



February 22, 2016

The Honorable Tom Wheeler, Chairman
Federal Communications Commission
445 12th Street SW
Washington, DC 20554

**Re: Post Merger Behavior of AT&T - MB Docket No. 14-90, Submitting Party:
Herring Networks, Inc., dba One America News Network and AWE.**

Dear Chairman Wheeler:

Extensive evidence shows that AT&T post-merger with DirecTV is aggressively purging consumers off its U-verse video platform and onto DirecTV. Last week, *Advertising Age* reported, "AT&T is phasing out the U-verse TV service as it pushes new customers to newly acquired DirecTV, a sign the company is giving up on once-heralded plans to compete head-on with cable through telephone lines."

Advertising Age reports the shift to DirecTV is shown in the fleeing customers to DirecTV. U-verse had 240,000 customers cancel service in Q4 2015. DirecTV gained 214,000 customers, almost off-setting the loss. (Note that Verizon FiOS TV added 20,000 net video subscribers in Q4 2015.)

In an October 1, 2015 report by Sanford C. Bernstein, post a Q&A the night before with Chairman & CEO Randall Stephenson and CEO of AT&T Entertainment and Internet Services, John Stankey, among others, Bernstein reports, "By the beginning of next year, the company will make satellite its primary TV product, allowing the U-verse subscriber base to erode over time as customers transition to the satellite platform or churn to other providers."

A quote by Chris Ucko, an analyst with CreditSights, Inc., as reported by Bloomberg Business makes the situation clear, "AT&T is going to actively get out of the U-verse Business."

The evidence is clear. AT&T is executing a post-merger plan of, "...phasing out the U-verse TV service..." as reported by Advertising Ad. The effect of which **reduces the number of viable MVPD platforms in the marketplace, leading to less**

Herring Networks, Inc.

DBA: One America News Network & AWE

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competition. AT&T U-verse video customers (including me) are being hindered by the merger with a dying video platform and less competition in the marketplace. My options are to put a dish on the house, or move back to the long standing cable company in my area. The third option that nearly 6 million consumers chose, namely AT&T U-verse is being removed from the marketplace. My neighborhood has less options, not more.

Vendors to AT&T U-verse, including our two independent national cable channels One America News Network and AWE are being harmed. Our two channels are broadly distributed by AT&T U-Verse, but not DirecTV. Of the numerous channels carried by AT&T U-verse but not DirecTV, One America News Network and AWE rank 1 and 2 according to AT&T U-verse's own STB rating data.

Less competition in the marketplace place is directly harming consumers, independent programming networks, set top box suppliers, and other vendors to U-verse TV.

I urge the FCC to investigate whether AT&T adequately disclosed its full intentions, namely to shutter its existing video platform, U-verse TV, with approximately six million households, to the FCC and the public during the merger review process. Further, I encourage the FCC to investigate the harms to independent programmers, other vendors, consumers and the marketplace due to AT&T's purging of subscribers off U-verse TV.

Respectfully submitted,

Charles Herring
President
Herring Networks, Inc.

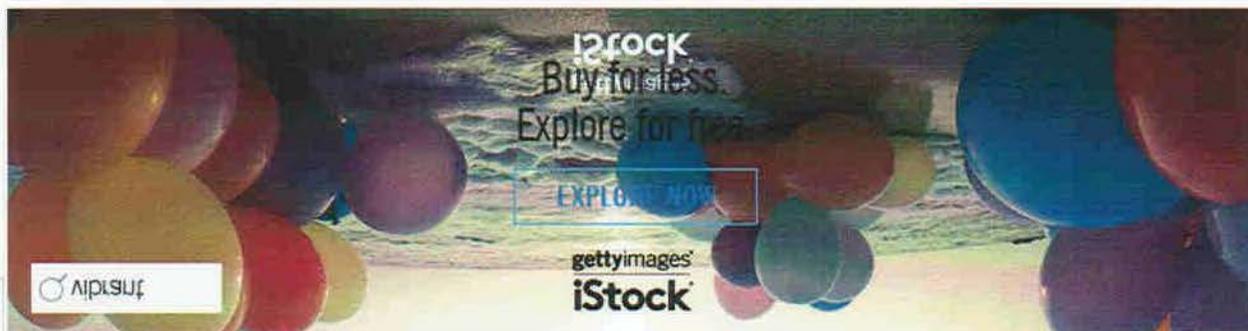
Copies To:

Mr. Jonathan Sallet, General Counsel, FCC

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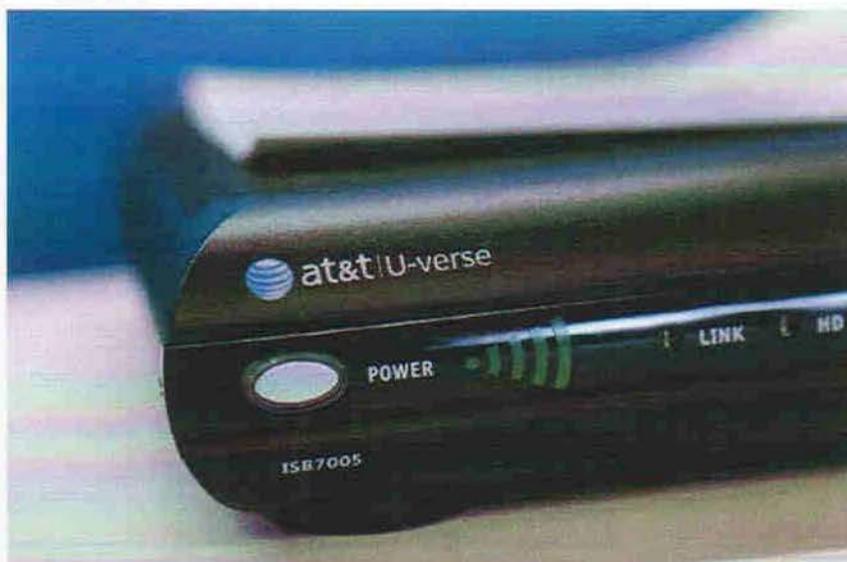
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AT&T Takes U-Turn on U-Verse as It Pushes Users Toward DirecTV

Service Hailed as a Breakthrough in 2005

Published on February 16, 2016.

Reprints



An AT&T U-verse TV system is displayed for sale at a store in Manhattan Beach, Calif., in July 2013. Credit: Patrick T. Fallon/Bloomberg

AT&T is phasing out the U-verse TV service as it pushes new customers to newly acquired DirecTV, a sign the company is giving up on once-heralded plans to compete head-on with cable through telephone lines.

AT&T has stopped building U-verse set-top boxes and is nudging prospective customers toward its satellite unit, which has lower hardware and programming costs. The shift is the first stage of a plan to create a "home gateway" within three years that will consolidate all AT&T services and act as a central hub to deliver video to any device.

"AT&T is going to actively get out of the U-verse business," said Chris Ucko, an analyst with CreditSights Inc.

The de-emphasis of U-verse underscores AT&T's promise to squeeze \$2.5 billion in annual cost savings from its purchase of DirecTV last year. The provider is under pressure to improve profit margins amid a wireless price war. It also faces \$22 billion in capital spending, an estimated \$10.6 billion cost to acquire new airwaves, about \$6.5 billion in debt maturities and an \$11 billion dividend this year, all while working to improve its credit rating.

Current U-verse subscribers will be able to retain the service, and AT&T is even offering new promotions to those who keep it. But new customers are being directed by its marketing department to choose the satellite package.

Fleeing customers

The shift to DirecTV was reflected in fourth-quarter results. U-verse subscribers fell 4%, the worst loss ever, as 240,000 customers canceled service, the company said. And while DirecTV gains of 214,000 customers almost offset the loss, U-verse defectors helped pump up cable TV growth. Comcast Corp. had its biggest user gain in eight years.

AT&T says that while it's focusing on DirecTV, it isn't shutting down U-verse.

"To realize the many benefits of our DirecTV acquisition, we are leading our video marketing approach with DirecTV," said Brad Burns, an AT&T spokesman. "However, our first priority is to listen to our customers and meet their needs, and if we determine a customer will be better served with the U-verse product, we offer attractive and compelling options."



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2015 is a banner year for moviegoing and cinema advertising. North American box office sales are well on the way to topping the \$10.9 billion record set in 2013. Even so, some analysts question whether the silver screen can continue to deliver a golden opportunity for marketers who want to advertise at the movies. Here are seven top myths about moviegoing and why savvy marketers know to ignore them. Brought to you by NCM -- America's Movie Network.

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Souped-up service

At its start in 2005, U-verse was hailed as a breakthrough product that was shepherded through development by Chief Executive Officer Randall Stephenson before he took the top job. Designed as an improvement from the dial-up internet era, it offered faster, souped-up DSL -- or digital subscriber line -- service that carried both TV programs and broadband access.

U-verse, along with Verizon's Fios, gave the phone companies the ability to offer a bundle of TV, phone and Internet services to chip away at cable's dominance. By 2007, AT&T was touting U-verse's picture quality and the higher number of HD channels it had compared with cable.

Unlike Fios, which connected homes with super-fast fiber-optic lines, U-verse took a lower-cost approach by taking fiber cables to a neighborhood and then connecting them to existing copper lines that reach into homes.

At its peak in 2014, U-verse had 6.1 million TV subscribers. AT&T lists 21 states where it's available. U-verse was never sold nationally and steered clear of the Northeast, where Verizon maintains a Fios stronghold.

"I don't think it worked really well to deliver high-end broadband and video over copper lines," Ucko of CrediSights said. "DirecTV gives them a better way to deliver video."

More clout

With DirecTV, AT&T gets a national TV offering and lower programming costs. DirecTV's 20 million subscribers give the parent company greater leverage in negotiations with media companies at a time of rising programming fees. Content costs are about \$17 a month higher for U-verse customers than for DirecTV subscribers, Chief Financial Officer John Stephens said at an investor conference in November.

"The lower content costs makes DirecTV customers more profitable," said Jennifer Fritzsche, an analyst with Wells Fargo Securities. And if the TV feed can move to satellite, it takes the data traffic load off the U-verse broadband pipe, she said. "Then AT&T can sell faster broadband speeds for higher prices."

AT&T is hoping to combine its services -- internet, satellite TV and wireless -- into one home device. As a potential part of that plan, the company is investing in GigaPower, a direct fiber-to-the-home connection targeting 38 cities in 20 states. Because not all homes will get fiber, AT&T is developing a single-layer multipurpose hub that will use various inputs to send Web-based streaming video, on-demand shows and live programs to home TVs and mobile devices.

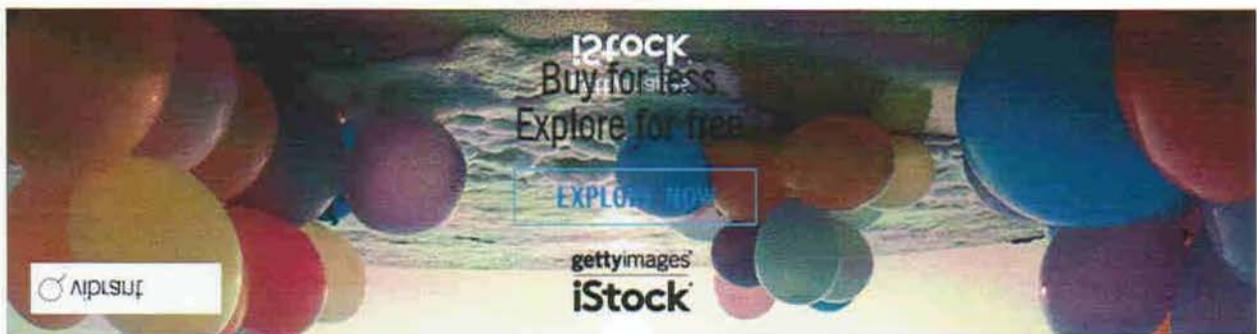
U-verse, which is a vestige of the copper-wire era, may not fit that picture, says Wells Fargo's Ms. Fritzsche.

"U-verse was a first step; it wasn't a mistake," she said. "It got broadband into the home, but the future is fiber."

-- *Bloomberg News*

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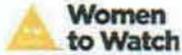
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AT&T: Yesterday's Sell-Side Event with Senior Management (Eight Takeaways in Eight Paragraphs)

Ticker	Rating	CUR	30 Sep 2015 Closing Price	Target Price	TTM Rel. Perf.	EPS			EV/EBITDA			Yield
						2014A	2015E	2016E	2014A	2015E	2016E	
T	M	USD	32.58	36.00	-4.9%	1.19	2.59	3.12	7.2	6.3	5.7	5.8%
SPX			1920.03			116.30	117.68	129.01	NA	NM	NA	2.3%

O – Outperform, M – Market-Perform, U – Underperform, N – Not Rated

Highlights

Yesterday evening AT&T hosted an hour-long Q&A with sell-side analysts in New York. The company was represented by its Chairman and CEO (Stephenson), CEO of AT&T Entertainment and Internet Services (Stankey), President and CEO Mobile & Business Solutions (de la Vega), Senior EVP AT&T Technology and Operations (Donovan), and Senior EVP and CFO (Stephens).

Coming only six weeks after an Analyst Conference in Dallas,¹ and following the release in the last few days of 8-Ks with updates on 3Q15 results and financials for DIRECTV,² there were few new specifics, although the qualitative discussion of the direction of the business was helpful, and – with DIRECTV's cash flows and synergies removing concerns about a dividend cut and providing the opportunity for reporting shenanigans in the coming quarters – management's tone was relaxed and positive. Below we summarize our eight takeaways from the event.

Investment Conclusion

We rate AT&T Market-Perform with a price target of \$36.

Details

Entertainment and Internet Services (EIS)

1. Satellite TV will be AT&T's primary traditional pay TV offering by 1Q16, as U-verse video is wound down. Going forward, the company expects to take share in a slowly declining market for traditional video, increasing total payTV subs.

Currently AT&T has a nationwide satellite offering with ~20m subscribers and a terrestrial TV (U-verse IPTV) offering to ~27m households with ~6m subscribers. By the beginning of next year, the company will make satellite its primary TV product, allowing the U-verse subscriber base to erode over time as customers transition to the satellite platform or churn to other providers. The upsides from this strategy are that it allows AT&T to take advantage of DIRECTV's lower content costs immediately (without the need for contract renegotiation), eventually frees up ~20Mbps of wireline capacity in former U-verse video areas, which can be repurposed to increase broadband speeds with little incremental capex, and simplifies the sales process by avoiding the confusion of having two video products in areas where U-verse video is currently offered. The main risk is that consumers do not regard the two platforms as interchangeable – e.g., current U-verse video subscribers have already revealed a preference not to take DIRECTV (which was

¹ See [AT&T: A Short Summary of Takeaways from What Was \(and Wasn't\) Said During Yesterday's Analyst Conference](#)

² See [AT&T: Model Update and Thesis Summary](#)

available as an option when they instead chose U-verse) – and so AT&T will have to reduce prices to stimulate demand and fend-off cable competition. We expect the company will do whatever it takes in terms of promotions and cross-subsidies from other products (e.g., via bundles with wireline broadband/voice and mobile) to support satellite TV subscriber numbers and hence prevent the judgment 2-3 years from now that the DIRECTV acquisition was a strategic mistake.

2. AT&T plans to be a provider of seamless, cross-platform (mobile, owned-wireline, satellite, over-the-top) content.

By ~2017, AT&T plans to be able to provide linear and non-linear, IP-based content (owned³ or third party) to any screen over any pipe (owned or third party) with unified CPE (e.g., a common set-top box for satellite- and broadband-delivered video) and user interfaces. We think AT&T is better positioned than Verizon to succeed in such an effort (e.g., given AT&T's larger wireline footprint, bigger installed pay TV base, and scale in content negotiations), but remain somewhat skeptical that telcos will be able to capture significant value beyond their core competency of providing connectivity,⁴ particularly with cable, internet, and media players all competing for consumers' attention and spending.

3. AT&T is sticking to the original U-verse thesis that speeds of 45-100Mbps, delivered over last-mile copper, will be a sufficiently competitive fixed-broadband offering, and does not believe there is any regulatory issue with transitioning to metered broadband pricing.

AT&T plans to keep investing in gradual upgrades of its broadband plant, relying on slowly growing customer need for more speed, falling technology costs, and better customer service to compete with cable. Given its footprint – with ~51m homes and a mix of high, medium, and low density areas – AT&T likely has few other strategic options at this point (e.g., a FiOS-like future-proofing at scale would be too expensive), and so is destined to continue playing defense, pricing at a discount and targeting the lower-end customer segments, while hoping that Gigabit services remain more of a marketing tool than something for which there is actual mass-market demand or reasonably-priced supply (e.g., from Google Fiber and/or cable). Management stated that the main constraint on moving to some-form of metered broadband pricing is the market reaction, rather than net neutrality or other regulatory constraints.

Mobile and business solutions (MBS)

4. AT&T does not regard recent iPhone 6s-related initiatives by Apple, Sprint, or T-Mobile as significant, although the company would consider introducing leasing if it becomes competitively important.

Management observed that the "overwhelming majority" of its equipment installment plan (EIP) customers select the Next 30-month repayment/24-month upgrade option, rather than other choices with higher monthly repayments and 12- or 18-month upgrades. As a result AT&T is not overly concerned about Apple's EIP – which (so far) only offers a relatively high monthly payment in return for an annual upgrade – and doubts it will change the Apple Stores' "low single digit" percentage share of total AT&T iPhones sold, particularly if customers value the device-neutral advice that carriers' stores provide. Although Sprint and T-Mobile are getting attention with their \$1 and \$5 per month iPhone offers, AT&T noted that they require customers to trade in an iPhone 6, most of which are on EIPs, reducing the chances of switching (as neither Sprint nor T-Mobile are offering to reimburse outstanding equipment balances). With respect to leasing, AT&T repeated that it would be willing to introduce leasing if consumer demand required it, but that the market is not yet at that point. (We expect, like T-Mobile, AT&T and Verizon will introduce leasing when the accounting boost to earnings from EIP starts to wane).

³ See, for example, last week's purchase of Fullscreen by AT&T's Otter Media:

http://about.att.com/story/the_chernin_group_and_atts_otter_media_to_acquire_majority_stake_in_fullscreen.html

⁴ As indicated by Verizon's scaled-back and so-far-underwhelming Go90 product (see also [Weekend Media Blast: On Knitting \(and Sticking to It\)](#)).

5. AT&T has "no idea" about the outcome of, or its stance toward, the 600MHz auction at this point.

The company noted that, although the FCC is doing its best to start the auction process by the end of March 2016, meeting this goal would be "impressive" given the complexities still to be resolved. AT&T is "watching closely," but (understandably) its commitment to the auction will only be determined when the rules are finalized.⁵ We believe that AT&T (and Verizon) have no particular interest in having the auction held sooner rather than later, but that whenever it occurs, all carriers (including potentially Softbank, if not Sprint), will bid aggressively to obtain low-frequency spectrum for their own use and to prevent it falling into the hands of their competitors.

6. AT&T has no interest in facilitating mass-market MVNOs.

Reasonably, the company stated that it is concentrating on keeping up with retail demand and is therefore unlikely to help the entry of potential competitors (e.g., cable, Apple, Google) by providing attractive MVNO agreements. Despite the headlines, we think it will be very difficult for MVNO-based disruption to occur in the U.S. market in the absence of regulatory intervention or voluntary support from AT&T/Verizon, neither of which we expect to occur.⁶

7. Enterprise represents an opportunity for the company.

Senior management referred several times to enterprise opportunities, primarily citing the company's ability to mobilize business systems through deals such as those AT&T has signed with car companies for remote diagnostics and this week with Maersk for tracking shipping containers.⁷ Although the lifetime value of such connections is likely low (but hopefully not negative), we observe that they represent absolute contribution dollars and also help support headline connection metrics to which the market reacts. We think AT&T is best positioned to capture share in the enterprise segment due to its sales force and channel relationships (rooted in its wireline business), followed by Verizon and then Sprint, with T-Mobile largely excluded.

Network**8. AT&T's network priorities are implementing Software Defined Networking (SDN) and investing in its access network (whether copper, fiber, fixed wireless or mobile). The company expects capex intensity to fall over time.**

The company highlighted that its "15% of service revenue" outlook for 2016-18 capex includes merger items and so as these are completed and the efficiencies from SDN, LTE, Ethernet, and virtualization are realized, longer-term capex intensity should decrease. As discussed elsewhere,⁸ we believe that AT&T and Verizon will indeed complete their 20+ year transitions to all-IP, "next generation" networks by 2020-2025, leading to significant opex and capex savings from the shutdown of legacy networks, revenue opportunities from more rapid and flexible provisioning, and reduced regulatory obligations and oversight. As such, even if the near-term impact is perhaps slightly overhyped, we think AT&T's long-term network direction should lead to a structurally improved ROIC for the company.

Other snippets

- *AT&T's reporting will undergo significant changes as of 3Q15 earnings:* Investors should expect the company's segments to be redefined (e.g., by EIS and MBS), as well as numerous adjustments to unify reporting across DIRECTV, Mexican wireless operations, and legacy AT&T. As pro formas will likely

⁵ See [U.S. Telecom: A 600MHz Auction Primer \(or Almost Everything You Need to Know about the Broadcast Auction in 8 Pages\)](#)

⁶ See [Weekend Media Blast: On The \(Inexorable?\) Commoditization of Wireless](#) and [Weekend Media Blast: Cable and Wireless](#)

⁷ See http://about.att.com/story/maersk_teams_with_att_to_track_cold_shipping_containers.html

⁸ See pages 17-20 of [U.S. Telecommunications: Initiating Coverage](#)

only go back a few years, this will add additional uncertainty to the task of modelling the company's future financials.

- *AT&T's Connect America Fund (CAF II) commitment to provide broadband of at least 10Mbps download and 1Mbps upload speeds to ~1.1m locations currently without such service will largely be met with fixed wireless, offered standalone and bundled with satellite TV. As such, we believe the \$428m in annual funding that the company will receive from CAFII likely exceeds any incremental expenditures required.*⁹
- *AT&T's Latin America strategy remains a work-in-progress: Senior management will visit Latin America next month as the company evaluates its options, but AT&T believes it has time to decide what direction to take, current volatility in the region notwithstanding.*

⁹ See [U.S. Telecom: How Much Upside is There from the Connect America Fund, Phase II? A Short CAF II Primer.](#)

Disclosure Appendix

Valuation Methodology**U.S. Telecommunications**

Our price targets are generally based on a discounted cash flow (DCF) valuation. We calibrate our DCF-based TEV by calculating the implied TEV/NTM EBITDA and TEV/NTM (EBITDA-capex) multiples to check their reasonableness across the companies in our coverage and against historicals for each individual company. We believe these market multiples are most relevant for the telco sector, whose companies have high depreciation expenses due to their dependence on network assets that require high levels of capex to maintain and upgrade.

Risks**U.S. Telecommunications**

- Price war between major players takes value out of entire sector, particularly damaging given high fixed cost economics
- At-scale entry, e.g., by player from adjacent sector, disrupting industry economics
- Regulatory interventions redistributing value
- Difficulty in precisely forecasting potential pension/OPEB cash impacts, given uncertainty on actuarial assumptions, regulatory changes, pension accounting nuances, and limited reporting requirements

AT&T Inc.

- Downside risks to target include lower than expected subscriber spending in mobile or fixed markets, unexpected revenue share loss, churn, or customer acquisition costs in mobile or fixed, DTV merger process/integration, rising interest rates causing high-dividend stocks to be less attractive, unexpected increases in capex, opex, and/or pension costs, unexpected dividend cuts.
- Upside risks include higher than expected subscriber spending in mobile or fixed markets, unexpected revenue share gain in mobile or fixed, unexpected reductions in capex, opex, and/or pension costs.

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12-Month Rating History as of 09/30/2015

Ticker Rating Changes

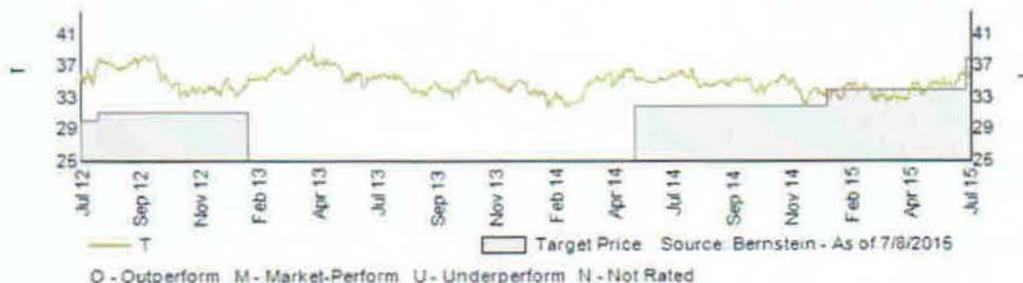
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 Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

T / AT&T Inc

Date	Rating	Target(USD)
06/29/12	M	30.00
07/31/12	M	31.00
01/31/13	M(DC)	31.00
05/21/14	M(IC)	32.00
01/12/15	M	34.00
07/02/15	M	36.00

DC - Dropped Coverage
 IC - Initiated Coverage



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AT&T Takes U-Turn on U-Verse as It Pushes Users Toward DirecTV

Scott Moritz

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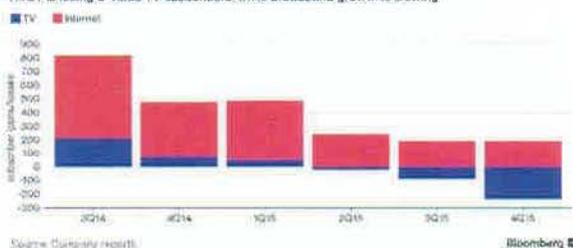
- ▶ Service lost 240,000 TV customers as more shifted to satellite
- ▶ Company develops hub plan to consolidate all video offerings

AT&T Inc. is phasing out the U-verse TV service as it pushes new customers to newly acquired DirecTV, a sign the company is giving up on once-heralded plans to compete head-on with cable through telephone lines.

The biggest U.S. pay TV provider has stopped building U-verse set-top boxes and is nudging prospective customers toward its satellite unit, which has lower hardware and programming costs. The shift is the first stage of a plan to create a “home gateway” within three years that will consolidate all AT&T services and act as a central hub to deliver video to any device.

U-verse in Reverse

AT&T is losing U-verse TV subscribers, while broadband growth is slowing



“AT&T is going to actively get out of the U-verse business,” said Chris Ucko, an analyst with CreditSights Inc.

The de-emphasis of U-verse underscores AT&T’s promise to squeeze \$2.5 billion in annual cost savings from its purchase of DirecTV last year. The provider is under pressure to improve profit margins amid a

wireless price war. It also faces \$22 billion in capital spending, an estimated \$10.6 billion cost to acquire new airwaves, about \$6.5 billion in debt maturities and an \$11 billion dividend this year, all while working to improve its credit rating.

Current U-verse subscribers will be able to retain the service, and AT&T is even offering new promotions to those who keep it. But new customers are being directed by its marketing department to choose the satellite package.

Fleeing Customers

The shift to DirecTV was reflected in fourth-quarter results. U-verse subscribers fell 4 percent, the worst loss ever, as 240,000 customers canceled service, the company said. And while DirecTV gains of 214,000 customers almost offset the loss, U-verse defectors helped pump up cable TV growth. Comcast Corp. had its biggest user gain in eight years.

AT&T says that while it's focusing on DirecTV, it isn't shutting down U-verse.

"To realize the many benefits of our DirecTV acquisition, we are leading our video marketing approach with DirecTV," said Brad Burns, an AT&T spokesman. "However, our first priority is to listen to our customers and meet their needs, and if we determine a customer will be better served with the U-verse product, we offer attractive and compelling options."

Souped-Up Service

At its start in 2005, U-verse was hailed as a breakthrough product that was shepherded through development by Chief Executive Officer Randall Stephenson before he took the top job. Designed as an improvement from the dial-up Internet era, it offered faster, souped-up DSL -- or digital subscriber line -- service that carried both TV programs and broadband access.

U-verse, along with Verizon Communications Inc.'s FiOS, gave the phone companies the ability to offer a bundle of TV, phone and Internet services to chip away at cable's dominance. By 2007, AT&T was touting U-verse's picture quality and the higher number of HD channels it had compared with cable.

Unlike FiOS, which connected homes with super-fast fiber-optic lines, U-verse took a lower-cost approach by taking fiber cables to a neighborhood and then connecting them to existing copper lines that reach into homes.

At its peak in 2014, U-verse had 6.1 million TV subscribers. AT&T lists 21 states where it's available. U-verse was never sold nationally and steered clear of the Northeast, where Verizon maintains a FiOS stronghold.

"I don't think it worked really well to deliver high-end broadband and video over copper lines," Ucko of CrediSights said. "DirecTV gives them a better way to deliver video."

More Clout

With DirecTV, AT&T gets a national TV offering and lower programming costs. DirecTV's 20 million subscribers give the parent company greater leverage in negotiations with media companies at a time of rising programming fees. Content costs are about \$17 a month higher for U-verse customers than for DirecTV subscribers, Chief Financial Officer John Stephens said at an investor conference in November.

"The lower content costs makes DirecTV customers more profitable," said Jennifer Fritzsche, an analyst with Wells Fargo Securities LLC. And if the TV feed can move to satellite, it takes the data traffic load off the U-verse broadband pipe, she said. "Then AT&T can sell faster broadband speeds for higher prices."

AT&T is hoping to combine its services -- Internet, satellite TV and wireless -- into one home device. As a potential part of that plan, the company is investing in [GigaPower](#), a direct fiber-to-the home connection targeting 38 cities in 20 states. Because not all homes will get fiber, AT&T is developing a single-layer multipurpose hub that will use various inputs to send Web-based streaming video, on-demand shows and live programs to home TVs and mobile devices.

U-verse, which is a vestige of the copper-wire era, may not fit that picture, says Wells Fargo's Fritzsche.

"U-verse was a first step; it wasn't a mistake," she said. "It got broadband into the home, but the future is fiber."

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