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December 11, 2014

The Honorable Edward Markey
United States Senate
Washington, DC 20510-0905

The Honorable Richard Blumenthal
United States Senate
Washington, DC 20510-0905

Dear Senator Markey and Senator Blumenthal:

I write in response to your November 20, 2014 letter to AT&T Chairman and CEO Randall Stephenson requesting information on set top box rentals. The video industry is highly competitive. Both the traditional providers of video service and newer competitors, such as AT&T, continue to enhance their offerings while at the same time consumers have multiple options with multiple online streaming services available with a variety of products that bring over-the-top video (OTTV) offerings directly to consumers, including to the TV. There are a host of applications that allow consumers to view Internet and other content on the same devices, such as smartphones and tablets, they use to watch their multichannel video programming distributor (MVPD) service. Consumers also can receive video content on their televisions through a wide and growing variety of additional devices, such as smart TVs, Blu-ray players, and video game consoles, as well as Apple TV, Roku, Google Chromecast, and Amazon Fire TV equipment. Moreover, to compete with those options, MVPDs today offer subscribers Internet connected set top boxes with innovative new features, including apps for YouTube and Pandora, as well as set top boxes developed in partnership with other innovators. Based on the dynamics of the current marketplace, consumers today are experiencing the robust marketplace for alternative means to view video programming that was envisioned by Section 629 of the Telecommunications Act.

AT&T first launched its groundbreaking U-verse TV¹ service in 2006 as one of the first providers of multichannel video programming services utilizing an all IP infrastructure platform. AT&T now has over 6 million households that subscribe to U-verse TV.² Unlike legacy cable systems (which were designed to operate as one-way, passive distribution systems that broadcast their entire content stream, or channel line-up, to all subscribers over coaxial cable), AT&T's U-verse service employs an IP-based, interactive client-server architecture that requires constant communication between a subscriber's CPE and the network in order to transmit only the specific programming or other content the subscriber selects (and only that content) at a particular time, together with encryption keys necessary to decrypt that content. That architecture requires multiple, distributed server groups (including authentication servers, operational and business support servers, media acquisition servers, and media delivery servers)

¹ Although AT&T currently offers, where available, synthetic bundles of video programming provided by DirecTV and AT&T broadband services, AT&T's responses are specific to the AT&T U-verse TV service.

² AT&T was named the 2013 Video Company of the Year by Frost & Sullivan because of excellence in customer value, innovation and growth.

to work together with client devices at the subscriber's premises, linked through common software and middleware (which must regularly be updated) that resides both in the network and on client devices, to provide subscribers access to the content they want.³

Over the past year, we have made many improvements to U-verse including innovative new apps, multi-screen content and new channels. Our unique features and apps include: My Multiview (watch up to four channels at one time), AT&T U-verse Wireless Receiver,⁴ Seasonal Sports Apps, Holiday TV Applications, apps that let subscribers share photos, music and more from their mobile device to their TVs and the award-winning U-verse Easy Remote. As discussed in response to Question 4, the combination of new technologies (HTML5 standard for UIs and 802.11ac for wireless connectivity) and more advanced software security standards to secure content and hardware are creating new opportunities for supporting a more diverse CPE set. For example, our U-verse App gives our subscribers on-the-go entertainment with Live TV, a full library of On Demand movies, and more – all from their tablet or smartphone. Subscribers can use it to set their DVR to record remotely or when they are home, as their remote control to watch what they recorded, change channels, fast forward, and more. On their computer, subscribers can visit Uverse.com for live broadcasts from their favorite networks, news channels, and more.

AT&T's U-verse website⁵ allows subscribers to check if and where U-verse services are available in their area. The website also provides subscribers with a description of the U-verse service options and current featured offerings, including channel packages and channel line-ups as well as a description of the related equipment and the installation process. Specific to your letter, AT&T provides one (1) STB at no additional charge with each of our packages (U-Basic, U-100, U-200 and above). For the U-200 package and above, subscribers are provided the DVR as their STB at no additional charge. For the U-Basic and U-100 packages, which do not include DVR functionality as part of the subscription, those subscribers receive a standard STB at no additional charge. The U-verse website also includes a U-verse Service Details section⁶ that describes many of the U-verse attributes listed above (as well as, if applicable, the one-time and monthly recurring equipment charges). For example, that link contains the following information with regards to our Total Home DVR, the Wireless Receiver and any separate requirements for standard receivers (STBs).

³ U-verse delivers its video services over the same IP network the customer also uses for their data services. Since this IP network is shared with the customer's PCs and other devices it was critical to our content providers that U-verse's video security be extremely tight. Thus, all U-verse devices that currently operate as full featured STBs currently require a very secure security chip inside them. The required security chip is different than the chip used in other ecosystems (e.g. satellite or cable boxes that did not rely on IP video delivery).

⁴ The U-verse Wireless Receiver allows subscribers the flexibility to place their TV where they want it in their room – or even move the TV for special viewing events. Likewise, using Total Home DVR functionality with an AT&T U-verse Wireless Receiver allows subscribers the freedom to watch their recorded shows on almost any TV in their homes.

⁵ <http://www.att.com/u-verse/>

⁶ <http://www.att.com/u-verse/explore/offer-details.jsp>

- **Total Home DVR®:** DVR included at no extra charge as long as U-verse TV service is maintained. U-basic excluded. Total Home DVR functionality is available on up to 8 TVs, and requires a receiver for each additional TV at \$8 per month.
- **Wireless Receiver:** A one-time fee of \$49 and a recurring monthly fee of \$8 per wireless receiver applies. Wireless from the Wireless Access Point to the Wireless Receiver, power outlet, and separate connection of Wireless Receiver to TV are required. For residential use in a single household only. Limit two Wireless Receivers per household. Customer responsible for use of Wireless Receiver. Actual range of wireless signal will vary and may be limited by several factors including, but not limited to, electromagnetic interference, home construction material, obstructions, and other environmental factors.

With this background, we address your questions. Please note that some of the questions ask for information that AT&T considers to be extremely competitively sensitive which has not to date been made publicly available. Therefore, we will not be providing that information in a public document. We have noted those instances in our responses.

- 1) How many of your customers lease set top boxes from your company?
 - a. What percentage of your customers leases one or more set top boxes from your company?

100% and every customer receives the first receiver at no additional charge.
 - b. On average, how many set top boxes per household do customers lease from your company?

Commercially sensitive information not released publicly.
 - c. In total, how many set top boxes are leased from your company?

Commercially sensitive information not released publicly.

- 2) What is the monthly leasing cost of each type of set top box that your company offers? Please list each box and monthly retail lease price separately.

In the U-200 packages and above one (1) DVR STB is provided at no additional charge; non-DVR STBs (both standard and wireless) are \$8 each per month. For U-Basic and U-100 one (1) standard STB is provided at no additional charge; additional standard STBs at \$8 each per month.

- a. How much does an average customer spend per month to lease set top boxes for their household from your company?

Commercially sensitive information not released publicly.

- 3) What was the total revenue your company earned from leasing set top boxes to customers in fiscal year 2014?

Commercially sensitive information not released publicly.

- 4) Is it possible for customers to purchase a set top box directly from your company?

No

- a. If yes, what percentage of your customers buys rather than rents a set top box directly from your company? What is the cost of each type of set top box your company offers for purchase? Please list each type of box and its corresponding price separately.

N/A

- b. If no, why not?

It was/is not technically possible for our U-verse customers to buy hardware from other ecosystems and decrypt our video. As discussed above, U-verse delivers its video services over the same IP network the customer also uses for their data services. Since this is a shared IP network with the customers' PCs and other devices, it was critical to our content providers that U-verse's video security be extremely robust. Thus, all U-verse devices that currently operate as full featured STBs currently require a very secure security chip. The required security chip was different than the chip used in other ecosystems (e.g. satellite or cable boxes that did not rely on IP video delivery). However, the combination of the HTML5 standard for UIs, 802.11ac for wireless connectivity and more advanced software security standards to secure content and hardware are creating new potential opportunities for supporting a more diverse CPE set in the future. In fact, as discussed above, subject to the terms of our current content licensing agreements, limited portions of AT&T U-verse content are already securely available to modern tablets and PCs as

part of our U-verse TV Everywhere services. Eventually, as content owners become more comfortable with this level of security and as the UIs become more powerful on devices through HTML5 we hope to enable a software client that will emulate a full U-verse STB directly on modern SmartTVs to expand the availability across more devices. Given the technology challenges and issues around content licensing, these capabilities will likely evolve over time, not overnight. For example, when we first launched U-verse TV Everywhere we had a very limited set of VoD assets. That library has grown steadily over the years and we have added selected live channels recently.

- 5) If a consumer chooses to purchase their own set top box from a company different than yours, does your company require the consumer to pay any installation or support costs separate from those levied on customers who simply lease a set top box from your company?

NA

Please feel free to contact me with any questions or concerns.

Sincerely,



United States Senate

WASHINGTON, DC 20510

November 20, 2014

Randall L. Stephenson
Chairman and Chief Executive Officer
AT&T Inc.
208 S. Akard St.
Dallas, TX 75202

Dear Mr. Stephenson:

When Congress passed the Telecommunications Act of 1996, it intended to promote the creation of a robust, competitive set top box market among vendors not affiliated with a particular Multichannel Video Programming Distributor (MVPD). The goal was clear: achieve greater choice and better products for consumers by unleashing competition.

Section 629 of the Telecommunications Act succeeded in spurring an entirely new way to record video, with DVR becoming as ubiquitous today as VCR was in 1996. Now in 2014, we should promote a marketplace in which a video navigation device performs as many functions as the incredible smart phones that fit in our pockets. We believe that in the age of the smart phone, we should think of set-top boxes as “smart video boxes” -- the devices that help consumers communicate and navigate to the video and information sources of their choice.

Besides promoting innovation, we intended to unleash a future in which consumers have vast video choices untethered to a particular MVPD. Unfortunately, as the National Broadband Plan noted a few years ago, this goal still remains largely unfulfilled.

We believe the need to increase rather than limit consumer choices remains as vital as ever. Just as consumers can select their mobile phone from an increasing array of models regardless of carrier, consumers today should also be able to choose from a large selection of smart set top box devices regardless of their MVPD.

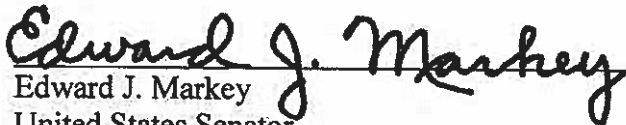
In order to better understand the state of competition in the set top box marketplace, we write to ask you a series of questions:

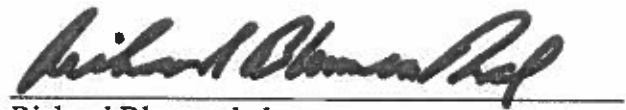
- 1) How many of your customers lease set top boxes from your company?
 - a. What percentage of your customers leases one or more set top boxes from your company?
 - b. On average, how many set top boxes per household do customers lease from your company?
 - c. In total, how many set top boxes are leased from your company?

- 2) What is the monthly leasing cost of each type of set top box that your company offers? Please list each box and monthly retail lease price separately.
 - a. How much does an average customer spend per month to lease set top boxes for their household from your company?
- 3) What was the total revenue your company earned from leasing set top boxes to customers in fiscal year 2014?
- 4) Is it possible for customers to purchase a set top box directly from your company?
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 - b. If no, why not?
- 5) If a consumer chooses to purchase their own set top box from a company different than yours, does your company require the consumer to pay any installation or support costs separate from those levied on customers who simply lease a set top box from your company?

Thank you for your attention to this important matter. Please provide written responses to these questions no later than December 11, 2014. If you have questions, please contact Joseph Wender or Grace Ogilby at 202-224-2742.

Sincerely,


Edward J. Markey
United States Senator


Richard Blumenthal
United States Senator