI Convertible Preferred Stock immediately prior to the Effective Time as to which appraisal rights are asserted. A person having a beneficial interest in shares of TCI Convertible Preferred Stock held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner to perfect appraisal rights.

Under the DGCL, record holders of TCI Convertible Preferred Stock who follow the procedures set forth in Section 262 will be entitled to have their shares of TCI Convertible Preferred Stock appraised by the Delaware Court of Chancery and to receive payment of the “fair value” of such shares, exclusive of any element of value arising from the accomplishment or expectation of the Merger, together with a fair rate of interest, as determined by the Delaware Court of Chancery.

Under Section 262, where a merger agreement is to be submitted for approval and adoption at a meeting of shareholders, as in the case of the TCI Special Meeting, not less than 20 days prior to the meeting, TCI must notify each of its shareholders entitled to appraisal rights that such appraisal rights are available and include in each such notice a copy of Section 262. **This Proxy Statement/Prospectus constitutes such notice to the holders of TCI Convertible Preferred Stock.** Any holder of TCI Convertible Preferred Stock who wishes to exercise appraisal rights or wishes to preserve such holder's right to do so should review the following discussion and Appendix G carefully because failure to timely and properly comply with the procedures specified in Section 262 will result in the loss of appraisal rights under DGCL.

A holder of TCI Convertible Preferred Stock wishing to exercise such holder's appraisal rights must deliver to TCI, before the vote on the approval and adoption of the Merger Agreement at the TCI Special Meeting, a written demand for appraisal of such holder's TCI Convertible Preferred Stock and must reasonably inform TCI of the identity of the holder of record as well as the intention of the holder to demand an appraisal of the fair value of the shares held. In addition, a holder of TCI Convertible Preferred Stock wishing to exercise appraisal rights or wishing to preserve such holder's right to do so must hold of record such shares on the date the written demand for appraisal is made and must continue to hold such shares through the Effective Time.

Only a holder of record of TCI Convertible Preferred Stock is entitled to assert appraisal rights for TCI Convertible Preferred Stock or TCI Class B Preferred Stock registered in such holder's name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as such holder's name appears on such holder's stock certificates, and must state that such holder intends thereby to demand appraisal of such holder's shares of TCI Convertible Preferred Stock.

If the shares of TCI Convertible Preferred Stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and, if the shares of TCI Convertible Preferred Stock are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including one or more joint owners, may execute a demand for appraisal on behalf of a holder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is agent for such owner or owners. A record holder, such as a broker who holds TCI Convertible Preferred Stock as nominee for several beneficial owners, may exercise appraisal rights with respect to the shares of TCI Convertible Preferred Stock held for one or more beneficial owners while not exercising such rights with respect to the TCI Convertible Preferred Stock held for other beneficial owners. In such case, however, the written demand should set forth the number of shares of TCI Convertible Preferred Stock as to which appraisal is sought. If no number of shares of TCI Convertible Preferred Stock is expressly mentioned, the demand will be presumed to cover all TCI Convertible Preferred Stock held in the name of the record owner. Holders of TCI Convertible Preferred Stock who hold their shares in brokerage accounts or other nominee forms and who wish to exercise appraisal rights are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such nominee.

All written demands for appraisal of TCI Convertible Preferred Stock should be mailed or delivered to TCI at Terrace Tower II, 5619 DTC Parkway, Englewood, CO 80111, Attention: Corporate Secretary, so as to be received before the vote on the approval and adoption of the Merger Agreement at the TCI Special Meeting.

Within 10 days after the Effective Time, TCI, as the Surviving Corporation, must send a notice as to the effectiveness of the Merger to each person who has satisfied the appropriate provisions of Section 262. Within 120 days after the Effective Time, but not thereafter, TCI, or any holder of TCI Convertible Preferred Stock entitled to appraisal rights under Section 262 and who has complied with the foregoing procedures, may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of such shares. TCI is not under any obligation, and has no present intention, to file a petition with respect to the appraisal of the fair value of the TCI Convertible Preferred Stock. Accordingly, it is the obligation of the holders of the shares of TCI Convertible Preferred Stock to initiate all necessary action to perfect their appraisal rights within the time prescribed in Section 262.

Within 120 days after the Effective Time, any record holder of TCI Convertible Preferred Stock who has complied with the requirements for exercise of appraisal rights will be entitled to request in writing a statement from TCI setting forth the aggregate number of shares of TCI Convertible Preferred Stock with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such statement must be mailed within 10 days after the written request has been received by TCI or within 10 days after expiration of the period for delivery of demands for appraisal, whichever is later.

If a holder of TCI Convertible Preferred Stock timely files a petition for appraisal and serves a copy of such petition upon TCI, TCI will then be obligated within 20 days to file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all shareholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached. After notice to such shareholders as required by the Delaware Court of Chancery, the Delaware Court of Chancery is empowered to conduct a hearing on such petition to determine those shareholders who have complied with Section 262 and who have become entitled to appraisal rights. The Delaware Court of Chancery may require the holders of shares of TCI Convertible Preferred Stock who demanded payment for their shares to submit their stock certificates to the Delaware Register in Chancery for notation of the pendency of the appraisal proceeding. If any shareholder fails to comply with such direction, the Delaware Court of Chancery may dismiss the proceedings as to such shareholder.

After determining the holders of TCI Convertible Preferred Stock entitled to appraisal, the Delaware Court of Chancery will appraise the fair value of their shares of TCI Convertible Preferred Stock, exclusive of any element of value arising from the accomplishment or expectation of the Merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. Holders considering seeking appraisal should be aware that the fair value of their TCI Convertible Preferred Stock as determined under Section 262 could be more than, the same as or less than the value of the consideration that they would otherwise receive in the Merger if they did not seek appraisal of their TCI Convertible Preferred Stock and that investment banking opinions as to fairness from a financial point of view are not necessarily opinions as to fair value under Section 262. The Delaware Supreme Court has stated that “proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court” should be considered in the appraisal proceedings. More specifically, the Delaware Supreme Court has stated that: “Fair value, in an appraisal context, measures ‘that which has been taken from the shareholder, viz., his proportionate interest in a going concern.’ In the appraisal process the corporation is valued ‘as an entity,’ not merely as a collection of assets or by the sum of the market price of each share of its stock. Moreover, the corporation must be viewed as an on-going enterprise, occupying a particular market position in the light of future prospects.” In addition, Delaware courts have decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a shareholder’s exclusive remedy. The Delaware Court of Chancery will also determine the amount of interest, if any, to be paid upon the amounts to be received by persons whose shares of TCI Convertible Preferred Stock have been appraised. The costs of the action may be determined by the Delaware Court of Chancery and taxed upon the parties as the Delaware Court of Chancery deems equitable. The Delaware Court of Chancery may also order that all or a portion of the expenses incurred by any holder of TCI Convertible Preferred Stock in connection with an appraisal, including, without limitation, reasonable attorneys’ fees and the fees and expenses of experts utilized in the appraisal proceeding, be charged *pro rata* against the value of all of the shares of TCI Convertible Preferred Stock entitled to appraisal.

Any holder of TCI Convertible Preferred Stock who has duly demanded an appraisal in compliance with Section 262 will not, after the Effective Time, be entitled to vote the shares of TCI Convertible Preferred Stock subject to such demand for any purpose or be entitled to the payment of dividends or other distributions on those shares (except dividends or other distributions payable to holders of record of TCI Convertible Preferred Stock as of a date prior to the Effective Time).

If any holder of TCI Convertible Preferred Stock who demands appraisal of such holder's shares of TCI Convertible Preferred Stock under Section 262 fails to perfect, or effectively withdraws or loses such holder's right to appraisal, as provided in the DGCL, the TCI Convertible Preferred Stock of such holder will be converted into either AT&T Common Stock or New Liberty Media Group Tracking Stock in accordance with the Merger Agreement (without interest), as more fully described under "The Transaction Agreements—The Merger Agreement—Conversion or Cancellation of TCI Shares in the Merger." A holder of TCI Convertible Preferred Stock will fail to perfect, or will effectively lose, the right to appraisal if no petition for appraisal is filed within 120 days after the Effective Time. A holder may withdraw a demand for appraisal by delivering to TCI a written withdrawal of the demand for appraisal and an acceptance of the Merger. Any such attempt to withdraw made more than 60 days after the Effective Time will, however, require the written approval of AT&T. Further, once a petition for appraisal is filed, the appraisal proceeding may not be dismissed as to any holder absent court approval.

Failure to follow the steps required by Section 262 for perfecting appraisal rights may result in the loss of such rights (in which event a holder of TCI Convertible Preferred Stock will be entitled to receive only the consideration set forth in the Merger Agreement for each share of TCI Convertible Preferred Stock issued and outstanding immediately prior to the Effective Time owned by such holder).

The foregoing is a summary of certain of the provisions of Section 262 and is qualified in its entirety by reference to the full text of such Section 262, a copy of which is attached as Appendix G to this Proxy Statement/Prospectus.

AT&T Shareholders

Because AT&T is not a party to the Merger (a wholly owned subsidiary of AT&T will merge with TCI), AT&T shareholders will not be entitled to appraisal rights in connection with the Merger.

Federal Securities Laws Consequences

All shares of AT&T Common Stock and New Liberty Media Group Tracking Stock that will be issued in the Merger will be freely transferable, except for certain restrictions on "affiliates" of AT&T or TCI. Shares of AT&T Common Stock or New Liberty Media Group Tracking Stock received by persons who are deemed to be affiliates of TCI may be resold by them only in transactions permitted by the resale provisions of Rule 145 (or Rule 144 in the case of such persons who become affiliates of AT&T) or as otherwise permitted under the Securities Act of 1933, as amended (the "Securities Act"). Persons who may be deemed to be affiliates of AT&T or TCI generally include certain officers, directors and significant shareholders of AT&T or TCI, respectively. The Merger Agreement requires TCI to use all reasonable efforts to cause each of its affiliates to execute a written agreement to the effect that such persons will not offer or sell or otherwise dispose of any of the shares of AT&T stock issued to them in the Merger in violation of the Securities Act or the rules and regulations promulgated by the SEC thereunder.

This Proxy Statement/Prospectus does not cover resales of AT&T Common Stock and New Liberty Media Group Tracking Stock to be received by the shareholders of TCI in the Merger, and no person is authorized to make any use of this Proxy Statement/Prospectus in connection with any such resale.

THE TRANSACTION AGREEMENTS

The following is a description of the material terms of the Transaction Agreements, copies of which are attached as Appendices to this Proxy Statement/Prospectus or as exhibits to the Registration Statement of AT&T of which this Proxy Statement/Prospectus is a part and are incorporated herein by reference. To receive copies of the incorporated documents, see "Summary—Where You Can Find More Information."

The Merger Agreement

The description of the Merger Agreement set forth below describes the material terms but does not purport to describe all the terms of the Merger Agreement. The full text of the Merger Agreement is attached as Appendix A to this Proxy Statement/Prospectus and is incorporated by reference herein. All shareholders are urged to read the Merger Agreement in its entirety.

Pre-Merger Restructuring

The Merger Agreement provides that, to the extent practicable prior to the Effective Time, and subject to the reasonable satisfaction of AT&T with the form and substance of such transactions, TCI will use its reasonable best efforts to cause direct or indirect subsidiaries of the TCI Group owning shares of TCI Group Tracking Stock to merge into TCI (or their respective parent corporations) or otherwise to liquidate so that such shares of TCI Group Tracking Stock are not outstanding for U.S. federal income tax purposes at the Effective Time, *provided* that any such merger or liquidation is tax free.

The Merger Agreement provides that, at or prior to the Effective Time, to the extent the TCI Board so determines, TCI may, but shall not be required to:

- amend and restate the Certificate of Incorporation and By-Laws of Liberty Media Corporation (collectively, the "**Liberty Charter Documents**");
- cause Liberty Media Corporation to enter into the Contribution Agreement, in which event AT&T shall execute and deliver to Liberty Management LLC and Liberty Media Group LLC a letter pursuant to which AT&T will agree to promptly and diligently make such filings and cooperate in good faith to obtain any consents of governmental authorities as are required in order to consummate the transactions contemplated by the Contribution Agreement); and
- create Liberty Media Group LLC.

In the event TCI takes the foregoing actions, the rights and obligations of Liberty Media Corporation under the Inter-Group Agreement to be entered into at the Effective Time by AT&T, on behalf of the AT&T Common Stock Group, and Liberty Media Corporation, on behalf of the New Liberty Media Group, shall be assignable to Liberty Media Group LLC. See "**—Other Transaction Agreements—Agreements Relating to Governance and Structure of the New Liberty Media Group.**" TCI may take equivalent actions with respect to certain other of its subsidiaries that will be included in the New Liberty Media Group but are not subsidiaries of Liberty Media Corporation.

Subject to the terms and conditions of the Merger Agreement, prior to the Effective Time, and provided that all of the conditions to the consummation of the transactions contemplated by the Merger Agreement to be satisfied prior to the Closing have been satisfied or duly waived, TCI and its appropriate affiliates shall, on a tax-free basis, make such other transfers of assets and businesses, and assumptions of liabilities, if any, as are reasonably necessary to cause the representations and warranties of TCI with respect to the separation of assets and liabilities between the TCI Group and the Liberty/Ventures Group to be true and correct in all material respects.

The Asset Transfers

Subject to the terms and conditions of the Merger Agreement, prior to the Effective Time, and provided that all of the conditions to the consummation of the transactions contemplated by the Merger Agreement to be

satisfied prior to the Closing have been satisfied or duly waived, TCI will cause the Liberty/Ventures Group to effect the Asset Transfers, pursuant to which the Liberty/Ventures Group will transfer or attribute to the TCI Group the following assets in exchange for approximately \$5.5 billion in cash:

- 31,860,000 @Home Class A shares and 15,400,000 @Home Class B shares;
- 46,952,832 shares of AT&T Common Stock received by TCI Ventures Group in exchange for 1,011,528 shares of Class A common stock of Teleport and 48,779,388 shares of Class B common stock of Teleport;
- the business of NDTC; and
- all of its equity interest in WTCL.

In addition, the Liberty/Ventures Group and the TCI Group will exchange certain other assets. The Merger Agreement provides that, to the extent feasible, such actions will be effected on a tax-free basis without creating any deferred intercompany gain or other tax consequences, in a manner reasonably satisfactory to AT&T.

The Merger

Subject to the terms and conditions of the Merger Agreement, Merger Sub will merge with and into TCI at the Effective Time. The separate corporate existence of Merger Sub will cease. TCI will be the Surviving Corporation in the Merger and will continue its corporate existence as a subsidiary of AT&T and will continue to be governed by the laws of the State of Delaware.

Effective Time and Closing. The Merger Agreement provides that the Merger will become effective at the Effective Time. The Closing will be on the earliest practicable date (the “Closing Date”) (but no later than the fifth business day) following the satisfaction or waiver of the conditions to the Merger (other than those conditions to be satisfied or waived at the Closing) or on such other date as AT&T, TCI and Merger Sub shall agree.

Certificate of Incorporation and By-Laws. The Merger Agreement provides that the TCI Charter shall be amended pursuant to the Certificate of Merger to be identical to the Certificate of Incorporation of Merger Sub as in effect immediately prior to the Effective Time, except to indicate that the name of the Surviving Corporation shall be “Tele-Communications, Inc.” The TCI Charter, as so amended, will become the Certificate of Incorporation of the Surviving Corporation. The TCI By-Laws shall be amended as of the Effective Time to be identical to the By-Laws of Merger Sub in effect immediately prior to the Effective Time, except to the extent required to reflect that the name of the Surviving Corporation shall be “Tele-Communications, Inc.,” and the TCI By-Laws, as so amended, will become the By-Laws of the Surviving Corporation.

Directors and Officers. The Merger Agreement provides that the directors and officers of TCI at the Effective Time will be the directors and officers of the Surviving Corporation.

Conversion or Cancellation of TCI Shares in the Merger

Conversion of Shares. The Merger Agreement provides that, at the Effective Time and without any action on the part of the shareholders, each issued and outstanding share of TCI Common Stock and TCI Preferred Stock and each option to purchase TCI Common Stock or each restricted share of TCI Common Stock shall be treated as follows (subject to the treatment of fractional shares described below):

- Each share of TCI Group Series A Tracking Stock will be exchanged at the TCI Group Series A Exchange Ratio of 0.7757 of a share of AT&T Common Stock.

- Each share of TCI Group Series B Tracking Stock will be exchanged at the TCI Group Series B Exchange Ratio of 0.8533 of a share of AT&T Common Stock.
- Each share of Liberty/Ventures Group Series A Tracking Stock will be exchanged into one share of New Liberty Media Group Class A Tracking Stock and each share of Liberty/Ventures Group Series B Tracking Stock will be exchanged into one share of New Liberty Media Group Class B Tracking Stock.
- If the Liberty/Ventures Combination has not occurred prior to the Merger:
 - each share of Liberty Media Group Series A Tracking Stock and Liberty Media Group Series B Tracking Stock will be exchanged for one share of New Liberty Media Group Class A Tracking Stock or New Liberty Media Group Class B Tracking Stock, as appropriate; and
 - each share of TCI Ventures Group Series A Tracking Stock and TCI Ventures Group Series B Tracking Stock will be exchanged for 0.52 of a share of New Liberty Media Group Class A Tracking Stock or New Liberty Media Group Class B Tracking Stock, as appropriate.
- Each outstanding option to purchase shares of TCI Group Tracking Stock issued pursuant to TCI's stock option or similar plans and any non-plan options to acquire TCI Group Tracking Stock pursuant to an option agreement or otherwise, will be assumed by AT&T and will constitute an option to acquire, on the same terms and conditions as were applicable under such assumed option, that number of shares of AT&T Common Stock equal to the product of the TCI Group Exchange Ratio and the number of shares of TCI Group Tracking Stock subject to such option, at an exercise price per share of AT&T Common Stock equal to the exercise price per share of such option immediately prior to the Effective Time divided by the applicable TCI Group Exchange Ratio, rounded down to the nearest whole cent. If the foregoing calculation results in an assumed option being exercisable for a fraction of a share of AT&T Common Stock, then the number of shares of AT&T Common Stock subject to such option will be rounded up to the nearest whole number of shares, with no cash being payable for such fractional share.
- Each outstanding option to purchase shares of Liberty Media Group Tracking Stock issued pursuant to TCI's stock option or similar plans and any non-plan options to acquire Liberty Media Group Tracking Stock pursuant to an option agreement or otherwise will be assumed by AT&T. Each such option will be converted into an option to acquire, on the same terms and conditions, a number of shares of New Liberty Media Group Tracking Stock equal to the number of shares of Liberty Media Group Tracking Stock subject to such option at the Effective Time, at an exercise price per share of New Liberty Media Group Tracking Stock equal to the exercise price per share of such option immediately prior to the Effective Time.
- Each outstanding option to purchase shares of TCI Ventures Group Tracking Stock issued pursuant to TCI's stock option or similar plans and any non-plan options to acquire TCI Ventures Group Tracking Stock pursuant to an option agreement or otherwise will be assumed by AT&T. Each such option will be converted into an option to acquire, on the same terms and conditions, that number of shares of New Liberty Media Group Tracking Stock equal to the product of the number of shares of TCI Ventures Group Tracking Stock subject to such option and 0.52 at an exercise price per share of such option immediately prior to the Effective Time divided by 0.52, rounded down to the nearest whole cent. If the foregoing calculation results in an assumed option being exercisable for a fraction of a share of New Liberty Media Group Tracking Stock, then the number of shares of New Liberty Media Group Tracking Stock subject to such option will be rounded up to the nearest whole number of shares, with no cash being payable for such fractional share.
- All restricted shares of TCI Common Stock granted pursuant to any TCI employee plan or benefit arrangement, and all individual awards of restricted shares of TCI Common Stock not granted pursuant to any TCI employee plan or benefit arrangement, shall be converted into shares of restricted AT&T Common Stock or New Liberty Media Group Tracking Stock, as the case may be, and will remain

subject to the same restrictions applicable to such restricted shares of TCI Common Stock immediately prior to the Effective Time.

- All outstanding awards of any type granted pursuant to any TCI employee plan or benefit arrangement, and all outstanding individual awards not granted pursuant to any TCI employee plan or benefit arrangement will not vest or become exercisable on an accelerated basis in connection with the Merger and will not terminate at the Closing Date.
- Each share of TCI Class B Preferred Stock will remain outstanding as one share of Class B junior preferred stock of the Surviving Corporation.
- Each share of TCI Convertible Preferred Stock, other than any shares with respect to which appraisal rights are perfected under the DGCL, will be exchanged for that number of shares of AT&T Common Stock or New Liberty Media Group Tracking Stock that such TCI Convertible Preferred Stock would have been exchanged for had such TCI Convertible Preferred Stock been converted into TCI Group Tracking Stock or Liberty Media Group Tracking Stock, as appropriate, immediately prior to the Effective Time. Specifically:
 - each share of TCI Series C-TCI Group Preferred Stock will be exchanged at the TCI Series C-TCI Group Exchange Ratio of 103.059502 shares of AT&T Common Stock;
 - each share of TCI Series C-Liberty Media Group Preferred Stock will be exchanged at the TCI Series C-Liberty Media Group Exchange Ratio of 56.25 shares of New Liberty Media Group Class A Tracking Stock;
 - each share of TCI Series G Preferred Stock will be exchanged at the TCI Series G Exchange Ratio of 0.923083 of a share of AT&T Common Stock; and
 - each share of TCI Series H Preferred Stock will be exchanged at the TCI Series H Exchange Ratio of 0.590625 of a share of New Liberty Media Group Class A Tracking Stock.

Series F Preferred Stock. The Merger Agreement provides that, prior to the Effective Time, TCI will take all action necessary either to:

- cause each share of Series F Convertible Redeemable Participating preferred stock, par value \$.01 per share, of TCI (“**TCI Series F Preferred Stock**”) beneficially owned by it or any of its subsidiaries to be converted into 1,496.65 shares of TCI Group Series A Tracking Stock in accordance with the terms of the TCI Charter; or
- redeem all shares of TCI Series F Preferred Stock in exchange for shares of TCI Group Series A Tracking Stock in accordance with the TCI Charter.

Fractional Shares. No fractional shares of AT&T Common Stock or New Liberty Media Group Tracking Stock will be issued in the Merger. In lieu of any fractional shares of AT&T Common Stock, each holder of shares of TCI Group Tracking Stock who would otherwise have been entitled to a fraction of a share of AT&T Common Stock pursuant to the Merger Agreement will be paid an amount in cash, without interest, equal to such holder’s proportionate interest in the net proceeds from the sale or sales in the open market by an exchange agent selected by AT&T and reasonably acceptable to TCI (the “**Exchange Agent**”), on behalf of all such holders, of the aggregate fractional shares of AT&T Common Stock, if any (the “**Excess AT&T Common Stock**”), that would have been issued in the Merger. In the event that the Liberty/Ventures Combination is not completed prior to the Merger, in lieu of any fractional shares of New Liberty Media Group Tracking Stock, each holder of TCI Ventures Group Tracking Stock or Liberty Media Group Tracking Stock who would otherwise have been entitled to a fraction of a share of New Liberty Media Group Tracking Stock pursuant to the Merger Agreement will be paid an amount in cash, without interest, equal to such holder’s proportionate interest in the net proceeds from the sale or sales in the open market by the Exchange Agent on behalf of all such holders, of the aggregate fractional shares of New Liberty Media Group Tracking Stock, if

any (the “**Excess New Liberty Media Group Tracking Stock**” and together with the Excess AT&T Common Stock, the “**Excess Stock**”), that would have been issued in the Merger. As soon as practicable following the Effective Time, the Exchange Agent will determine the amount of Excess AT&T Common Stock and Excess New Liberty Media Group Tracking Stock, and, assuming the New Liberty Media Group Tracking Stock is listed on the NYSE, the Exchange Agent will sell any such Excess Stock at the prevailing prices on the NYSE. The sale of any Excess Shares will be executed through one or more member firms of the NYSE and will be executed in round lots to the extent practicable. AT&T will pay all commissions, transfer taxes and other out-of-pocket transactions costs, including the expenses and compensation of the Exchange Agent, incurred in connection with such sale of fractional shares.

Exchange of Certificates in the Merger. Promptly after the Effective Time, the Exchange Agent will mail to each holder of record of certificates that immediately prior to the Effective Time represented outstanding shares of TCI Group Tracking Stock, Liberty Media Group Tracking Stock or TCI Ventures Group Tracking Stock (if applicable) (collectively, the “**Certificates**”) a letter of transmittal and instructions for use in effecting the surrender of Certificates. The letter of transmittal and instructions are for use by each holder of record in surrendering the Certificates in exchange for certificates representing that number of shares of AT&T Common Stock or New Liberty Media Group Tracking Stock, as appropriate, and cash for any fractional shares thereof to which such holder would otherwise be entitled. **WE REQUEST THAT YOU NOT SURRENDER YOUR CERTIFICATES FOR EXCHANGE UNTIL YOU RECEIVE SUCH LETTER OF TRANSMITTAL FORM AND INSTRUCTIONS.** At and after the Effective Time and until so surrendered, the Certificates will represent only the right to receive the appropriate consideration as described above. No dividends or other distributions declared or made after the Effective Time with respect to AT&T Common Stock or New Liberty Media Group Tracking Stock will be paid to the holder of record of any unsurrendered Certificate. However, upon surrender of such Certificate, the holder of record will be paid, without interest, any dividends or distributions effected after the Effective Time but prior to surrender of such Certificate. No transfers of shares of TCI Common Stock or TCI Preferred Stock shall be made after the close of business on the day prior to the date of the Effective Time.

After the Effective Time, AT&T and TCI will establish reasonable procedures to facilitate the exchange of the shares of TCI Convertible Preferred Stock for shares of AT&T Common Stock or New Liberty Media Group Tracking Stock as provided in the Merger Agreement.

Listing of AT&T Common Stock and New Liberty Media Group Tracking Stock

In the Merger Agreement, AT&T has agreed to use all reasonable efforts to register the shares of AT&T Common Stock and New Liberty Media Group Tracking Stock that are to be issued pursuant to the Merger Agreement and upon exercise of options granted to employees of TCI and its subsidiaries (or upon conversion of any convertible or exchangeable securities) under the Securities Act and applicable state securities laws and to cause such shares to be listed for trading on the NYSE or, in the case of New Liberty Media Group Tracking Stock, at AT&T’s option, on NASDAQ/NM. AT&T expects, however, that shares of New Liberty Media Group Tracking Stock will be listed on the NYSE. Effectiveness of the registration statement relating to AT&T Common Stock and New Liberty Media Group Tracking Stock and approval of such securities for listing on the NYSE and, if applicable, NASDAQ/NM, subject only to official notice of issuance, is a condition to the obligations of AT&T, Merger Sub and TCI to consummate the Merger.

Representations and Warranties

Representations and Warranties by TCI. The Merger Agreement includes standard representations and warranties by TCI to AT&T and Merger Sub as to:

- corporate organization, standing and power of TCI and its subsidiaries;

- power and authority of TCI to execute the Merger Agreement, including approval of the TCI Board, subject to shareholder approval;
- possession and validity of all necessary government permits and compliance with all applicable laws;
- fairness opinion delivered by TCI's financial advisor;
- capitalization of TCI;
- pending or threatened litigation;
- compliance with instruments, including the TCI Charter, the TCI By-Laws and certain agreements to which TCI is a party;
- existence, terms and compliance with applicable laws of TCI's employee benefit plans;
- certain tax matters;
- ownership of and rights to use certain intellectual property;
- accuracy of TCI's financial statements and reports filed with the SEC;
- conduct by TCI and its subsidiaries of business in the ordinary course and consistent with past practice since December 31, 1997;
- certain contracts, leases, agreements, or understandings to which TCI or any of its subsidiaries is a party or otherwise bound;
- brokers and finders employed by TCI;
- accuracy of information supplied by TCI for inclusion in the Registration Statement and this Proxy Statement/Prospectus; and
- separation of the assets and liabilities of the TCI Group, the Liberty Media Group and the TCI Ventures Group.

Representations and Warranties by AT&T and Merger Sub. The Merger Agreement also contains standard representations and warranties by AT&T and Merger Sub as to:

- corporate organization, standing, and power of AT&T and its subsidiaries;
- power and authority of AT&T to execute the Merger Agreement, including approval of the AT&T Board, subject to shareholder approval;
- possession and validity of all necessary government permits and compliance with all applicable laws;
- fairness opinions delivered by AT&T's financial advisors;
- capitalization of AT&T;
- authorization and validity of the shares of AT&T Common Stock and New Liberty Media Group Tracking Stock to be issued pursuant to the Merger Agreement;
- pending or threatened litigation;
- compliance with instruments including the AT&T Charter, the AT&T By-Laws and certain agreements to which AT&T is a party;
- certain tax matters;
- ownership of and rights to use certain intellectual property;
- accuracy of AT&T's financial statements and reports filed with the SEC;
- brokers and finders employed by AT&T;

- accuracy of information supplied by AT&T for inclusion in the Registration Statement and this Proxy Statement/Prospectus;
- ownership, activities and assets of Merger Sub; and
- ownership of shares of TCI by AT&T.

Additional Covenants and Agreements

Conduct of Business of TCI Pending the Merger. The Merger Agreement generally provides, with certain exceptions, that, prior to the Effective Time, TCI will, and will cause each of the members of TCI Group to, conduct the TCI Group business in the ordinary course consistent with past practice, and, to the extent consistent with the foregoing, to seek to preserve intact its current business organizations, keep available the service of its current directors, officers and employees, and preserve its relationships with customers, suppliers and others having business dealings with it, in each case, with respect to the businesses of the TCI Group, with the objective that the goodwill and ongoing businesses of the TCI Group will be unimpaired at the Effective Time. TCI has agreed that, unless AT&T agrees in writing or except as otherwise permitted pursuant to the Merger Agreement, prior to the Effective Time, TCI will not and will not permit any of the members of the TCI Group to:

- issue, deliver, sell, dispose of, pledge or otherwise encumber any additional shares of its capital stock of any class, or any securities or rights convertible into, or exchangeable for, any shares or its capital stock, or any other securities in respect of, in lieu of, or in substitution for, shares outstanding on June 23, 1998, other than:
 - TCI Group Tracking Stock issued upon exercise of options or other rights outstanding as of June 23, 1998 under TCI employee plans or benefit arrangements in accordance with the terms thereof;
 - TCI Group Tracking Stock issued in connection with the conversion of convertible or exchangeable securities of TCI or its subsidiaries outstanding as of June 23, 1998 in accordance with the terms of such securities;
 - shares of TCI Group Series A Tracking Stock issued upon conversion of shares of TCI Group Series B Tracking Stock outstanding on June 23, 1998 or issued pursuant to convertible securities to acquire TCI Group Series B Tracking Stock outstanding on June 23, 1998 in accordance with the terms of TCI's Charter as in effect on June 23, 1998;
 - with respect to Liberty Media Group Tracking Stock or TCI Ventures Group Tracking Stock to the extent permitted by the Merger Agreement;
 - options to purchase, restricted stock awards of, or other compensation payable in shares of, TCI Group Series A Tracking Stock up to an aggregate of 3,000,000 shares; and
 - issuance of up to 14,511,570 shares of TCI Group Series B Tracking Stock that Dr. Malone and certain members of the Magness family have the right to acquire from TCI;
- redeem, purchase or otherwise acquire, or propose to redeem, purchase or otherwise acquire, any of its outstanding securities other than pursuant to existing agreements requiring TCI to repurchase or acquire any shares of its capital stock (*provided* that such repurchase or acquisition is in accordance with the terms of such agreement as in effect on June 23, 1998) and other than with respect to Liberty Media Group Tracking Stock or TCI Ventures Group Tracking Stock to the extent permitted by the Merger Agreement;
- split, combine, subdivide or reclassify any shares of its capital stock or declare, set aside for payment or pay any dividend, or make any other actual, constructive or deemed distribution in respect of any shares of its capital stock or otherwise make any payments to shareholders in their capacity as such, except for dividends or distributions paid by wholly owned subsidiaries of TCI, dividends required to be paid on

TCI Preferred Stock outstanding on June 23, 1998 in accordance with the terms thereof, conversions of shares of TCI Group Series B Tracking Stock outstanding on June 23, 1998 into shares of TCI Group Series A Tracking Stock in accordance with the terms of the TCI Charter as in effect on such date, and conversions of TCI Preferred Stock outstanding on June 23, 1998 in accordance with the terms thereof;

- grant any increases in the compensation of any of its directors, officers or employees, except in the ordinary course of business consistent with past practice;
- pay or award or agree to pay or award any pension, retirement allowance, or other non-equity incentive awards, or other employee benefit, not required by any of the employee plans or benefit arrangements to any current or former director, officer or employee, whether past or present, or to any other person, except for payments or awards that are in the ordinary course of business, consistent with past practice, and that are not material;
- pay or award or agree to pay or award any stock option or equity incentive awards, except to the extent permitted by the Merger Agreement and except for options to purchase or awards of Liberty Media Group Tracking Stock or TCI Ventures Group Tracking Stock, subject to the limitations set forth in the Merger Agreement;
- enter into any new or amend any existing employment agreement with any director, officer or employee, except for employment agreements with new employees entered into in the ordinary course of business, consistent with past practice, and except for amendments in the ordinary course of business, consistent with past practice, that do not materially increase benefits or payments;
- enter into any new or amend any existing severance agreement with any current or former director, officer or employee, except for agreements or amendments in the ordinary course of business, consistent with past practice, that do not provide for material benefits;
- become obligated under any new employee plan or benefit arrangement, which was not in existence on the date hereof, or amend or exercise discretion pursuant to any such employee plan or benefit arrangement in existence on June 23, 1998, except for any such amendment or exercise of discretion in the ordinary course of business, consistent with past practice, that does not provide for material benefits; *provided, however*, that the foregoing shall not be applicable to any such payment or increase, or any such agreement, so long as the associated costs and expenses related thereto are attributed to the Liberty/Ventures Group; and *provided, further*, that TCI is expressly authorized to enter into tax protection agreements with certain of its employees in the form set forth in a schedule to the Merger Agreement;
- adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of TCI or any member of the TCI Group, subject to certain exceptions relating to the reorganization of certain subsidiaries set forth in the Merger Agreement;
- make any acquisition, by means of merger, consolidation or otherwise, other than any acquisition by any Liberty Media Group member or any TCI Ventures Group member as permitted by the Merger Agreement, of:
 - any direct or indirect ownership interest in or assets comprising any business enterprise or operation;
or
 - any other assets, except in the ordinary course and consistent with past practice; *provided, however*, that:
 - TCI may make such acquisitions for cash in an amount not to exceed \$10 million in the case of any single acquisition or \$50 million for all such acquisitions in the aggregate during any 12-month period;
 - such acquisitions do not and would not prevent or materially delay the consummation of the Merger;

—the foregoing shall not prevent TCI from exploring on a preliminary basis and conducting diligence investigations, including having discussions with any potential acquisitions target, with respect to any potential acquisition that would require AT&T's consent hereunder, for the purpose of determining the desirability of such potential acquisition and developing the basis on which to seek AT&T's consent, so long as TCI does not submit any formal proposal or indication of interest with respect to such an acquisition to such acquisition target, or make any binding commitments with respect to such potential acquisition, without obtaining AT&T's consent; and

—in the event TCI is offered an opportunity under which it is required either to acquire or dispose of certain of its cable television system and related assets or related investments prior to the Effective Time and the taking of such action requires AT&T's consent under the Merger Agreement, AT&T will not withhold its consent unreasonably;

- (a) dispose of any controlling interest in any material business enterprise or operation of the TCI Group, (b) make any other disposition of any other direct or indirect ownership interest in or assets comprising a material business enterprise or operation of the TCI Group, except for the replacement or upgrade of assets, or disposition of unnecessary assets, in the ordinary course and consistent with past practice, or (c) dispose of any other assets of the TCI Group, except in the ordinary course and consistent with past practice;
- adopt any amendments to the TCI Charter or the TCI By-Laws or alter through merger, liquidation, reorganization, restructuring or in any other fashion the corporate structure or ownership of any TCI Group member that is not an inactive subsidiary, except as otherwise permitted under the Merger Agreement;
- incur any indebtedness for borrowed money or guarantee any indebtedness of any other person or make any loans, advances or capital contributions to, or investments in, any other person (other than to TCI or any wholly owned subsidiary of TCI), except that:
 - TCI may incur additional indebtedness under existing credit facilities (or any renewals thereof) resulting in aggregate net proceeds to TCI from such additional indebtedness not exceeding \$50 million;
 - TCI may refinance outstanding indebtedness without increasing the amount thereof so long as the terms thereof are no less favorable to TCI and the maturity thereof is no more than one year or such debt is prepayable without penalty; and
 - any subsidiary of TCI that is not a member of the TCI Group will be permitted to do any of the foregoing to the extent permitted by the Merger Agreement;
- engage in the conduct of any business other than TCI's existing businesses, except that the Liberty Media Group and the TCI Ventures Group may engage in other businesses to the extent permitted by the Merger Agreement;
- enter into any agreement or exercise any discretion providing for acceleration of payment or performance as a result of a change of control of TCI or its subsidiaries, *provided* that the provision described in this bullet point shall not restrict TCI's right to respond or take action in response to any such acceleration so long as such action is permitted under the Merger Agreement;
- enter into any contracts, arrangements or understandings requiring, in the aggregate, the purchase of equipment, materials, supplies or services in excess of \$50 million (or, with respect to the Liberty Media Group and the TCI Ventures Group, as permitted by the Merger Agreement), other than any such contracts, arrangements or understandings providing for capital spending of TCI or the TCI Group members in accordance with a capital spending plan previously delivered to AT&T;
- enter into or amend or waive any right under any agreement with any affiliates of TCI (other than its subsidiaries) or with Dr. Malone or Leslie Malone or any affiliate of either of the Malones, other than as

set forth in a voting agreement among AT&T and the Malones (the "Voting Agreement") entered into concurrently with the execution of the Merger Agreement, except that any of the foregoing may be done in the ordinary course of business as long as it is not material, individually or in the aggregate, to the TCI Group;

- settle or compromise any material litigation with respect to the TCI Group or waive, release or assign any material rights or claims with respect to the TCI Group, except in the ordinary course of business consistent with past practice;
- take any action (other than the Merger and as specified in the Merger Agreement) that would result in a change in the interest of the TCI Group in the Liberty Media Group or the TCI Ventures Group;
- engage in or allow any direct or indirect transfer of any material properties or assets or obligations or liabilities between any of the TCI Group members, on the one hand, and any Liberty Media Group member or TCI Ventures Group member, on the other hand, or engage in any other transaction involving any TCI Group member, on the one hand, and any Liberty Media Group member or TCI Ventures Group member, on the other hand, except as expressly contemplated by the Liberty/Ventures Combination or except as expressly permitted by the Merger Agreement; and
- authorize, recommend or propose (other than to AT&T), or announce an intention to do any of the foregoing, or enter into any contract, agreement, commitment or arrangement to do any of the foregoing, except as expressly contemplated by the Liberty/Ventures Combination or except as expressly permitted by the Merger Agreement.

The Merger Agreement permits the Liberty Media Group and the TCI Ventures Group to take certain actions prior to the Merger in accordance with the Inter-Group Agreement.

No Solicitation

Under the Merger Agreement, TCI has agreed that, prior to the Effective Time, TCI will not, nor shall it permit any of its subsidiaries to, or authorize or permit any officer, director, employee or other agent, advisor or representative to, (a) solicit, initiate, knowingly encourage, or enter into any agreement with respect to, (b) participate in discussions or negotiations regarding, or (c) furnish any information with respect to, any Takeover Proposal. The Merger Agreement further provides that the TCI Board will not withdraw or modify, or propose to withdraw or modify, in a manner adverse to AT&T, the approval or recommendation by the TCI Board of the Merger Agreement or approve or recommend or propose to approve or recommend a Takeover Proposal. TCI may, however, to the extent required by the fiduciary obligations of the TCI Board, as determined in good faith by a majority of the TCI Board (after receipt of advice from outside legal counsel), (a) in response to unsolicited requests, participate in discussions with or furnish information to any person who indicates a willingness to make a Superior Proposal, and, (b) notwithstanding the foregoing sentence, approve or recommend a Superior Proposal (and, in connection therewith, withdraw or modify its approval or recommendation of the Merger Agreement or the Merger). The TCI Board and TCI are also not prevented from complying with Rule 14d-9 and Rule 14e-2 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with regard to a Takeover Proposal. For purposes of the Merger Agreement, "Takeover Proposal" means any proposal for a merger, consolidation, share exchange, business combination or other similar transaction involving TCI or any of its significant subsidiaries (within the meaning of Rule 1-02 of Regulation S-X of the SEC) or any proposal or offer to acquire an equity interest in, any TCI Voting Securities of, or a substantial portion of the assets of, TCI or any of its significant subsidiaries, other than any transaction involving solely the Liberty Media Group members or the TCI Ventures Group members that would not prevent or materially delay consummation of the Merger; and "Superior Proposal" means a *bona fide* written proposal made by a third party to acquire TCI pursuant to a tender or exchange offer, a merger, a share exchange, a sale of all or substantially all of TCI's assets or otherwise on terms that a majority of the TCI Board determines in good faith (taking into account the advice of independent financial advisors) to be more favorable to TCI and its shareholders than the Merger (and any revised proposal made by AT&T) and for

which financing is then fully committed or reasonably determined by the TCI Board to be available. The term "TCI Voting Securities" is defined in the TCI Charter to include TCI Group Series A Tracking Stock, TCI Group Series B Tracking Stock, Liberty Media Group Series A Tracking Stock, Liberty Media Group Series B Tracking Stock, TCI Ventures Group Series A Tracking Stock and TCI Ventures Group Series B Tracking Stock and any class or series of TCI Preferred Stock entitled to vote with the holders of TCI Common Stock generally upon all matters that may be submitted to a vote of shareholders at any annual or special meeting.

Except as otherwise required pursuant to the fiduciary duties of their respective Boards of Directors (after receipt of advice from outside legal counsel), TCI will recommend to its shareholders the approval and adoption of the Merger Agreement and the Merger, AT&T will recommend to its shareholders the approval and adoption of the AT&T Tracking Stock Amendment and of the issuance of AT&T Common Stock and New Liberty Media Group Tracking Stock in the Merger, and each of TCI and AT&T will use their respective best efforts to obtain the foregoing approvals from their respective shareholders.

Other Transactions of AT&T

The Merger Agreement generally provides that AT&T may engage in other mergers, acquisitions, business combinations, or other transactions so long as such transactions would not prevent or delay AT&T's ability to consummate the Merger by September 30, 1999 or cause the Merger to fail to qualify as a tax-free reorganization. The parties will not delay the Closing in order to obtain any authorizations or governmental approvals to close another subsequently announced transaction.

Certain Actions by AT&T and the Surviving Corporation

The Merger Agreement provides that, prior to the Effective Time, neither AT&T nor its subsidiaries will enter into any transaction in which the holders of AT&T Common Stock become entitled to exchange shares of AT&T Common Stock for other securities of AT&T or its subsidiaries. In addition, for a period of 15 years following the Effective Time, neither AT&T nor the Surviving Corporation will take any action to redeem or change or modify the terms and provisions of the 12% Series C Cumulative Compounding preferred stock of WestMarc Communications, Inc., a subsidiary of TCI, or cause the holders of such preferred stock to become entitled to rights of appraisal, or sell, transfer or dispose of all or substantially all of the assets of WestMarc Communications or take any other action the effect of which is to impact WestMarc Communications' ability to pay dividends on the preferred stock of WestMarc Communications in accordance with its terms. Substantially all of the outstanding shares of WestMarc Communications preferred stock are held by directors and executive officers of TCI or for the benefit of their family members. The restrictions on AT&T regarding WestMarc Communications were implemented to preserve for such persons the economic benefits of such preferred stock. Prior to the Effective Time, AT&T will not issue any shares of New Liberty Media Group Tracking Stock, and will not grant any options, warrants or other rights to acquire, or securities convertible into or exercisable or exchangeable for, shares of New Liberty Media Group Tracking Stock.

Conditions

The Merger Agreement generally provides that the respective obligations of each party to consummate the transactions contemplated in the Merger Agreement are subject to customary conditions, including the following:

Shareholder Approval. Approval of the AT&T Merger Proposal and the TCI Merger Proposal by shareholders of AT&T and TCI, respectively.

HSR Act; FCC. Consent of the FCC to the transfer to AT&T of control of certain licenses issued by the FCC to TCI and its subsidiaries pursuant to the Merger and the expiration or termination of any waiting period applicable under the HSR Act, in each case, without limitation, restriction or condition that has or would have a material adverse effect on TCI, on the TCI Group or on the Liberty/Ventures Group (or an effect on AT&T

and its subsidiaries that, were such effect applied to TCI and its subsidiaries, would constitute a material adverse effect on TCI or on the TCI Group).

No Injunction. Absence of any judgment, writ, order, injunction, or decree that would prevent consummation of the transactions contemplated by the Merger Agreement or permit such consummation only subject to any condition or restriction that has or would have a material adverse effect on TCI, on the TCI Group or on the Liberty/Ventures Group (or an effect on AT&T and its subsidiaries that, were such effect applied to TCI and its subsidiaries, would constitute a Material Adverse Effect on TCI or on the TCI Group).

Effectiveness of Registration Statement. Declaration of effectiveness of the Registration Statement and effectiveness of the Registration Statement at the Effective Time.

Listing of AT&T Shares. Approval of AT&T Common Stock and New Liberty Media Group Tracking Stock for listing on the NYSE (or, in the case of New Liberty Media Group Tracking Stock, at the option of AT&T, NASDAQ/NM), subject only to official notice of issuance.

Representations and Warranties. The representations and warranties of the other party contained in the Merger Agreement are, to the extent qualified by materiality or material adverse effect, true, and to the extent not so qualified, true in all material respects, in each case, when made and generally as of the Closing Date.

Performance. The other party shall have performed or complied in all material respects with all agreements and conditions contained in the Merger Agreement.

Tax Opinion. AT&T and TCI shall have each received an opinion from their respective counsel to the effect that, among other things, the Merger should be treated for U.S. federal income tax purposes as a tax-free reorganization.

Other Authorizations. As a condition to AT&T's obligation to consummate the Merger, all other governmental authorizations required for execution and delivery of the Merger Agreement and the performance of the obligations under the Merger Agreement are made or obtained without any limitation, restriction or condition that has or would have a material adverse effect on TCI (or an effect on AT&T and its subsidiaries that, were such effect applied to TCI and its subsidiaries, would constitute a material adverse effect on TCI), except for such authorizations the failure of which to have been made or obtained does not and would not, individually or in the aggregate, have a material adverse effect on TCI (or an effect on AT&T and its subsidiaries that, were such effect applied to TCI and its subsidiaries, would constitute a material adverse effect on TCI).

Except as set forth below, each of the foregoing conditions is waivable by AT&T or TCI, as the case may be, to the extent legally permissible. AT&T and TCI will not complete the Merger without the requisite shareholder approval, FCC consent, expiration of the waiting period under the HSR Act and effectiveness of the Registration Statement. In addition, the condition described under "—Tax Opinion" is a non-waivable condition to the Merger.

Termination

Termination by Either AT&T or TCI. The Merger Agreement may be terminated by mutual consent of AT&T and TCI or by either AT&T or TCI if (a) the Merger has not been consummated by March 31, 1999, *provided, however*, that the party seeking to terminate did not fail to fulfill any obligation causing the Merger not to be consummated by that date, and *provided, further*, that such date may be extended (1) first to June 30, 1999 by either party in the event that the delay is attributable to a transaction permitted in connection with obtaining regulatory approval, due to the failure to have obtained the requisite regulatory approvals or due to an injunction or other governmental action preventing the consummation of the Merger, and (2) then to September 30, 1999 as long as the party extending such date believes in good faith that such conditions are

capable of being satisfied by such date, (b) a court of competent jurisdiction or a governmental entity enters an order, decree or ruling, or takes other action which prevents the consummation of the Merger and such order, decree, ruling or other action shall have become final and nonappealable, or (c) the AT&T Merger Proposal or the TCI Merger Proposal is not approved by the requisite vote of the shareholders of AT&T and TCI, respectively, on or prior to March 31, 1999.

Termination by TCI. The Merger Agreement may be terminated by TCI if (a) the AT&T Board withdraws or modifies its approval or recommendation of the AT&T Merger Proposal, or (b) AT&T or Merger Sub breaches or fails in any material respect to perform or comply with its covenants and agreements or breaches its representations and warranties contained in the Merger Agreement, in each case, in a manner that is not curable.

Termination by AT&T or Merger Sub. The Merger Agreement may be terminated (a) by AT&T or Merger Sub if (1) the TCI Board withdraws or modifies its approval or recommendation of the TCI Merger Proposal or (2) TCI breaches or fails in any material respect to perform or comply with its covenants and agreements, or breaches its representations and warranties contained in the Merger Agreement, in each case, in a manner that is not curable, or (b) by AT&T if the Malones shall have breached any of their respective representations, covenants or obligations under the Voting Agreement in any material respect and such breach is not curable.

Effect of Termination. The Merger Agreement generally provides that, in the event of termination of the Merger Agreement and abandonment of the Merger, no party will have any liability or further obligation to any other party to the Merger Agreement, except with regard to the confidential treatment of information and the payment of the termination fees described below and except that no party will be relieved of liability for any breach of the Merger Agreement.

Termination Fees. AT&T will be required to pay TCI a termination fee equal to \$1.75 billion in cash if (a) AT&T announces or effects a merger, acquisition, joint venture, business combination or other transaction involving the acquisition of significant businesses, assets or properties, (b) such announcement or transaction is a significant factor in the failure of certain conditions to be satisfied or waived prior to September 30, 1999, (c) the Merger Agreement is terminated as described in clause (a) under “—Termination by Either AT&T or TCI,” and (d) AT&T would otherwise have been obligated to consummate the Merger but for a failure to receive regulatory approvals or authorizations.

In addition, either AT&T or TCI will be required to pay the other a termination fee equal to \$1.75 billion in cash in the event that its shareholders do not approve the AT&T Merger Proposal or the TCI Merger Proposal, respectively, or its Board of Directors withdraws or modifies its approval or recommendation of the AT&T Merger Proposal or the TCI Merger Proposal, respectively.

Amendment

The parties to the Merger Agreement may not amend, change, supplement, waive or otherwise modify the Merger Agreement, except by an instrument in writing signed by the party against whom enforcement is sought, *provided* that, after the adoption of the Merger Agreement by TCI shareholders, no such amendment, change, supplement or waiver shall be made without the further requisite approval of TCI shareholders if required by law.

Other Transaction Agreements

Voting Agreement

Concurrently with the execution of the Merger Agreement, AT&T and the Malones entered into the Voting Agreement. Pursuant to the Voting Agreement, each of the Malones generally agreed to vote all TCI

Voting Securities that such holder owns or has the right to vote (collectively, the “Covered Shares”), for approval and adoption of the Merger Agreement, the Merger and any related action reasonably required in furtherance thereof. As of December 31, 1998, the Malones owned approximately 5% of the outstanding shares of TCI Common Stock and owned or had the right to vote or direct the voting of TCI Voting Securities constituting approximately 47% of the outstanding voting power of TCI.

In addition, each of the Malones agreed in the Voting Agreement that, until the Termination Date, such holder will vote against any Takeover Proposal and will not, directly or indirectly, sell, pledge, encumber, grant a proxy or enter into any voting or similar agreement with respect to, transfer or otherwise dispose of, or agree to transfer any Covered Shares other than, in the case of Dr. Malone, the sale or disposition of up to 2 million Covered Shares prior to the Merger, 3 million Covered Shares in the period following termination of the Merger Agreement to the Termination Date and pledges of up to 30 million Covered Shares, as provided in the Voting Agreement. The term “Termination Date” means the first to occur of (a) the nine-month anniversary of the date the Merger Agreement is terminated, (b) the date the Merger is consummated, and (c) the date of any breach or violation of the AT&T covenant described in the following paragraph; *provided, however*, that, if the AT&T Merger Proposal is not approved at the AT&T Special Meeting or if the Merger Agreement is terminated because specified regulatory approvals are not received, the Termination Date will be the date of termination of the Merger Agreement.

The Voting Agreement provides that AT&T will not require, and no provision of the Voting Agreement will be deemed to require, either of the Malones to agree, in his or her capacity as a shareholder, to the inclusion, in any governmental authorization required in connection with the Merger or the other transactions contemplated by the Merger Agreement of any restriction on such holder’s exercise and enjoyment, in his or her capacity as a shareholder, of full rights of ownership of AT&T Common Stock or New Liberty Media Group Tracking Stock to be received in the Merger (including, without limitation, the voting rights related thereto); *provided, however*, that the foregoing will not limit or reduce any of the obligations of TCI pursuant to the Merger Agreement or otherwise alter the rights and obligations of the parties pursuant to the Merger Agreement or apply to any matters set forth in the Merger Agreement relating to TCI or any of its subsidiaries or their respective assets, businesses or properties.

Tax Sharing Agreement

Prior to the Merger, AT&T and TCI will enter into an amendment to TCI’s existing tax sharing agreement (as so amended, the “**Tax Sharing Agreement**”) to provide, among other things, that:

- to the extent that the inclusion of the New Liberty Media Group within the consolidated U.S. federal income tax return (or any combined, consolidated or unitary tax return) filed by a member of the AT&T Common Stock Group increases tax liability for any period, the New Liberty Media Group will be responsible for paying the AT&T Common Stock Group such increased tax liability; and
- to the extent that such inclusion of the New Liberty Media Group reduces such tax liability, the AT&T Common Stock Group will be responsible for paying the New Liberty Media Group such reduced tax liability.

To the extent that the affiliated group of which TCI is the common parent prior to the Merger (the “**TCI Affiliated Group**”) has an actual net operating loss for U.S. federal income tax purposes as of the first day of the first taxable year following the Closing Date, such net operating loss (the “**New Liberty Media Group Allocated NOL**”) shall be allocated to the New Liberty Media Group to offset any obligations it would otherwise incur under the Tax Sharing Agreement for periods after the Closing Date, and upon deconsolidation, if any, of the New Liberty Media Group for U.S. federal income tax purposes from the affiliated group of which AT&T is the parent corporation, the AT&T Common Stock Group shall be required to pay the New Liberty Media Group an amount equal to the product of (a) the amount of the New Liberty Media Group Allocated NOL that has not been so used as an offset to the New Liberty Media Group’s obligations under the

Tax Sharing Agreement, and that has been, or is reasonably expected to be, utilized by the AT&T Common Stock Group and (b) 35%. Any other tax carryover of the TCI Affiliated Group shall be allocated to the AT&T Common Stock Group to offset any obligations it would otherwise incur under the Tax Sharing Agreement for periods after the Closing Date. In general, with respect to the TCI Affiliated Group, for periods ending on or prior to the Closing Date:

- the Liberty Media Group, the TCI Ventures Group, the Liberty/Ventures Group or the New Liberty Media Group shall pay TCI any portion of regular tax liability attributable to the Liberty Media Group, the TCI Ventures Group or the Liberty/Ventures Group;
- any regular tax losses or other tax attributes may be used by the Liberty Media Group, the TCI Ventures Group, the Liberty/Ventures Group or the TCI Group without compensation to any other group; and
- if the TCI Affiliated Group has an alternative minimum tax liability, the group, if any, generating alternative minimum tax losses will be paid for such losses to the extent that such losses reduce alternative minimum tax liability of the TCI Affiliated Group but the Liberty Media Group, the TCI Ventures Group and the Liberty/Ventures Group will not otherwise be required to pay their share of such alternative minimum tax liability.

Agreements Relating to Governance and Structure of the New Liberty Media Group

Liberty Charter Documents. The Merger Agreement provides that, at or prior to the Effective Time, TCI may (but is not required to) amend and restate the Liberty Charter Documents as set forth in the forms attached to the Merger Agreement, copies of which are filed as exhibits to the Registration Statement and incorporated herein by reference. TCI intends to amend and restate the Liberty Charter Documents in this manner immediately prior to the Merger.

The Liberty Charter Documents, as so amended, will provide that Liberty Media Corporation will have three classes of directors: one class elected for a term of one year (the “**Class A Directors**”); one class elected for a term of seven years (the “**Class B Directors**”); and one class elected for a term of 10 years (the “**Class C Directors**”). The Class B Directors and the Class C Directors initially will be designated by TCI prior to the Merger. The members of the Liberty Board will only be removable for cause (as defined in the Liberty Charter Documents), and, in the event of the death or resignation of a director in any class, the remaining directors of that class will choose a successor to fill the remaining term of the deceased or resigning director. Accordingly, directors originally designated by TCI will comprise two-thirds of the Liberty Board following the Merger for at least seven years. Prior to the Merger, TCI may institute similar governance arrangements with respect to certain other of its subsidiaries that will be included in the New Liberty Media Group but are not subsidiaries of Liberty Media Corporation.

Under the DGCL, the business of Liberty Media Corporation will be managed by the Liberty Board. In accordance with the Liberty Charter Documents, action by the Liberty Board will generally require the affirmative vote of a majority of the directors present at a meeting at which a quorum is present, which majority must include a majority of the Class B Directors and Class C Directors (a “**Required Majority Vote**”). The Class B Directors and the Class C Directors are the directors that have been designated by TCI prior to the Merger and that serve for terms of seven and 10 years, respectively. In addition, under the DGCL and the Liberty Charter Documents, Liberty Media Corporation will be operated by its officers, who are elected by the Liberty Board. The Liberty Charter Documents provide that the officers of Liberty Media Corporation may only be removed by a Required Majority Vote. Accordingly, all of the officers of Liberty Media Corporation will be selected by the members of the Liberty Board designated by TCI.

Contribution Agreement. The Merger Agreement also provides that TCI may (but is not required to) cause Liberty Media Corporation to enter into the Contribution Agreement, a copy of which is filed as an exhibit to the Registration Statement and incorporated herein by reference. TCI intends to cause Liberty Media

Corporation to enter into such Contribution Agreement immediately prior to the Merger. The Contribution Agreement provides that, in the event of a Triggering Event, Liberty Media Corporation will be obligated to transfer all of its assets to Liberty Media Group LLC, an entity controlled by current Liberty Media Corporation officers and directors through Liberty Management LLC, the managing member, unless the Triggering Event is waived by Liberty Management LLC. A Triggering Event will occur if the incumbent directors (and their successors) cease to constitute a majority of the Liberty Board, or Liberty Management LLC reasonably determines that such event is reasonably likely to occur. The operating agreement for the Liberty Media Group LLC is filed as an exhibit to the Registration Statement and is incorporated herein by reference.

AT&T Tracking Stock Amendment. The terms of New Liberty Media Group Tracking Stock are described under “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment.”

Inter-Group Agreement; Liberty Intercompany Agreements. The Merger Agreement provides that, in connection with the Merger, AT&T and Liberty Media Corporation will enter into the Inter-Group Agreement and the Intercompany Agreements, the principal terms of which are attached as exhibits to the Registration Statement and incorporated herein by reference. These agreements are described under “Relationship between the AT&T Common Stock Group and the New Liberty Media Group—Agreements between the AT&T Common Stock Group and the New Liberty Media Group.”

UNAUDITED PRO FORMA CONDENSED FINANCIAL INFORMATION

The unaudited pro forma information set forth below for AT&T and the New Liberty Media Group gives effect to the Merger, the Asset Transfers and the Liberty/Ventures Combination as if they had been completed on January 1, 1997 for the period presented for income statement purposes and September 30, 1998 for balance sheet purposes, subject to the assumptions and adjustments in the accompanying notes to the pro forma financial information. AT&T has accounted for the New Liberty Media Group in the AT&T pro forma financial statements under the equity method of accounting.

Following the Merger, New Liberty Media Group Tracking Stock will continue to represent an interest in the same assets and businesses as Liberty/Ventures Group Tracking Stock did prior to the Merger (after giving effect to the Asset Transfers). Pursuant to the Transaction Agreements, the New Liberty Media Group will be managed separately from the AT&T Common Stock Group. Under Delaware corporate law, the Liberty Board will have virtually all of the New Liberty Media Group's corporate governance powers and the Class B and C directors on the Liberty Board (who were designees of TCI prior to the merger) will constitute a majority of the Liberty Board. AT&T will initially designate one third of the directors and its rights as the sole shareholder of the common stock of the New Liberty Media Group following the Merger will be limited to actions which will require shareholder approval. Those actions are limited to (a) approval of the merger or sale of all or substantially all of the assets of Liberty Media Corporation, (b) the liquidation of Liberty Media Corporation, (c) amendment of Liberty Media Corporation's certificate of incorporation, and (d) election of directors. Furthermore, AT&T will not have the ability to remove the Class B and C directors (or their designees) or have an opportunity to elect a majority of the Liberty Board until 2006, at which time election by AT&T to the Liberty Board of persons other than those designated by the then Class B and C directors will constitute a Triggering Event which will result in all of the assets and businesses of the New Liberty Media Group being transferred into an entity controlled by persons other than AT&T unless the Triggering Event is waived by Liberty Management LLC. Therefore, management has concluded that AT&T will not have a controlling financial interest (as that term is used in SFAS 94) in the New Liberty Media Group following the Merger, and will account for its equity investment in New Liberty Media Group under the equity method.

This pro forma financial information should be read in conjunction with the financial data appearing under "Summary—Selected Historical and Pro Forma Financial Information" and the historical financial statements of AT&T, TCI, the TCI Group and the Liberty/Ventures Group and the respective notes thereto that have been incorporated herein by reference. See "Summary—Where You Can Find More Information."

The pro forma adjustments do not reflect any operating efficiencies and cost savings that may be achievable with respect to the combined companies. The pro forma adjustments do not include any adjustments to historical sales for any future price changes nor any adjustments to selling and marketing expenses for any future operating changes.

The following information is not necessarily indicative of the financial position or operating results that would have occurred had the Merger, the Asset Transfers and the Liberty/Ventures Combination been consummated on the dates, or at the beginning of the periods, for which such transactions are being given effect. The pro forma adjustments reflecting the consummation of the Merger are based upon the purchase method of accounting and upon the assumptions set forth in the notes hereto, including the exchange of all the outstanding shares of TCI Group Tracking Stock for an aggregate of approximately 435 million shares of AT&T Common Stock.

For purposes of preparing the AT&T consolidated financial statements, AT&T will establish a new basis for TCI's assets and liabilities based upon the fair values thereof and the AT&T purchase price, including the costs of the Merger. A final determination of required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. Accordingly, the purchase accounting adjustments made in connection with the development of the pro forma combined financial information are preliminary and have been made solely for purposes of developing such pro forma combined financial information. AT&T will undertake a study to determine the fair value of certain of TCI's assets and liabilities (as so adjusted) and will make appropriate purchase accounting adjustments upon completion of that study. AT&T currently knows of no events that would require a material change to the preliminary purchase price allocation. Assuming completion of the Merger, the actual financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein because of a variety of factors, including access to additional information, changes in value not currently identified and changes in operating results between the dates of the pro forma financial data and the date on which the Merger takes place.

AT&T
UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

September 30, 1998

(In millions)

	Historical AT&T ¹	Historical TCI ¹	Pro Forma Liberty/ Ventures Adjustment ²	Other Pro Forma Adjustments	Pro Forma AT&T with TCI
ASSETS:					
Cash and cash equivalents	\$ 4,190	\$ 320	\$ (199)	\$ (2,500) ^{4b} (3,000) ⁸ (250) ^{4c} 176 ⁵ 5,500 ⁷	\$ 4,237
Receivables—net	9,383	664	(150)	—	9,897
Other current assets	1,990	375	(76)	—	2,289
Total current assets	<u>15,563</u>	<u>1,359</u>	<u>(425)</u>	<u>(74)</u>	<u>16,423</u>
Property, plant and equipment—net	25,093	6,992	(147)	—	31,938
Licensing cost—net	8,079	—	—	—	8,079
Investments	3,430	12,312	(2,095)	1,108 ^{4j} (30) ⁵ 16,953 ¹³ (2,744) ¹⁶	28,934
Franchise costs, goodwill and other long-term assets— net	5,996	15,910	(2,327)	29,361 ^{4q,5} 492 ⁴ⁱ	49,432
Total assets	<u>\$58,161</u>	<u>\$36,573</u>	<u>\$(4,994)</u>	<u>\$45,066</u>	<u>\$134,806</u>
LIABILITIES:					
Accounts payable	\$ 5,768	\$ 149	\$ (38)	\$ —	\$ 5,879
Debt maturing within one year	1,009	2,143	(502)	1,100 ⁷	3,750
Other current liabilities	7,946	1,592	(454)	—	9,084
Total current liabilities	<u>14,723</u>	<u>3,884</u>	<u>(994)</u>	<u>1,100</u>	<u>18,713</u>
Long-term debt	6,079	12,752	(1,971)	4,400 ⁷ 1,089 ^{4l}	22,349
Deferred income taxes	5,075	7,871	(1,614)	424 ^{4p} (884) ¹⁶	10,872
Other long-term liabilities and deferred credits	8,217	1,369	(109)	561 ^{4h} 15 ^{4o}	10,053
Total liabilities	<u>34,094</u>	<u>25,876</u>	<u>(4,688)</u>	<u>6,705</u>	<u>61,987</u>
Minority interest	—	1,554	(287)	926 ^{4m}	2,193
Mandatorily redeemable preferred equity	—	1,500	—	160 ⁴ⁿ	1,660
Redeemable securities	—	327	(19)	(299) ^{4f}	9
Common shares	1,754	1,500	—	(3,254) ¹⁷	—
Additional paid in capital	15,170	5,275	—	(20,445) ¹⁷	—
Retained earnings	7,253	572	—	(7,825) ¹⁷	—
Other	(110)	(31)	—	141 ¹⁷	—
Total shareowners' equity (deficit)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(31,383)</u> 31,383 ¹⁷ 16,953 ¹³ 26,204 ^{4a} 382 ^{4d} (105) ^{4e} (1,000) ^{4g} (3,000) ⁸ (46,271) ¹⁴ (22,686) ¹⁴ (1,860) ¹⁶	<u>—</u>
AT&T Equity (pro forma)	<u>—</u>	<u>—</u>	<u>—</u>	46,271 ¹⁴	46,271
New Liberty Media Group equity (Tracking stock)	<u>—</u>	<u>—</u>	<u>—</u>	22,686 ¹⁴	22,686
Total liabilities and shareowners' equity	<u>\$58,161</u>	<u>\$36,573</u>	<u>\$(4,994)</u>	<u>\$45,066</u>	<u>\$134,806</u>

See Notes to Unaudited AT&T Condensed Pro Forma Financial Statements.

AT&T
UNAUDITED PRO FORMA CONDENSED STATEMENT OF INCOME

Nine Months Ended September 30, 1998
(In millions, except per share amounts)

	<u>Historical AT&T¹</u>	<u>Historical TCI¹</u>	<u>Pro forma Liberty/Ventures Adjustment²</u>	<u>Other Pro Forma Adjustments</u>	<u>Total Pro Forma AT&T with TCI</u>
REVENUES	\$39,695	\$5,510	\$ (830)	\$ —	\$44,375
Operating expenses:					
Access and other interconnection	11,649	—	—	—	11,649
Network and other communications services	7,268	2,157	(402)	—	9,023
Depreciation and amortization	3,388	1,289	(86)	551 ⁹	5,142
Selling, general and administrative	10,419	1,741	(532)	—	11,628
Restructuring and other charges	2,827	—	—	—	2,827
Total operating expenses	<u>35,551</u>	<u>5,187</u>	<u>(1,020)</u>	<u>551</u>	<u>40,269</u>
Operating income (loss)	4,144	323	190	(551)	4,106
Other income (expense)—net	1,169	2,940	(140)	(342) ¹³ (42) ⁹ (2,490) ¹⁶	1,095
Interest expense	322	808	(63)	273 ¹⁰	1,340
Income (loss) from continuing operations before income taxes ..	4,991	2,455	113	(3,698)	3,861
Provision (benefit) for income taxes	1,840	1,068	113	(120) ¹¹ (948) ¹⁶	1,953
Net income (loss) from continuing operations	<u>3,151</u>	<u>1,387</u>	<u>—</u>	<u>(2,630)</u>	<u>1,908</u>
Dividend requirements on preferred stocks	—	(18)	—	11 ¹²	(7)
Net income (loss) from continuing operations attributable to common shareowners	<u>\$ 3,151</u>	<u>\$1,369</u>	<u>\$ —</u>	<u>\$(2,619)</u>	<u>\$ 1,901</u>
AT&T EPS Calculation:					
Net Income attributable to AT&T common shareowners	\$ 3,151				\$ 2,507
Weighted average shares outstanding (basic)	1,795				2,135
Basic EPS	\$ 1.76				\$ 1.17
Net Income attributable to AT&T common shareowners	3,151				\$ 2,518
Weighted average shares outstanding (diluted)	1,810				2,215
Diluted EPS	\$ 1.74				\$ 1.14
New Liberty Media Group EPS					
Basic					\$ (1.04)
Diluted					\$ (1.04)

See Notes to Unaudited AT&T Condensed Pro Forma Financial Statements.

AT&T
UNAUDITED PRO FORMA CONDENSED STATEMENT OF INCOME

Year Ended December 31, 1997
(In millions, except per share amounts)

	<u>Historical AT&T¹</u>	<u>Historical TCI¹</u>	<u>Pro Forma Liberty/ Ventures Adjustment²</u>	<u>Other Pro Forma Adjustments</u>	<u>Total Pro Forma AT&T with TCI</u>
Revenues	\$51,577	\$7,570	\$ (991)	\$	\$58,156
Operating expenses:					
Access and other interconnection	16,350	—	—	—	16,350
Network and other communications services	9,412	2,850	(450)	—	11,812
Depreciation and amortization	3,982	1,623	(138)	734 ⁹	6,201
Selling, general and administrative	14,997	2,233	(633)	—	16,597
Restructuring and other charges	—	15	(15)	—	—
Total operating expenses	<u>44,741</u>	<u>6,721</u>	<u>(1,236)</u>	<u>734</u>	<u>50,960</u>
Operating income (loss)	6,836	849	245	(734)	7,196
Other income (expense)-net	443	(484)	(145)	(485) ¹³ (55) ⁹ (106) ¹⁶	(832)
Interest expense	307	1,160	(45)	381 ¹⁰	1,803
Income (loss) from continuing operations before income taxes	6,972	(795)	145	(1,761)	4,561
Provision (benefit) for income taxes	2,723	(234)	145	(167) ¹¹ (17) ¹⁶	2,450
Net income (loss) from continuing operations	<u>4,249</u>	<u>(561)</u>	<u>—</u>	<u>(1,577)</u>	<u>2,111</u>
Dividend requirements on preferred stocks	<u>—</u>	<u>(42)</u>	<u>—</u>	<u>32 ¹²</u>	<u>(10)</u>
Net income (loss) from continuing operations attributable to common shareowners	<u>\$ 4,249</u>	<u>\$ (603)</u>	<u>\$ —</u>	<u>\$(1,545)</u>	<u>\$ 2,101</u>
AT&T EPS Calculation:					
Net income attributable to AT&T common shareowners	\$ 4,249				\$ 3,052
Weighted average shares outstanding (basic)	1,781				2,115
Basic EPS	\$ 2.39				\$ 1.44
Net income attributable to AT&T common shareowners	4,249				\$ 3,066
Weighted average shares outstanding (diluted)	1,789				2,189
Diluted EPS	\$ 2.38				\$ 1.40
New Liberty Media Group EPS					
Basic					\$ (1.63)
Diluted					\$ (1.63)

See Notes to Unaudited AT&T Condensed Pro Forma Financial Statements.

Notes to Unaudited AT&T Pro Forma Financial Statements
(In millions, except per share amounts)

1. These columns represent historical results of operations and financial position.
2. These columns represent the deconsolidation to the equity method of accounting of the historical results of operations and financial position for the interests represented by the shares of New Liberty Media Group Tracking Stock to be issued in the Merger. See Note 3. AT&T has accounted for the New Liberty Media Group under the equity method because it does not possess a "controlling financial interest" in the New Liberty Media Group. Such deconsolidated interests exclude those interests to be included in the Asset Transfers. These columns also reflect adjustments to inter-group eliminations as a result of the Asset Transfers. In addition, the Liberty/Ventures Group and the TCI Group will exchange certain other assets. These other asset exchanges are immaterial and are not reflected in these unaudited pro forma financial statements. New Liberty Media Group Tracking Stock reflects the separate performance of the businesses and assets to be attributed to the New Liberty Media Group subsequent to the Merger. See separate New Liberty Media Group pro forma financial statements.
3. The following schedules reconcile the pro forma Liberty Ventures adjustments to the New Liberty Media Group pro forma financial statements.

At September 30, 1998						
	Liberty/ Ventures Financials	Asset Transfers	Adjusted Liberty/ Ventures	Deconsol- idated Liberty/ Ventures	Adjust- ment to Equity Method	Pro Forma Liberty/ Ventures Adjustment
Cash	\$ 403	\$ (204)	\$ 199	\$ (199)	\$ —	\$ (199)
Receivables-net	176	(26)	150	(150)	—	(150)
Other current assets	82	(6)	76	(76)	—	(76)
Property, plant and equipment-net	572	(425)	147	(147)	—	(147)
Investments	10,572	(2,744)	7,828	(7,828)	5,733	(2,095)
Franchise costs, goodwill & other long- term assets-net	2,570	(243)	2,327	(2,327)	—	(2,327)
Total Assets	\$14,375	\$ (3,648)	\$10,727	\$ (10,727)	\$5,733	\$ (4,994)
Accounts payable	\$ 54	\$ (16)	\$ 38	\$ (38)	\$ —	\$ (38)
Debt maturing within one year	538	(36)	502	(502)	—	(502)
Other current liabilities	807	(353)	454	(454)	—	(454)
Long-term debt	2,108	(137)	1,971	(1,971)	—	(1,971)
Deferred income taxes	2,391	(777)	1,614	(1,614)	—	(1,614)
Other long-term liabilities and deferred credits	114	(5)	109	(109)	—	(109)
Total Liabilities	6,012	(1,324)	4,688	(4,688)	—	(4,688)
Minority interest	645	(358)	287	(287)	—	(287)
Redeemable securities	19	—	19	(19)	—	(19)
Combined equity	7,699	(1,966)	5,733	(5,733)	5,733	—
Total liabilities and equity	\$14,375	\$ (3,648)	\$10,727	\$ (10,727)	\$5,733	\$ (4,994)

Nine Months Ended September 30, 1998							
	Liberty/ Ventures Financials	Asset Transfers	Liberty/ Ventures Elims	Adjusted Liberty/ Ventures	Deconsol- idated Liberty/ Ventures	Adjust- ment to Equity Method	Pro Forma Liberty/ Ventures Adjustment
Revenue	\$1,137	\$ (115)	\$ (192)	\$ 830	\$ (830)	\$ —	\$ (830)
Operating, selling, general & administrative	1,238	(112)	(192)	934	(934)	—	(934)
Depreciation and amortization	173	(87)	—	86	(86)	—	(86)
Operating income (loss)	(274)	84	—	(190)	190	—	190
Other income (expense)-net	2,421	(2,537)	(8)	(124)	124	(264)	(140)
Interest expense	81	(10)	(8)	63	(63)	—	(63)
Income (loss) from continuing operations before income taxes	2,066	(2,443)	—	(377)	377	(264)	113
Provision (benefit) for income taxes	828	(941)	—	(113)	113	—	113
Net income (loss)	\$1,238	\$ (1,502)	\$ —	\$ (264)	\$ 264	\$ (264)	\$ —

Year Ended December 31, 1997

	Liberty/Ventures Financials	Asset Transfers	Liberty/Ventures Elims	Adjusted Liberty/Ventures	Deconsol- idated/ Liberty/ Ventures	Adjust- ment to Equity Method	Pro Forma Liberty/Ventures Adjustment
Revenue	1,299	(123)	(185)	991	(991)	—	(991)
Operating, selling, general & administrative	1,386	(118)	(185)	1,083	(1,083)	—	(1,083)
Depreciation and amortization	196	(58)	—	138	(138)	—	(138)
Restructuring & other charges	15	—	—	15	(15)	—	(15)
Operating income (loss)	(298)	53	—	(245)	245	—	245
Other income (expense)-net	(168)	(137)	(16)	(321)	321	(466)	(145)
Interest expense	75	(14)	(16)	45	(45)	—	(45)
Net income (loss) from continuing operations before income taxes	(541)	(70)	—	(611)	611	(466)	145
Provision (benefit) for income taxes	(130)	(15)	—	(145)	145	—	145
Net income (loss)	<u>(411)</u>	<u>(55)</u>	<u>—</u>	<u>(466)</u>	<u>466</u>	<u>(466)</u>	<u>—</u>

4. This adjustment reflects the acquisition of the TCI Group and the Asset Transfers by AT&T and the excess consideration over net assets acquired (goodwill) (in millions, except per share amounts).

Shares of TCI Group Series A Tracking Stock Outstanding at September 30, 1998	474
Restricted stock and shares reserved for issuance under TCI Preferred Stock to be converted into AT&T Common Stock	<u>16</u>
Shares of TCI Group Series A Tracking Stock to be exchanged	490
AT&T exchange ratio per share	<u>0.7757</u>
Equivalent AT&T shares	380
AT&T share price based on the average closing price a few days before and after the Merger was agreed to and announced	<u>\$ 60.24</u>
<i>Subtotal</i>	<u>\$22,891</u>
Shares of TCI Group Series B Tracking Stock outstanding at September 30, 1998	50
Rights shares reserved for issuance	<u>15</u>
Shares of TCI Group Series B Tracking Stock to be exchanged	65
AT&T exchange ratio per share	<u>0.8533</u>
Equivalent AT&T shares	55
AT&T share price based on the average closing price a few days before and after the Merger was agreed to and announced	<u>\$ 60.24</u>
<i>Subtotal</i>	<u>\$ 3,313</u>
a. Total consideration for the TCI Group equity	\$26,204
b. Cash consideration for @Home, NDTC and WTCI	2,500
c. Merger costs (estimated)	<u>250</u>
<i>Total Consideration</i>	<u>\$28,954</u>

d. Historical net book value of the TCI Group	382
e. Historical net book value of @Home, NDTC, WTCI	(105)
Fair value adjustments relating to:	
f. Redeemable securities of TCI Group converted	(299)
g. In-process research and development	(1,000)
h. Tax benefit payable to New Liberty Media Group (See note 6)	561
i. Advances to New Liberty Media Group (See note 15)	(492)
j. Investment in Cablevision Systems Corporation	(1,108)
k. Warrants (see note 5)	(146)
l. Convertible notes	1,089
m. Preferred stock issued by subsidiaries	926
n. Trust preferred stock	160
o. Employee Stock Options	15
p. Deferred tax impacts	424
q. Preliminary goodwill	<u>\$29,361</u>

The total consideration will be allocated to the specific identifiable tangible and intangible assets and liabilities of the TCI Group and the Asset Transfers upon the completion of third-party appraisals. All third-party appraisals and adjustments to deferred income taxes are expected to be completed upon the Closing. Preliminarily, consideration has been allocated to the TCI Group investment in Cablevision Systems Corporation and certain debt and publicly traded preferred securities of the TCI Group that may ultimately be converted into shares of AT&T although such conversion is not forced by the terms of the Merger. The fair values of the investment in Cablevision and the publicly traded preferred securities were based on quoted market prices. Debt and other preferred securities were valued assuming the instruments converted into shares of AT&T at September 30, 1998. The purchase accounting allocation may also include certain in-process research and development projects and other intangible assets, such as franchise agreements that would be amortized over 40 years (see Note 9).

In-process research and development, which is not expected to have reached technological feasibility by the Closing Date and which will have no alternative future use, includes: certain research and development projects that are or will be underway, as of the Closing Date, at TCI. Projects that may be characterized as in-process research and development have been identified at TCI Communications, Inc., NDTC and @Home. TCI Communications is involved in efforts to increase the depth of optical fiber in its network, integrate the use of open standards modems, and implement voice over Internet protocol. NDTC is involved in software development for advanced set-top devices, as well as for the transmission of data signals. @Home has research and development efforts underway including efforts to introduce premium services, support the development and deployment of self-installable modems, enhance caching and replication techniques to improve network performance and efficiency, enhance @Home's advanced network management capabilities, and build a next generation network-based service provisioning and customer care platform. If, due to the uncertainties surrounding the successful completion of the acquired in-process research and development, AT&T is unable to establish technological feasibility and produce a commercially viable product/service, then anticipated incremental future cash flows attributable to expected profits from such new products/services may not be realized. Although there are significant technological issues to overcome in order to successfully complete the acquired in-process research and development, including integrating more advanced network software, integrating advanced set-top device software, and introducing new and advanced services over the existing networks, AT&T expects to successfully complete the in-process research and development to be acquired from TCI. A preliminary estimate of in-process research and development of approximately \$1 billion was used in these pro forma financial statements.

Consideration allocated to in-process research and development projects would be recorded as a charge against net income in the period the acquisition of the TCI Group and the Asset Transfers occurs. Each \$1

billion allocated to in-process research and development would have the effect of increasing net income by \$25 million annually by reducing goodwill amortization expense (\$0.01 per share in both the year ended December 31, 1997 and the nine months ended September 30, 1998, respectively, excluding the effect of the in-process research and development charge). Assuming an estimated useful life of 10 years, each \$1 billion of consideration allocated to property, plant and equipment would have the effect of decreasing net income by \$46 million annually (\$0.02 per share for the year ended December 31, 1997 and \$0.01 per share for the nine months ended September 30, 1998).

5. Reflects warrants currently attributed to the TCI Group to be transferred to the Liberty/Ventures Group in exchange for up to \$176 million in cash. TCI's carrying value for the warrants is approximately \$30 million.
6. Gives effect to the transfer from the TCI Group to the New Liberty Media Group of the benefit of all of the net operating loss carryforwards available to the entities included in TCI's consolidated income tax return as of the date of the Merger. Under the terms of the Tax Sharing Agreement, the associated federal tax benefits of all pre-merger TCI Group net operating loss carryforwards are allocated exclusively to the New Liberty Media Group. Accordingly, the TCI Group has recorded an intercompany payable to the New Liberty Media Group that results in an increase to goodwill.
7. Reflects additional borrowing of \$5.5 billion to fund the TCI Group's payment to the New Liberty Media Group in connection with the Asset Transfers (see Notes 4 and 8). A borrowing mix of 20% short-term and 80% long-term is assumed.
8. Asset Transfer consideration includes the purchase of \$3 billion of AT&T Common Stock currently owned by the TCI Ventures Group as a result of the Teleport Merger. The Teleport Merger was completed in July 1998.
9. This entry represents the amortization of goodwill resulting from the preliminary allocation of the excess of consideration over the net assets of the TCI Group and the assets acquired by AT&T in the Asset Transfers (see Note 4). AT&T expects the amount of excess consideration allocated to goodwill and franchise agreements upon completion of third-party appraisals to be amortized over 40 years. The amortization period of intangible assets, including goodwill, of 40 years is based upon the expected useful life of the franchise agreements and value related to the access to homes passed. The factors considered in determining the appropriate amortization period included legal and regulatory issues, experience with renewing franchises and territories, future changes in technology, anticipated market demand and competition. An allocation to customer lists and other intangibles with shorter amortization periods will be made, although the amounts allocated are not expected to be material. AT&T will evaluate the periods of amortization continually to determine whether later events and circumstances warrant revised estimates of useful lives. As discussed in Note 4, amounts allocated to property, plant and equipment, investments and identifiable intangible assets may be amortized over shorter periods resulting in a lower net income. An assessment of the useful lives attributable to those assets is not complete. However, we do not expect a material change as a result of the final appraisal. Any amount allocated to goodwill will also be impacted by an in-process research and development charge also discussed in Note 4. Consideration allocated to the TCI Group investment in Cablevision has been amortized over a period of 20 years.
10. These entries represent the recognition of incremental interest expense on the additional borrowings to fund the cash paid to the New Liberty Media Group in connection with the Asset Transfers (see Note 7). Interest expense was calculated using an interest rate of 6.92% for 1997 and 6.61% for 1998 based on a credit rating agency profile indicative of the industry in which the TCI Group operates. An increase of 25 basis points in the assumed interest rates would result in additional interest expense of approximately \$14 million annually.
11. These adjustments represent the statutory tax effect of the pro forma adjustments.
12. Gives effect to the elimination of dividend requirements on certain TCI Group Preferred Stock to be converted at the time of the Merger.
13. See separate New Liberty Media Group pro forma financial statements.
14. Represents the issuance of New Liberty Media Group Tracking Stock and AT&T Common Stock.
15. Represents the intercompany receivable from the Liberty/Ventures Group.
16. Represents the elimination of the Liberty/Ventures Group's investment in AT&T and certain non-recurring gains with respect to the Liberty/Ventures Group's investment in @Home and Teleport.
17. To close out the components of equity to total equity for allocation of pro forma equity between AT&T and the New Liberty Media Group.

NEW LIBERTY MEDIA GROUP
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
September 30, 1998
(In millions)

	<u>Historical Liberty/Ventures Group</u>	<u>Asset Transfers¹</u>	<u>Other Pro Forma Adjustments</u>	<u>Pro Forma New Liberty Media Group</u>
Assets				
Cash, receivables and other current assets	\$ 661	(236)	5,500 ² (176) ³ (2,323) ⁴	3,426
Investment in affiliates and related receivables	2,832	—	10,359 ⁵	13,191
Investment in Time Warner	4,996	—	—	4,996
Investment in AT&T	2,744	(2,744)	—	—
Other investments and related receivables	1,192	—	30 ³ 245 ⁵	1,467
Property and equipment, net of accumulated depreciation	572	(425)	104 ⁵	251
Intangible assets and other assets, net of accumulated amortization	<u>1,378</u>	<u>(243)</u>	<u>5,067 ⁵</u>	<u>6,202</u>
	<u>\$14,375</u>	<u>(3,648)</u>	<u>18,806</u>	<u>29,533</u>
Liabilities and Combined Equity				
Payables and accruals	\$ 861	(369)	—	492
Debt and capital lease obligations	2,646	(173)	(2,323) ⁴	150
Deferred income taxes	2,391	(777)	4,176 ⁵	5,790
Other liabilities	<u>114</u>	<u>(5)</u>	<u>—</u>	<u>109</u>
Total liabilities	<u>6,012</u>	<u>(1,324)</u>	<u>1,853</u>	<u>6,541</u>
Minority interests	645	(358)	—	287
Obligation to redeem common stock	19	—	—	19
Combined equity:				
Combined equity	5,545	(1,970)	5,500 ² (146) ³ 561 ⁶ 13,265 ⁵	22,755
Accumulated other comprehensive earnings, net of taxes	1,662	4	(1,666) ⁵	—
Due to (from) related parties	<u>492</u>	<u>—</u>	<u>(561)⁶</u>	<u>(69)</u>
Total combined equity	<u>7,699</u>	<u>(1,966)</u>	<u>16,953</u>	<u>22,686</u>
	<u>\$14,375</u>	<u>(3,648)</u>	<u>18,806</u>	<u>29,533</u>

See New Liberty Media Group Notes to Pro Forma Condensed Combined Financial Statements.

NEW LIBERTY MEDIA GROUP
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
Nine Months Ended September 30, 1998
(In millions, except per share amounts)

	<u>Historical Liberty/Ventures Group</u>	<u>Asset Transfers¹</u>	<u>Other Pro Forma Adjustments</u>	<u>Pro Forma New Liberty Media Group</u>
Revenue	\$1,137	(115)	—	1,022
Operating, selling, general and administrative expenses .	(975)	112	—	(863)
Stock compensation	(263)	—	—	(263)
Depreciation and amortization	(173)	87	(133) ⁷	(219)
Operating loss	(274)	84	(133)	(323)
Other income (expense)				
Interest expense including interest expense to related parties	(81)	10	38 ⁸	(33)
Dividend and interest income including interest income from related parties	66	(19)	—	47
Share of losses of affiliates, net	(861)	32	(388) ⁹	(1,217)
Minority interests in losses (earnings) of attributed subsidiaries	42	(44)	—	(2)
Gain on dispositions, net	2,862	(2,288)	—	574
Gain on sale of stock by attributed subsidiaries	55	(17)	—	38
Gain on issuance of stock by affiliates	259	(201)	—	58
Other, net	(2)	—	—	(2)
Earnings (loss) before income taxes	2,066	(2,443)	(483)	(860)
Income tax benefit (expense)	(828)	941	141 ¹⁰	254
Net earnings (loss)	<u>\$1,238</u>	<u>(1,502)</u>	<u>(342)</u>	<u>(606)</u>
Weighted average shares outstanding (basic and diluted)				585
Basic and diluted loss attributable to common shareholders per common share				\$(1.04) ¹¹

See New Liberty Media Group Notes to Pro Forma Condensed Combined Financial Statements.

NEW LIBERTY MEDIA GROUP
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

Year Ended December 31, 1997
(In millions, except per share amounts)

	<u>Historical Liberty/Ventures Group</u>	<u>TCI Asset Transfers¹</u>	<u>Other Pro Forma Adjustments</u>	<u>Pro Forma New Liberty Media Group</u>
Revenue	\$ 1,299	(123)	—	1,176
Operating, selling, general and administrative expenses .	(1,090)	118	—	(972)
Impairment of assets	(15)	—	—	(15)
Stock compensation	(296)	—	—	(296)
Depreciation and amortization	(196)	58	(177) ⁷	(315)
Operating loss	(298)	53	(177)	(422)
Other income (expense)				
Interest expense including interest expense to related parties	(75)	14	7 ⁸	(54)
Dividend and interest income including interest income from related parties	63	(3)	—	60
Share of losses of affiliates, net	(850)	66	(518) ⁹	(1,302)
Minority interests in losses (earnings) of attributed subsidiaries	25	(35)	—	(10)
Gain on dispositions, net	420	7	—	427
Gain on sale of stock of attributed subsidiaries	60	(60)	—	—
Gain on issuance of stock by affiliates	112	(112)	—	—
Other, net	2	—	—	2
Loss before income taxes	(541)	(70)	(688)	(1,299)
Income tax benefit	130	15	203 ¹⁰	348
Net loss	<u>\$ (411)</u>	<u>(55)</u>	<u>(485)</u>	<u>(951)</u>
Weighted average shares outstanding (basic and diluted)				585
Basic and diluted loss attributable to common shareholders per common share				\$ (1.63) ¹¹

See New Liberty Media Group Notes to Pro Forma Condensed Combined Financial Statements.

NEW LIBERTY MEDIA GROUP

Notes to Pro Forma Condensed Combined Financial Statements

September 30, 1998

(unaudited)

- (1) Represents the elimination of the Liberty/Ventures Group's investment in AT&T, the historical results of operations and financial position related to @Home, NDTC and WTCI, including adjustments to inter-group eliminations as a result of the Asset Transfers, as well as the elimination of the Liberty/Ventures Group's historical share of losses of Teleport. In addition, nonrecurring gains with respect to the Liberty/Ventures Group's investments in Teleport and @Home have been eliminated. Such eliminated gains with respect to Teleport aggregated \$2,489 million (before deducting related taxes of \$954 million) and \$112 million (before deducting related taxes of \$43 million) during the nine months ended September 30, 1998 and the year ended December 31, 1997, respectively. Such eliminated gains with respect to @Home aggregated \$17 million and \$60 million during the nine months ended September 30, 1998 and the year ended December 31, 1997, respectively. The Liberty/Ventures Group acquired its investment in shares of AT&T Common Stock upon consummation of the Teleport Merger. Accordingly, the Liberty/Ventures Group's investment in Teleport has been viewed for pro forma purposes as the predecessor investment to the shares of AT&T Common Stock that will be transferred from the Liberty/Ventures Group to AT&T immediately prior to the Closing.
- (2) Represents \$5.5 billion in cash to be received from the TCI Group in exchange for @Home, NDTC, WTCI and the shares of AT&T Common Stock owned by the Liberty/Ventures Group.
- (3) Represents the acquisition of certain warrants from the TCI Group for a cash purchase price of \$176 million. The excess of such cash purchase price over the TCI Group's \$30 million carrying value for such warrants has been reflected as a reduction of combined equity.
- (4) Represents repayments of certain debt from a portion of the \$5.5 billion cash proceeds to be received.
- (5) Represents an allocation of the purchase price to tangible and intangible assets, including the estimated incremental deferred income tax liability associated with the purchase price allocations. Such allocation reflects the estimated fair value of the assets and liabilities acquired by AT&T based upon information available at the date of the preparation of the accompanying condensed pro forma combined financial statements. Such allocation will be adjusted upon the final determination of such fair values. Management is not aware of any circumstances that would cause the final purchase price allocation to be significantly different from that which is reflected in the accompanying condensed pro forma combined balance sheet. However, actual valuations and allocations may differ from those reflected herein.

The aggregate purchase price was calculated as follows:

	<u>September 30, 1998</u> (millions)
New Liberty Media Group Class A Tracking Stock to be issued in the Merger	530
New Liberty Media Group Class A Tracking Stock to be issued upon conversion of certain TCI Group debt	<u>30</u>
New Liberty Media Group Class A Tracking Stock to be valued in the Merger	560
Liberty Media Group Series A Tracking Stock price based on the average closing price a few days before and after the Merger was agreed to and announced	<u>\$ 36.82</u>
<i>Subtotal</i>	<u>\$20,619</u>
New Liberty Media Group Class B Tracking Stock to be issued in the Merger	55
Liberty Media Group Series B Tracking Stock price based on the average closing price a few days before and after the Merger was agreed to and announced	<u>\$ 37.59</u>
<i>Subtotal</i>	<u>\$ 2,067</u>
<i>Total Consideration</i>	\$22,686
Historical net book value of the Liberty/Ventures Group	(7,699)
Historical net book value of the Asset Transfers	1,966
Cash to be received in exchange for the Asset Transfers	(5,500)
Excess over cash purchase price of certain warrants acquired from the TCI Group	146
Fair value adjustments relating to:	
Investments in affiliates	(10,359)
Other investments and related receivables	(245)
Property and equipment	(104)
Deferred tax impacts	<u>4,176</u>
<i>Preliminary goodwill</i>	<u>\$ 5,067</u>

For purposes of the accompanying condensed pro forma combined financial statements, the number of shares of New Liberty Media Group Tracking Stock to be issued in the Merger assumes that the Liberty/Ventures Combination has been consummated. Such shares have been valued based on the weighted average market value of Liberty Media Group Tracking Stock a few days before and after the Merger was agreed to and announced. Liberty Media Group Tracking Stock was used to value New Liberty Media Group Tracking Stock to be issued in the Merger because the fair value of Liberty Media Group Tracking Stock is more readily determinable than the fair value of New Liberty Media Group Tracking Stock.

- (6) Represents the intercompany receivable from the TCI Group that will result from the Tax Sharing Agreement. The Tax Sharing Agreement will provide for the New Liberty Media Group to be entitled to the benefit of all of the net operating loss carryforwards available for federal income tax purposes to entities included in TCI's consolidated income tax return as of the date of the Merger. The pro forma adjustment is calculated by multiplying the TCI Group's estimated net operating loss carryforwards of \$1,602 million at September 30, 1998 by an assumed income tax rate of 35%.

- (7) Represents the elimination of historical depreciation and amortization of \$86 million and \$138 million for the nine months ended September 30, 1998 and the year ended December 31, 1997, respectively, and the adjustment for new depreciation and amortization expense of \$219 million and \$315 million for the same periods, respectively, based upon the purchase price allocation. Such depreciation and amortization is based upon weighted average lives of 12.5 years for property and equipment and 30 years for intangible assets and other assets. Such adjustment does not reflect any change in depreciation or amortization methods.
- (8) Represents elimination of interest expense on certain debt to be repaid with a portion of the \$5.5 billion cash proceeds.
- (9) Represents amortization of the excess of the New Liberty Media Group's investments in affiliates over the New Liberty Media Group's proportionate share of such affiliates' net assets. Such amortization is based upon a weighted average life of 20 years.
- (10) Represents the estimated income tax effect of the pro forma adjustments.
- (11) Reflects loss per common share assuming 585 million weighted average shares of New Liberty Media Group Tracking Stock were outstanding during the nine months ended September 30, 1998 and the year ended December 31, 1997. Such weighted average share amount assumes that the estimated number of shares of New Liberty Media Group Tracking Stock that would have been issued if the Merger and the Liberty/Ventures Combination had occurred on September 30, 1998 had been outstanding since January 1, 1997.

THE AT&T TRACKING STOCK AMENDMENT

General

In connection with the Merger, AT&T is proposing to adopt the AT&T Tracking Stock Amendment. Approval of the AT&T Merger Proposal by AT&T shareholders will constitute approval of the AT&T Tracking Stock Amendment.

The AT&T Tracking Stock Amendment would, among other things:

- define the group—the “New Liberty Media Group”—that New Liberty Media Group Tracking Stock is intended to reflect. Following the Merger, the New Liberty Media Group will consist of all of the businesses conducted by the Liberty/Ventures Group after giving effect to the Liberty/Ventures Combination and the Asset Transfers;
- define the group—the “AT&T Common Stock Group”—that AT&T Common Stock is intended to reflect. Following the Merger, the AT&T Common Stock Group will consist of all of the businesses conducted by AT&T and any of its subsidiaries, other than any businesses, assets and liabilities of the New Liberty Media Group after giving effect to the Asset Transfers;
- establish the terms of the newly created classes of AT&T common stock: (a) New Liberty Media Group Class A Tracking Stock, consisting of 2.5 billion authorized shares and entitling the holders thereof to a vote per share equal to $\frac{1}{10}$ of the vote per share of New Liberty Media Group Class B Tracking Stock, and (b) New Liberty Media Group Class B Tracking Stock, consisting of 250 million authorized shares and entitling the holders thereof to one vote per share (the same vote per share as AT&T Common Stock); and
- provide that New Liberty Media Group Class B Tracking Stock may be issued only: (a) pursuant to the Merger Agreement, (b) upon conversion, exercise or exchange of certain convertible securities that were outstanding immediately following the Effective Time and were convertible, exercisable or exchangeable for New Liberty Media Group Class B Tracking Stock, (c) in a subdivision (by stock split or otherwise) of outstanding New Liberty Media Group Class B Tracking Stock, or (d) as a share distribution solely on a *pro rata* basis to existing holders of New Liberty Media Group Class B Tracking Stock made concurrently with an equivalent distribution of New Liberty Media Group Class A Tracking Stock, on a *pro rata* basis, to existing holders of New Liberty Media Group Class A Tracking Stock.

The form of the proposed AT&T Tracking Stock Amendment is attached as Appendix B to this Proxy Statement/Prospectus and is incorporated herein by reference. Please read “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment” for a more detailed description of the terms of New Liberty Media Group Tracking Stock.

Special Considerations Relating to the Issuance of Tracking Stock and the Merger

AT&T and TCI shareholders should consider the following factors, in addition to the other information contained elsewhere in this Proxy Statement/Prospectus, in connection with the AT&T Merger Proposal, in the case of AT&T shareholders, and the TCI Merger Proposal, in the case of TCI shareholders (together, the “Proposals”).

Shareholders of One Company; Financial Impacts on One Group Could Affect the Others

Notwithstanding the allocation of assets and liabilities (including contingent liabilities) and shareholders' equity between the AT&T Common Stock Group and the New Liberty Media Group for the purpose of preparing the respective financial statements of each group, the change in the capital structure of AT&T contemplated by the AT&T Tracking Stock Amendment will not affect the legal title to such assets or legal responsibility for such liabilities of AT&T or any of its subsidiaries.

The AT&T Common Stock Group, on the one hand, and the New Liberty Media Group, on the other hand, will be subject to contractual restrictions designed to limit the impact of actions taken by one group on the other. See “Relationship between the AT&T Common Stock Group and the New Liberty Media Group.” Nevertheless, holders of AT&T Common Stock and New Liberty Media Group Tracking Stock will each be common shareholders of AT&T and may be subject to risks associated with an investment in a single company and all of AT&T’s businesses, assets and liabilities. Financial effects arising from any group that affect AT&T’s consolidated results of operations or financial condition could, if significant, affect the combined results of operations or financial position of the other groups or the market price of the class of AT&T common stock relating to such other group. In addition, the incurrence of significant indebtedness by AT&T or one of its subsidiaries on behalf of a group, including indebtedness incurred or assumed in connection with acquisitions of or investments in businesses, including the Merger, would affect the credit ratings of AT&T and its subsidiaries and, therefore, could increase the borrowing costs of any other group and AT&T as a whole. Any net losses of the AT&T Common Stock Group or the New Liberty Media Group, and dividends or distributions on, or repurchases of, shares of AT&T Common Stock, New Liberty Media Group Tracking Stock or any shares of preferred stock, par value \$1.00 per share, of AT&T (“AT&T Preferred Stock”), will reduce the funds of AT&T legally available for payment of future dividends on AT&T Common Stock and New Liberty Media Group Tracking Stock. Accordingly, pro forma financial information of AT&T should be read in conjunction with the pro forma financial information of the New Liberty Media Group.

If the Proposals are approved, AT&T will provide to holders of AT&T Common Stock and New Liberty Media Group Tracking Stock financial statements, management’s discussion and analysis of financial condition and results of operations, business descriptions and other information for the AT&T Common Stock Group and the New Liberty Media Group. The financial statements of the New Liberty Media Group will reflect the financial position, results of operations and cash flows of the businesses and investments included therein. The pro forma financial statements for each of AT&T and the New Liberty Media Group are included in this Proxy Statement/Prospectus under “Unaudited Pro Forma Condensed Financial Information;” and the financial statements, management’s discussion and analysis of financial condition and results of operations, business descriptions and other information for AT&T and the Liberty/Ventures Group are incorporated herein by reference. See “Summary—Where You Can Find More Information.”

Limited Separate Shareholder Rights; No Additional Rights with Respect to the Groups; Effects on Voting Power

Under the Proposals, holders of New Liberty Media Group Tracking Stock and AT&T Common Stock will have only the rights specified in the AT&T Charter and the rights provided under New York law. These rights do not include direct voting rights in their corresponding group or any right to vote on matters as a separate class other than (a) with respect to New Liberty Media Group Tracking Stock, (1) under certain circumstances, in connection with the sale by AT&T of its equity investment in the New Liberty Media Group; (2) under certain circumstances, in connection with a merger, consolidation, reorganization or other transaction in or pursuant to which New Liberty Media Group Tracking Stock is converted, reclassified or changed into or otherwise exchanged for consideration; and (3) with respect to any amendment, alteration or repeal of any provision of the AT&T Charter that would increase or decrease the number of authorized shares of, or the par value of the shares of, New Liberty Media Group Tracking Stock or would adversely alter or change the powers, preferences, privileges or special rights of New Liberty Media Group Tracking Stock (see “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Voting Rights”), and (b) as required by the New York Business Corporation Law (the “NYBCL”). Separate meetings for the holders of New Liberty Media Group Tracking Stock will not be held.

When a vote is taken on any matter as to which all common shares of AT&T are voting together as one class, any class of such AT&T common stock that is entitled to more than the number of votes required to approve such matter will be in a position to control the outcome of the vote on such matter. Holders of New Liberty Media Group Class A Tracking Stock will be entitled to $\frac{1}{10}$ of a vote per share, while holders of

AT&T Common Stock and New Liberty Media Group Class B Tracking Stock will be entitled to one vote per share. As discussed below, certain matters on which holders of AT&T Common Stock and New Liberty Media Group Tracking Stock would vote together as a single class could involve a divergence or the appearance of a divergence of interests between the holders of AT&T Common Stock and New Liberty Media Group Tracking Stock.

Potential Diverging Interests

General. The existence of separate classes of AT&T common stock could give rise to occasions when the interests of the holders of AT&T Common Stock and/or New Liberty Media Group Tracking Stock diverge or appear to diverge. Examples include determinations by the AT&T Board to:

- pay or omit the payment of dividends on AT&T Common Stock or New Liberty Media Group Tracking Stock;
- approve certain dispositions of assets attributed to a group; and
- make operational and financial decisions with respect to one group that could be considered to be detrimental to the other group.

When making decisions with regard to matters that create potential diverging interests, the AT&T Board will act in accordance with the terms of the AT&T Charter, the Policy Statement and the Inter-Group Agreement, each as described under “Relationship between the AT&T Common Stock Group and the New Liberty Media Group,” to the extent applicable, and its fiduciary duties, which require the AT&T Board to consider the impact of such decisions on all shareholders. See “—Fiduciary Duties of the AT&T Board.” The AT&T Board could also from time to time refer to the Capital Stock Committee matters involving such conflict issues and have the Capital Stock Committee report to the AT&T Board on such matters or decide such matters to the extent permitted by the AT&T By-Laws and applicable law.

No Assurance of Payment of Dividends. The AT&T Board currently pays a cash dividend on AT&T Common Stock equal to \$0.33 per share per quarter. Determinations as to the future dividends on AT&T Common Stock and New Liberty Media Group Tracking Stock will be based primarily upon the financial condition, results of operations and business requirements of the relevant group and AT&T as a whole. In addition, the AT&T Charter places certain limitations on AT&T’s ability to pay dividends as we describe under “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Dividends.” Also, in connection with the Merger, the AT&T Board will adopt a dividend policy statement with respect to New Liberty Media Group Tracking Stock that will generally provide dividends and distributions received by a member of the AT&T Common Stock Group from a member of the New Liberty Media Group will be distributed to the holders of New Liberty Media Group Tracking Stock, subject to the limitations in the AT&T Charter. This dividend policy may be amended, modified or rescinded only by the unanimous consent of the AT&T Board. See “Relationship between the AT&T Common Stock Group and the New Liberty Media Group—Policy Statement—Dividend Policy.”

Subject only to the limitations we describe in the preceding paragraph, the AT&T Board reserves the right to declare and pay dividends on AT&T Common Stock and New Liberty Media Group Tracking Stock in any amount, and could, in its sole discretion, declare and pay dividends exclusively on AT&T Common Stock or exclusively on New Liberty Media Group Tracking Stock or both, in equal or unequal amounts, notwithstanding the relative available dividend amounts, the amount of prior dividends declared on each class, the respective voting or liquidation rights of each class or any other factor. In addition, net losses of any group or dividends and distributions on, and repurchases of any class of AT&T common stock or AT&T Preferred Stock would reduce the assets of AT&T legally available for future dividends on AT&T Common Stock and New Liberty Media Group Tracking Stock. See “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Dividends.”

Dispositions of Group Assets. Assuming the assets attributed to any group represent less than substantially all of the properties and assets of AT&T, the AT&T Board could, in its sole discretion and

without shareholder approval, approve sales and other dispositions of any amount of the properties and assets attributed to a group because the NYBCL requires shareholder approval only for a sale or other disposition of all or substantially all of the properties and assets of the entire company. With respect to the New Liberty Media Group, the AT&T Charter will require the separate class approval of New Liberty Media Group Tracking Stock for a sale or transfer generally by AT&T of its equity interest in the New Liberty Media Group or a grant of a pledge or other security interest in the capital stock of the New Liberty Media Group. See "Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Voting Rights." Covered Dispositions of AT&T's equity interest in the New Liberty Media Group are also subject to certain restrictions contained in the Inter-Group Agreement. See "Relationship between the AT&T Common Stock Group and the New Liberty Media Group." The proceeds from any such Covered Disposition would be assets attributed to such group and used for its benefit. In addition, shareholders of AT&T, regardless of the number and proportion of shares they may hold in any particular group, will not be able to compel the sale or other disposition of property or assets attributed to such group. Under New York law, the AT&T Board, in its sole discretion and without shareholder approval, could decline to dispose of assets of a group despite the request of a majority of the holders of the tracking stock designed to track the assets and business of such group.

Subject to certain exceptions set forth in the AT&T Charter, in the event of a Disposition of all or substantially all of the properties and assets of the New Liberty Media Group, which is defined as 80% or more on a current market value basis, the AT&T Charter generally requires AT&T to do one of the following: pay a dividend to holders of New Liberty Media Group Tracking Stock in an amount equal to the net proceeds of such Disposition and/or, to the extent that the New Liberty Media Group Available Dividend Amount would have been sufficient to pay a dividend in such amount, redeem all of, or, in the case of a Disposition of substantially all, but less than all, of the properties and assets of such group, redeem *pro rata*, the outstanding shares of New Liberty Media Group Tracking Stock in an amount equal to the net proceeds of such Disposition. For a discussion of these provisions, see "Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Redemption—Mandatory Dividend or Redemption in Case of a Disposition of New Liberty Media Group Assets." AT&T's Charter will not require the AT&T Board to select the option that would result in the distribution with the highest value to the holders of the relevant class of AT&T common shares. In such a circumstance, the AT&T Board will select an option based upon its good faith business judgment that such option is in the best interests of AT&T and all of its shareholders. See "—Fiduciary Duties of the AT&T Board."

Operational and Financial Decisions. The AT&T Board could, in its sole discretion, but subject to the terms of the Inter-Group Agreement, from time to time, make operational and financial decisions or implement policies that affect disproportionately the businesses of the AT&T Common Stock Group and the New Liberty Media Group, such as the allocation of financing opportunities in the public markets and the allocation of business opportunities, resources and personnel that may be suitable for one or both groups. Any such decision may favor one group at the expense of the other. For example, the decision to obtain funds for one group may adversely affect the ability of the other group to obtain funds sufficient to implement its growth strategies. In addition, the increasing overlap between the businesses of the groups as a result of regulatory changes and technological advancements will make such operational and financial decisions more difficult. All such decisions will be made by the AT&T Board in its good faith business judgment or in accordance with procedures and policies adopted by the AT&T Board from time to time, including the policies set forth in the Policy Statement, to ensure that such decisions will be made in a manner consistent with the best interests of AT&T and its shareholders.

Fiduciary Duties of the AT&T Board

Although AT&T is not aware of any legal precedent under New York law involving the fiduciary duties of directors of corporations having two or more classes of common stock, or separate classes or series of capital stock, principles of Delaware law established in cases involving differing treatment of two classes of capital stock or two groups of holders of the same class of capital stock provide that a board of directors owes an

equal duty to all shareholders regardless of class or series. Under these principles of Delaware law and the related principle known as the “business judgment rule,” absent abuse of discretion, a good faith business decision made by a disinterested and adequately informed board of directors, or a committee thereof, with respect to any matter having a disparate impact upon holders of AT&T Common Stock or New Liberty Media Group Tracking Stock would be a defense to any challenge to such determination made by or on behalf of the holders of any class of AT&T common shares. Nevertheless, a New York court hearing a case involving such a challenge may decide to apply principles of New York law different from the principles of Delaware law discussed above.

Financing of Operations

If the AT&T Tracking Stock Amendment is adopted, all debt incurred or preferred stock issued by AT&T and its subsidiaries following the issuance of New Liberty Media Group Tracking Stock would be specifically attributed to and reflected in the financial statements of the group that includes the entity for whose benefit the debt is incurred or the preferred stock issued. Any debt or preferred stock obligations of the New Liberty Media Group, existing or to be issued, would be without recourse to the AT&T assets that exist outside of the New Liberty Media Group. Any debt or preferred stock obligations of the AT&T Common Stock Group, existing or to be issued, would be without recourse to the AT&T assets that exist outside of the AT&T Common Stock Group. The cash investment and financing needs and operations of the New Liberty Media Group would be managed independently of AT&T’s general cash investment and financing program, with the restriction that debt incurrence would not be permitted to exceed 25% of the New Liberty Media Group’s total market capitalization if such excess would adversely affect the credit rating of AT&T.

Limitations on Potential Unsolicited Acquisitions

If either of the AT&T Common Stock Group or the New Liberty Media Group were a stand-alone corporation, any person interested in acquiring such corporation without negotiation with AT&T’s management could seek control of the outstanding stock of such corporation by means of a tender offer or proxy contest. A person interested in acquiring either such group without negotiation with AT&T’s management would, however, still be required to seek control of the voting power represented by all of the outstanding capital stock of AT&T entitled to vote on such acquisition, including the class of AT&T common stock related to the other group. See “—Limited Separate Shareholder Rights; No Additional Rights with Respect to the Groups; Effects on Voting Power.”

Potential Effects of Possible Disposition of Assets Attributed to the New Liberty Media Group

The terms of New Liberty Media Group Tracking Stock provide that, upon a Disposition of all or substantially all of the properties and assets of the New Liberty Media Group, AT&T would be required, subject to certain exceptions, either to pay a dividend on or redeem outstanding shares of New Liberty Media Group Tracking Stock. If the New Liberty Media Group were a separate independent company and its shares were acquired by another person, certain costs of such Disposition, including corporate-level taxes, might not be payable in connection with such an acquisition. As a result, the consideration that would be received by shareholders of such separate independent company in connection with such an acquisition might be greater than the value of the net proceeds that would be received by holders of New Liberty Media Group Tracking Stock if the assets attributed to such group were sold. In addition, no assurance can be given that the net proceeds per share of New Liberty Media Group Tracking Stock to be received in connection with a Disposition of all of the assets attributed to such group will be equal to or greater than the market value per share of New Liberty Media Group Tracking Stock prior to or after announcement of such Disposition. See “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Redemption—Mandatory Dividend or Redemption in Case of a Disposition of New Liberty Media Group Assets.”

No Assurance as to Market Price

The market price of AT&T Common Stock and New Liberty Media Group Tracking Stock will be determined in the trading markets, and could be influenced by many factors, including the consolidated results of AT&T, as well as the performance of the AT&T Common Stock Group and the New Liberty Media Group, investors' expectations for AT&T as a whole and for the AT&T Common Stock Group and the New Liberty Media Group, the regulatory environment, trading volume, share issuances and repurchases, and general economic and market conditions. There can be no assurance that investors will assign a value to AT&T Common Stock and New Liberty Media Group Tracking Stock based on the reported financial results and prospects of the AT&T Common Stock Group or the New Liberty Media Group, respectively, or the dividend policies established by the AT&T Board with respect to such class of AT&T common stock. Accordingly, financial effects of the AT&T Common Stock Group and/or the New Liberty Media Group that affect AT&T's consolidated results of operations or financial condition could affect the market price of shares of AT&T Common Stock and/or New Liberty Media Group Tracking Stock.

The Effect of Stock Price Fluctuations on the Consideration to be Received by the Holders of TCI Group Tracking Stock in the Merger; Fixed Exchange Ratios; No Assurance as to Value

The relative prices of shares of AT&T Common Stock and TCI Group Tracking Stock at the Effective Time may vary significantly from the prices as of the date of execution of the Merger Agreement, the date hereof or the date of the Special Meetings. These variances may be due to changes in the businesses, operations, results and prospects of AT&T or the TCI Group, the effect of any conditions or restrictions imposed on or proposed with respect to the combined companies by regulatory agencies in connection with or following consummation of the Merger, general market and economic conditions, and other factors. The TCI Group Exchange Ratios are fixed, and no adjustments will be made thereto in the case of any such fluctuations in the market price of AT&T Common Stock or TCI Group Tracking Stock, which fluctuations may be substantial.

The Merger Agreement contemplates the exchange of Liberty/Ventures Group Tracking Stock for New Liberty Media Group Tracking Stock (or, if the Liberty/Ventures Combination has not occurred prior to the Merger, of Liberty Media Group Tracking Stock and TCI Ventures Group Tracking Stock for New Liberty Media Group Tracking Stock). No formal estimate has been made, however, of the relative value of the stock to be exchanged, and no assurance can be given that the market will assign a value to New Liberty Media Group Tracking Stock received in such exchange that will be identical to the value of Liberty/Ventures Group Tracking Stock (or, if applicable, Liberty Media Group Tracking Stock or TCI Ventures Group Tracking Stock) prior to such exchange.

Management of the New Liberty Media Group

Following the Merger, all of the equity interests in the New Liberty Media Group will be owned by AT&T; however, a majority of the members of the Liberty Board will be individuals designated by TCI prior to the Merger. Pursuant to the Liberty Charter Documents, such individuals will continue to constitute a majority of the members of the Liberty Board until at least 2006. Under Delaware law, the business of a corporation is managed by its board of directors. Thus, although AT&T will own all of the equity interests in the New Liberty Media Group and, initially, all of the common stock of Liberty Media Corporation, the incumbent directors of Liberty Media Corporation at the Effective Time (and their successors) will be able to control most aspects of the day-to-day business of Liberty Media Corporation and its subsidiaries following the Merger. See "The Proposed Transactions—Interests of Certain Persons in the Transactions—Management of the New Liberty Media Group."

In addition, upon the occurrence of a Triggering Event, subject to the terms and conditions of the Contribution Agreement, all of the assets of Liberty Media Corporation will be contributed to Liberty Media Group LLC, substantially all of the equity interests of which are owned by AT&T, unless the Triggering Event

is waived by Liberty Management LLC. Liberty Management LLC, the equity interests of which are owned by certain current officers of Liberty Media Corporation, will own the remaining equity interests in Liberty Media Group LLC and will be the sole manager of Liberty Media Group LLC.

As a result of these arrangements, management of Liberty Media Corporation will be able to exercise control over the management of the business of the New Liberty Media Group following the Merger. This means that, subject to its fiduciary duties to AT&T and any other shareholders of Liberty Media Corporation, and to the obligations the Inter-Group Agreement, the Liberty Board, a majority of which will be individuals designated by TCI prior to the Merger, may under Delaware law operate Liberty Media Corporation in any manner that it determines to be in the best interests of Liberty Media Corporation, although such interests may differ from the interests of AT&T or the holders of New Liberty Media Group Tracking Stock. For example, subject to these duties and obligations, the Liberty Board may: (1) set management compensation, (2) issue shares of stock of Liberty Media Corporation, including preferred shares, (3) repurchase securities, including securities owned by officers or directors of Liberty Media Corporation, (4) cause Liberty Media Corporation to engage in businesses and activities that compete directly with AT&T, or (5) cause Liberty Media Corporation to pursue business opportunities that may also be of interest to AT&T. See “Risk Factors Relating to the Merger—The Board of Directors of Liberty Media Corporation, a Majority of Which Will Be Individuals Designated by TCI Prior to the Merger, Has the Power to Take Actions that May Not Be in the Best Interests of AT&T or Holders of New Liberty Media Group Tracking Stock” and “—The Board of Directors of Liberty Media Corporation May Have No Fiduciary Duties to Holders of New Liberty Media Tracking Stock.”

Certain other corporations that will be attributed to the New Liberty Media Group but which are not subsidiaries of Liberty Media Corporation will have governance arrangements similar to those of Liberty Media Corporation described above. Moreover, the various transaction agreements to be entered into between AT&T and Liberty Media Corporation prior to the Merger will provide the New Liberty Media Group with a level of financial and operational separation from AT&T, certain access rights to AT&T’s cable networks and certain rights enabling it to finance its operations separately from those of AT&T, except as otherwise set forth in any Intercompany Agreement. See “Relationship between the AT&T Common Stock Group and the New Liberty Media Group.”

Potential Redemption of New Liberty Media Group Tracking Stock

Pursuant to the AT&T Tracking Stock Amendment, under certain circumstances, AT&T may redeem all of the outstanding shares of New Liberty Media Group Tracking Stock in exchange for shares of the common stock of one or more AT&T subsidiaries that hold all of the assets and liabilities of the New Liberty Media Group and that hold no other material assets or liabilities. If AT&T chooses to redeem such shares of New Liberty Media Group Tracking Stock, there can be no assurance that the market value of the common stock received in such redemption will not be less than the market value of the New Liberty Media Group Tracking Stock so redeemed. See “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Redemption.”

RELATIONSHIP BETWEEN THE AT&T COMMON STOCK GROUP AND THE NEW LIBERTY MEDIA GROUP

The description of the Capital Stock Committee and the Policy Statement set forth below does not purport to be complete and is qualified in its entirety by reference to the By-Law Amendment and the Policy Statement, copies of which are attached as Appendix C to this Proxy Statement/Prospectus and incorporated herein by reference. All shareholders are urged to read them in their entirety.

Capital Stock Committee

At the Effective Time, AT&T will amend the AT&T By-Laws (the “**By-Law Amendment**”) to establish the Capital Stock Committee of the AT&T Board to oversee the interaction between the businesses of the AT&T Common Stock Group (including the TCI Group) and the New Liberty Media Group following the Merger. The Capital Stock Committee shall consist of three members, which will initially be Dr. Malone and two directors who are not current or former officers or employees of AT&T or current or former officers, directors or employees of any of its affiliates, or otherwise affiliated with AT&T (other than as members of the AT&T Board or any other committee thereof). The By-Law Amendment provides that the AT&T Board shall delegate to the Capital Stock Committee authority to:

- interpret, make determinations under, and oversee the implementation of the policies set forth in the Policy Statement Regarding New Liberty Media Group Tracking Stock Matters (the “**Policy Statement**”) described under “—Policy Statement.”
- to the extent permitted by law, take all actions required to be taken by the AT&T Board in connection with authorization of the issuance of shares of New Liberty Media Group Tracking Stock.

Policy Statement

In connection with the Merger, AT&T will, effective at the Effective Time, adopt the Policy Statement, which AT&T intends to follow.

General Policy

The AT&T Board has determined that all material matters in which holders of AT&T Common Stock and New Liberty Media Group Tracking Stock may have divergent interests will be resolved in a manner that is in the best interests of AT&T and all of its common shareholders after giving fair consideration to the potentially divergent interests and all other relevant interests of the holders of the separate classes of AT&T common stock. Pursuant to the Policy Statement, the relationship between the AT&T Common Stock Group and the New Liberty Media Group and the means by which the terms of any material transaction between them will be determined will be governed by a process of fair dealing.

Capital Stock Committee

The Capital Stock Committee shall have authority to interpret, make determinations under, and oversee the implementation of the Policy Statement.

Fiduciary Duties

The Policy Statement provides that, in making any and all determinations in connection with the Policy Statement, either directly or by appropriate delegation of authority, the members of the Capital Stock Committee will act in accordance with their fiduciary duties as members of the AT&T Board.

Dividend Policy

The Policy Statement sets forth the AT&T Board's dividend policy as it relates to New Liberty Media Group Tracking Stock. The Policy Statement provides that the cash dividend policy will be to distribute, subject to the limitations in the AT&T Charter, any dividends received by AT&T from an entity included in the New Liberty Media Group in respect of AT&T's interest in such entity directly to the holders of New Liberty Media Group Tracking Stock. The Policy Statement further establishes that it is the AT&T Board's intention, subject to the limitations in the AT&T Charter, to distribute as a dividend directly to the holders of New Liberty Media Group Tracking Stock, the amount and type of any non-cash dividend received by AT&T from an entity included in the New Liberty Media Group in respect of AT&T's interest in such entity.

Financial Reporting

The Policy Statement provides that, as long as New Liberty Media Group Tracking Stock is outstanding, AT&T will prepare and include in its filings with the SEC consolidated financial statements of AT&T and combined financial statements of the New Liberty Media Group.

Amendment and Modification to the Policy Statement

The Policy Statement, including any resolution implementing the provisions of the Policy Statement, may be amended, modified or rescinded at any time and from time to time by the AT&T Board. The AT&T Board may also adopt additional or other policies or make exceptions to the application of the policies set forth in the Policy Statement, all as the AT&T Board may determine, consistent with its fiduciary duties to AT&T and all of its shareholders. Notwithstanding the foregoing, the policies described above under “—Dividend Policy” may be amended, modified or rescinded only by the unanimous consent of the AT&T Board.

Agreements between the AT&T Common Stock Group and the New Liberty Media Group

Inter-Group Agreement

At the Effective Time, AT&T and Liberty Media Corporation will enter into the Inter-Group Agreement, the terms of which are attached as an exhibit to the Registration Statement and incorporated herein by reference. The following is a description of the material terms of such Inter-Group Agreement.

Obligations; Corporate Opportunities; Trademarks. The Inter-Group Agreement provides that the AT&T Common Stock Group, on the one hand, and the New Liberty Media Group, on the other hand, will have no obligations or responsibilities to one another to provide financial support to, offer corporate opportunities to or otherwise assist, one another, except as set forth in any Intercompany Agreement. Without limiting the generality of the foregoing, neither the AT&T Common Stock Group nor the New Liberty Media Group will have any rights to any trade names, trademarks, service marks or other intellectual property rights of the other group, except as expressly set forth in any Intercompany Agreements.

Indebtedness. The Inter-Group Agreement provides that neither the New Liberty Media Group, on the one hand, nor the AT&T Common Stock Group, on the other hand, will incur any debt or other obligation (including any preferred equity obligation) that has or purports to have recourse to any member, or to the assets of any member, of the other group. The Inter-Group Agreement also provides that, except for any Intercompany Agreements, no member of the New Liberty Media Group or the AT&T Common Stock Group will enter into any agreement, or incur any other liability or obligation, that binds or purports to bind or impose any liabilities or obligation on any member of the other group. In addition, AT&T will not create, authorize or issue any AT&T Preferred Stock attributed to the New Liberty Media Group without the consent of the Liberty Board.

In addition to the foregoing, the New Liberty Media Group will not incur any debt, other than the refinancing of debt without any increase in amount, that would cause the total indebtedness of the New Liberty Media Group at any time to be in excess of 25% of the total market capitalization of New Liberty Media

Group Tracking Stock if such excess debt, whether incurred before or after the Merger, would adversely affect the credit rating of AT&T. Prior to incurring any debt such that its total debt would be in excess of such amount, the New Liberty Media Group will consult with AT&T and, if requested by AT&T, with one or more nationally recognized credit rating agencies, to determine if such debt would adversely affect the credit rating of AT&T.

Liabilities; Allocation of Certain Expenses; Indemnification. The Inter-Group Agreement provides that the New Liberty Media Group, on the one hand, and the AT&T Common Stock Group, on the other hand, will be responsible for all claims, obligations, liabilities and costs arising from such group's operations and businesses, including, without limitation, (a) all obligations to such group's employees, (b) all liabilities relating to actions taken by such group's officers and employees, and (c) all liabilities relating to information publicly disclosed by such group or information provided by such group for inclusion in any such public disclosure, whether arising before, on or after the Closing Date. Without limiting the generality of the foregoing, the New Liberty Media Group will be responsible for any claims relating to:

- the transfer of assets between the Liberty Media Group and the TCI Ventures Group;
- the exchange of TCI Ventures Group Tracking Stock for Liberty Media Group Tracking Stock or, if applicable, the relative Liberty Media Group Exchange Ratios and TCI Ventures Group Exchange Ratios; and
- the amended and restated Liberty Charter Documents, the charter documents of certain other members of the Liberty Media Group, Liberty Media Group LLC and any agreements between Liberty Media Group LLC and any member of the New Liberty Media Group.

The TCI Group will be responsible for TCI's legal, financial advisory and accounting fees and printing expenses, in each case, incurred in connection with the Merger Agreement and the Merger. Each of the New Liberty Media Group and the AT&T Common Stock Group will indemnify the other group, and hold the other group, harmless against all claims, liabilities, losses and expenses, including attorneys' fees, allocated to the indemnifying group pursuant to the foregoing.

Allocation of Corporate Overhead Expenses. The Inter-Group Agreement provides that the AT&T Common Stock Group will not allocate general overhead expenses to the New Liberty Media Group, except to the extent that the New Liberty Media Group receives specific services pursuant to services agreements or similar arrangements between the AT&T Common Stock Group and the New Liberty Media Group and except for any allocable share of AT&T's annual audits. The Inter-Group Agreement further provides that the AT&T Common Stock Group and the New Liberty Media Group will cooperate with each other with respect to common functions, such as tax reporting and financial reporting.

Stock Issuances. The Inter-Group Agreement governs Liberty Media Corporation's ability to issue stock. It provides that Liberty Media Corporation may issue additional shares of its common stock and may authorize and issue shares of one or more series of its preferred stock, in any such case, only if, after giving effect to such issuance, Liberty Media Corporation would remain a Qualifying Subsidiary. The Inter-Group Agreement provides that the proceeds of any issuance of New Liberty Media Group Tracking Stock will be contributed to Liberty Media Corporation. As defined in the AT&T Charter, a "Qualifying Subsidiary" of a person means a subsidiary of such person in which such person's ownership and voting interest is sufficient to satisfy the ownership and voting requirements of the Code and the regulations thereunder for a distribution of such person's interest in such subsidiary to the holders of New Liberty Media Group Class A Tracking Stock and New Liberty Media Group Class B Tracking Stock (or such securities into which the same may have been converted, reclassified or changed or for which they may have been exchanged) to be tax free to such holders. Thus, in order to retain its status as a Qualifying Subsidiary, Liberty Media Corporation will not be permitted to issue shares if such issuance would result in neither AT&T nor a subsidiary of AT&T owning at least 80% of the total combined voting power of all classes of stock of Liberty Media Corporation entitled to vote and at least 80% of the total number of all other classes of shares of Liberty Media Corporation.

Redemptions of New Liberty Media Group Tracking Stock. The Inter-Group Agreement provides that, if AT&T redeems the outstanding New Liberty Media Group Tracking Stock for stock of a Qualifying Subsidiary that holds all of the assets and liabilities of the New Liberty Media Group and holds no other material assets and liabilities as permitted by the AT&T Charter under circumstances where, generally, the assets and liabilities of the New Liberty Media Group are held by one or more subsidiaries included in the New Liberty Media Group and the redemption would be tax free to holders of New Liberty Media Group Tracking Stock, as described more fully under “Description of AT&T Capital Stock—AT&T Tracking Stock Amendment—Redemption—Redemption in Exchange for Stock of Qualifying Subsidiaries:”

- the provisions of the Liberty Charter Documents or other organizational or constituent instruments of Liberty Media Corporation (or any other member of the New Liberty Media Group) will no longer contain any provisions relating to the election of directors, including, without limitation, provisions relating to the term and removal of directors, or relating to any other matter that could reasonably be expected to impair the ability of a third party to seek control of such entity that are more restrictive than any provision contained in the TCI Charter and the TCI By-Laws as of the date of the Merger Agreement;
- no Triggering Event shall thereafter occur, and
- in the event that a Triggering Event has occurred, Liberty Media Group LLC will be automatically dissolved.

In connection with such redemption, AT&T will, to the extent practicable, reclassify the stock of such Qualifying Subsidiary into two series of common stock that are substantially equivalent in all respects except for differences in their relative voting rights and related differences in designation, conversion and share distribution provisions, *provided* that such rights shall not differ to a greater extent than the corresponding differences in voting rights, designation, conversion and share distribution provisions between New Liberty Media Group Class A Tracking Stock and New Liberty Media Group Class B Tracking Stock, with the holders of shares of New Liberty Media Group Class B Tracking Stock receiving the class having the higher relative voting rights. Further, such Qualifying Subsidiary would agree that, if the holders of certain existing notes that following the Merger will be exchangeable for both AT&T Common Stock and New Liberty Media Group Tracking Stock elect to exercise their exchange rights following such redemption, such Qualifying Subsidiary will deliver any consideration required to be paid upon such exchange in respect of its capital stock in accordance with the terms of such notes, and, if the performance of such obligation results in a tax liability to AT&T or the obligor on such notes, such Qualifying Subsidiary will bear 40% of such liability.

Sprint PCS Investment. The Inter-Group Agreement gives the New Liberty Media Group, subject to certain exceptions, the sole and exclusive and irrevocable power to direct the disposition of the New Liberty Media Group’s investment in Sprint PCS Stock, and, following any such disposition, the sole rights to direct the application of the proceeds of such disposition.

Financial Reporting. The Inter-Group Agreement repeats the financial reporting obligation of AT&T set forth in the Policy Statement. See “—Policy Statement—Financial Reporting.”

Additional AT&T Covenants Relating to the New Liberty Media Group. Pursuant to the Inter-Group Agreement, AT&T generally agrees that it will not, and will not permit any member of the AT&T Common Stock Group to, directly or indirectly:

- sell, transfer, dispose of or otherwise convey, whether by merger, consolidation, sale or contribution of assets or stock, or otherwise, any direct or indirect equity interest of AT&T in Liberty Media Corporation or Liberty Media Group LLC;
- issue any indebtedness secured by, or pledge or grant a lien, security interest or other encumbrance on, any direct or indirect equity interest of AT&T in Liberty Media Corporation or Liberty Media Group LLC; or

- create any derivative instrument whose value is based on any direct or indirect equity interest of AT&T in Liberty Media Corporation or Liberty Media Group LLC;

provided, however, that the foregoing will not apply to:

- any of the foregoing approved by the Liberty Board prior to the occurrence of a Triggering Event or approved by Liberty Management LLC after the occurrence of a Triggering Event;
- AT&T's issuance or sale of its own securities, other than indebtedness secured by any direct or indirect equity interest of AT&T in the Liberty Media Corporation or Liberty Media Group LLC and other than any derivative instrument whose value is based on any direct or indirect equity interest of AT&T in Liberty Media Corporation or Liberty Media Group LLC; or
- AT&T's participation in any merger, consolidation, exchange of shares or other business combination transaction in which AT&T, or its successors, continues immediately following such transaction to hold the same interest in the business, assets and liabilities comprising the New Liberty Media Group that it held immediately prior to such transaction, other than as a result of any action by Liberty Media Corporation or any other person included in the New Liberty Media Group.

Liberty Intercompany Agreement

At the Effective Time, TCI, on behalf of the TCI Group, and the appropriate subsidiaries of TCI, on behalf of the New Liberty Media Group, will enter into one or more agreements (the "**Intercompany Agreements**"), the terms of which are attached as an exhibit to the Registration Statement and incorporated herein by reference. The following is a description of the material terms of such Intercompany Agreements.

Preferred Vendor Status. Liberty Media Corporation will be granted preferred vendor status with respect to access, timing and placement of new programming services. This means that AT&T will use its reasonable efforts to provide digital basic distribution of new services created by Liberty Media Corporation and its affiliates, on mutual "most favored nation" terms and conditions and otherwise consistent with industry practices, subject to the programming meeting standards that are consistent with the type, quality and character of AT&T's cable services as they may evolve over time.

Pending TCI Agreements. The TCI Group and the Liberty Media Group (including its programming affiliates) have agreed upon certain terms of pending agreements for the carriage of specified services for New Odyssey, the Telemundo Network, The Box service offered by TCI Music, Inc., Canales fi, Prevue Interactive Guide, Court TV and Fox Sports Chicago.

Liberty Media Corporation Affiliation Agreements. AT&T will agree to extend any existing affiliation agreement of Liberty Media Corporation and its affiliates that expires in the first five years following the Effective Time to a date of not less than 10 years following the Effective Time, *provided* that most favored nation terms are offered and the arrangements are consistent with industry practice.

Interactive Video Services. AT&T will enter into arrangements with Liberty Media Corporation for interactive video services under one of the two arrangements described below, at the election of AT&T:

- Pursuant to a five-year arrangement, renewable for an additional four-year period on then-current most favored nation terms, AT&T will make available to Liberty Media Corporation capacity equal to one 6 megahertz channel (in digital form and including interactive enablement, first screen access and hot links to relevant Web sites—all to the extent implemented by AT&T cable systems) to be used for interactive, category-specific video channels that will provide entertainment, information and merchandising programming. Nothing set forth in the preceding sentence shall compel AT&T to disrupt other programming or other channel arrangements. The suite of services will be accessible through advanced set top devices or boxes deployed by AT&T, except that, unless specifically addressed in a mutually acceptable manner, AT&T will have no obligation to deploy set top devices or boxes of a