CWA

CWA REVIEW AND RECOMMENDATIONS:

VOTING ITEMS ON AT&T PROXY STATEMENT

INTRODUCTION

AT&T is prosperous and its leadership is predicting a bright future. In 2017, AT&T had revenues of $160.5 billion and net income of $29.5 billion with capital investment of $22 billion. In the past three years, revenue has increased 9 percent, net income is up 120%, share price is up almost 29% and dividends are up 18%. AT&T is poised for new wireless opportunities – FirstNet and 5G – and to expand into video and entertainment.

This company is ready to grow, and CWA's bargaining units are the foundation upon which AT&T's future is being built. The CWA members are on the frontlines of AT&T's growth, laying fiber, maintaining plant, installing and maintaining equipment, dealing with customers. We are the ones who build the networks and those customer relationships, and who create the needed stability for the company to grow. And yet our bargaining units are shrinking as our jobs are contracted out and offshored. CWA members are being laid off and our wages and benefits are being squeezed.

For that reason, CWA members should exercise their votes as shareholders, helping to shape the direction of the company and to establish principles that will govern the company. CWA has prepared this shareholders voting guide to offer some insight into the shareholder proposals in AT&T's 2018 proxy statement. We encourage you to exercise your right to vote on this company's future.

MANAGEMENT PROPOSALS

ITEM 1. ELECTION OF DIRECTORS

The Board of Directors consists of 13 individuals, all of whom are independent, except for Randall Stephenson, AT&T's CEO. The entire Board has been nominated for re-election.

RECOMMENDATION FOR ITEM 1: VOTE YOUR CONSCIENCE.

ITEM 2. RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITOR

Ernst & Young has been the auditor for AT&T, and previously SBC, since the 1990s. The Board's Audit Committee has re-appointed the firm for another fiscal year, through December 31, 2018. With this vote, shareholders are asked to affirm the Committee's decision. The wisdom in corporate governance circles is that such lengthy relationships can blur the independent perspective necessary for an uncompromised review of financial results.

RECOMMENDATION FOR ITEM 2: VOTE AGAINST.

ITEM 3. ADVISORY APPROVAL OF EXECUTIVE COMPENSATION

The proposal asks shareholders to approve a compensation program already in place. The vote would not be binding on the company, and is only advisory in nature. The proxy statement includes principles for setting pay and a detailed discussion of all aspects of executive pay. Of particular interest to CWA members will be the calculation of the CEO Pay Ratio (page 92 of the proxy statement). Randall Stephenson is paid 366 times the median pay of AT&T's employees. Stephenson's 2017 compensation totaled $28.7 million, including base salary, stock awards, incentive plans, pension, and other personal benefits. His compensation has increased an average of 7 percent a year 2015. That's more than double the rate of wage increases for bargaining unit members.

RECOMMENDATION FOR ITEM 3: VOTE AGAINST.

ITEM 4. APPROVE STOCK PURCHASE AND DEFERRAL PLAN

This management proposal asks shareholders to approve a change in the Stock Purchase and Deferral Plan for "mid-level and above management employees," estimated to be about 6,500 managers. The change is subject to shareholder approval. The plan has been in place since 2005. The plan allows these managers to defer income, thereby lowering their taxable income, through the purchase of shares of AT&T stock. AT&T also offers matching contributions under the program and all matching contributions are immediately vested. The change that management seeks would expand the number of shares available for acquisition under the plan from 46 million to 76 million. In 2013 the plan had been revised to increase the number of authorized shares from 21 million to 46 million. The company notes that as of December 31, 2017, about 29.5 million shares had been issued under the plan, leaving 16.5 million shares – about 2,500 for each of the eligible management employees -- available for acquisition without the requested expansion. Thus, it seems this attempt to channel more compensation in the form of company stock and tax deferrals to managers -- keeping in mind that first level managers, bargaining unit members and other rank-and-file workers are explicitly excluded from the plan – is unnecessary.

RECOMMENDATION FOR ITEM 4: VOTE AGAINST.

ITEM 5. APPROVE 2018 INCENTIVE PLAN

Management is proposing a second compensation plan for the benefit, primarily, of the 6,500 mid-level and above managers. The 2018 Incentive Plan would replace the 2016 Incentive Plan and the proposed provisions require shareholder approval. About 100,000 managers are eligible to participate in the plan, but the Company expects participation to be limited to those 6,500. Under the plan, a Committee of the Board of Directors – the Plan Committee – may issue performance shares, restricted stock, and/or restricted stock units. Non-qualified stock options may also be issued under the plan. In all, the Incentive Plan authorizes the issuance of up to 150 million shares of common stock to participants over a 10 year-period. After April 30, 2028, no further awards will be issued. Other detailed provisions of the plan may be found in the proxy statement and its annexes. Our evaluation is that this plan, combined with the Stock Purchase Plan in item 4, offers generous rewards to management while unfairly leaving lower-level management and bargaining unit members out of the reward system.

RECOMMENDATION FOR ITEM 5: VOTE AGAINST.

STOCKHOLDER PROPOSALS

ITEM 6. PREPARE LOBBYING REPORT

The proposal requests the company produce an annual report on lobbying activities and expenditures, including policies, procedures and payments related to direct and indirect lobbying and grassroots communications. In addition, the proposed report would disclose information related to AT&T's membership in and payments to organizations that write and endorse model legislation. The report would disclose the corporate decision-making process regarding the payments. This resolution has been submitted for previous proxy statements and received more than 35% of the votes. Management recommends against the proposal, saying it publishes and submits reports on its lobbying expenses and that this additional report is not a good use of resources. CWA believes that this proposal would provide additional information not already disclosed by AT&T – in particular, its association with organizations and its rationale for lobbying expenses. We believe this is a good governance proposal that will lead to needed transparency to assure that AT&T is aligning its resources with best interests of all its stakeholders.

RECOMMENDATION FOR ITEM 6: VOTE FOR.

ITEM 7. MODIFY PROXY ACCESS REQUIREMENTS

This proposal relates to the rules that govern nominations of directors, getting the names of these nominees on the proxy statement, and attaining seats on the board for nominees other than those nominated by the Board. It is a good governance proposal that seeks to expand the pool of individuals who serve on AT&T's Board. In 2015 the Board adopted bylaws that allow a group of up to 20 stockholders who together own at least 3% of the outstanding shares of the company for at least 3 years to nominate individuals to serve on the Board. The maker of the proposal notes the difficulty of this requirement: "under current provisions, even if the 20 largest public pension funds were able to aggregate their shares, they would not meet the 3% holding criteria at most companies examined by the Council of Institutional Investors." The proposal would remove limits on the number of shareholders who could combine their holdings to achieve the 3% benchmark. Also, the current bylaws limit the number of individuals nominated by shareholders to 20% of the Board or two Directors, whichever is greater. The proposal would allow for 25% of the directors to be shareholder nominees. Currently, the Board is comprised of 13 Directors, including the CEO. Moving the limit from 20% to 25% would mean a possibility of three shareholder nominees, up from two. CWA believes this is a good governance proposal that seeks to democratize the director nomination process in order that more shareholders will have a voice in guiding the company.

RECOMMENDATION FOR ITEM 7: VOTE FOR.

ITEM 8. INDEPENDENT CHAIR

This proposal requests that the Chair of AT&T's Board of Directors be independent – that is, not employed by AT&T. This type of proposal is supported by institutional shareholders because it is a structure designed to assure a leader at the helm of the Board who is independent from the leader at the helm of the corporation. Both the Council of Institutional Investors and CalPERS – the California Public Employee Retirement System recommend independent Board Chairs. Currently AT&T's Chairman of the Board is also the Chief Executive Officer.

RECOMMENDATION FOR ITEM 8: VOTE FOR.

ITEM 9. REDUCE VOTE REQUIRED FOR WRITTEN CONSENT

This proposal would allow shareholders to take action on issues outside of normal annual meetings through so-called written consent in lieu of meetings. Currently a group of stockholders who together hold at least 15% of outstanding shares may call for a special meeting of shareholders to discuss and debate proposals. According to the company, the proposal submitted would compel AT&T to amend its charter, requiring a two-thirds vote of all outstanding shares under Delaware law. Though the company argues against the proposal, saying it would allow shareholders to take action "in secret," CWA believes that the expanded opportunities of written consent will allow greater participation by shareholders. In the 21st century, with so much communication occurring online through email and social media, and with dwindling participation in the annual meeting, the need for a single annual in-person meeting to raise, discuss and debate issues seems out-of-date. This proposal will democratize shareholder participation in corporate governance.

RECOMMENDATION FOR ITEM 9: VOTE FOR.