When AT&T Inc. took over DirecTV in 2015, a group of executives from the two companies gathered at Fleming's steakhouse in El Segundo, Calif., to celebrate the deal. Toward the end of the dinner, DirecTV chief Mike White stood up, drew a lightsaber and handed it to an executive of AT&T, saying it might help in future negotiations with channel owners.

Today the telecom company, nicknamed the Death Star by detractors, isn't scaring so many. **Acquiring satellite-TV provider DirecTV, which cost $49 billion**, was supposed to catalyze AT&T's transformation into a media and entertainment giant. Instead, it has become one of the biggest casualties of the rise of Netflix Inc. and other streaming-video services. DirecTV has lost 1.4 million satellite customers since its peak of 21 million-plus about two years ago. Analysts expect news of roughly 300,000 more defections when AT&T reports quarterly results on Wednesday. AT&T is bracing for cancellations this year that would cut into its 2019 operating profits by $1 billion.

The company has told investors it plans to make up for much of the money lost to defections by charging more to customers with discounts who stay. Meanwhile, some former call-center workers say AT&T has incentivized such employees to make it as difficult as possible for customers to cancel, a claim the company disputes.

AT&T is facing the perils of trying to move beyond its telecom roots into a media industry where the balance of power is dramatically shifting. DirecTV in the span of a few years has evolved from a springboard for its parent company's show-business ambitions into a drag on its business and public image. The shift has weakened AT&T's hold on once-reliable channel-surfers as it seeks to capitalize on an even bigger purchase of an entertainment heavyweight, **its $81 billion acquisition of Time Warner Inc.**

The forces hampering DirecTV are pressuring many other television companies, too, as more people drop traditional subscriptions in favor of streaming internet services. Cable-TV providers, however, also sell broadband connections, which the cord-cutters need. Satellite services such as DirecTV have less room to maneuver. A separate unit of AT&T sells home broadband in part of the country. AT&T solidified its push into media and entertainment last year with its purchase of Time Warner, the owner of HBO, Warner Bros., CNN and other cable channels. The deal swelled AT&T's debt load, leaving it with about $170 billion of net debt late last year, the highest of any nonfinancial public U.S. company.

Investor concerns about the debt have helped drive down AT&T's market capitalization to around $225 billion, which is roughly even with Verizon Communications Inc.'s even though AT&T has about $50 billion more annual revenue. "Investors are pretty skeptical, especially that they can turn around the video business," said Allyn Arden, a credit analyst at S&P Global Ratings.

AT&T Chief Executive Randall Stephenson said the company's many parts are working in concert: The video business built atop DirecTV has helped support investments in the parent company's residential fiber-optic broadband service, its new streaming video technology and a relatively young advertising business, among other growing units. "It's pretty much playing out as we expected," Mr. Stephenson said in an interview. "The board doesn't sit around saying, 'Wow, this thing, the wheels came off versus what was expected.' We're not too far off...This is a year when we get everything rationalized."

The CEO said the combination of AT&T with DirecTV, which AT&T executives knew was a mature and declining business, has brought promised savings and is generating more than $4 billion in annual cash flow. Satellite subscriber losses have accelerated in the past year, he acknowledged, and price pressure from streaming services has been greater than expected at the time of the deal. He said AT&T expects investments in growing businesses to yield results this year. "So 2019 candidly is the money year," he said.

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AT&T's U.S. cellphone business, which provides $70 billion of the company's more than $170 billion in annual revenue, is relatively stable, fueling nearly half of earnings last year. The movie studios and TV channels AT&T acquired last year in the Time Warner deal also are helping the bottom line. AT&T's push into satellite broadcasting started several years ago in its deal-making unit, a sprawling group taking up half a floor of AT&T's Dallas headquarters. John Stankey, who led the group, had become increasingly focused on how much time cellphone customers spent watching video on their phones, and began pushing for AT&T to acquire assets involved with entertainment.

A handful of TV-channel owners controlled the best original programming and they were charging cable and satellite companies more each year to carry it. The biggest pay-TV providers had the leverage to pay the lowest fees for those channels, something AT&T could see at its small U-verse unit, which provided TV and broadband over fiber-optic lines in 22 states when it bought DirecTV. U-verse had to pay about $20 more per video subscriber than DirecTV did for programming, said a person familiar with the pricing.

Executives regarded DirecTV, which controlled a fifth of the U.S. pay-TV market, as a springboard for a potential AT&T plunge into the entertainment distribution business. They also considered building a platform from scratch, but that would be a costly endeavor. "Our shareholders expect a dividend," Mr. Stephenson noted. "They expect return of capital. Netflix is in a very different place, as is Amazon...." Neither pays a dividend. AT&T stock has a 6.7% payout. Mr. Stephenson said cable giant Comcast Corp.'s recent deal to buy European satellite-TV provider Sky PLC after an intense bidding war reinforces the logic behind AT&T's move.

In a filing to the Federal Communications Commission in 2014, the year AT&T made the deal for DirecTV, AT&T said a large share of 18- to 29-year-olds had already **dropped pay-TV service** or avoided buying it altogether. "We expect consumers in other age groups to follow suit in the coming years," the company wrote in the filing **laying out the rationale** for the deal. AT&T executives believed they could mitigate the threats to the traditional TV business with cost-saving benefits.

First, AT&T had nearly six million U-verse customers in Texas, California and elsewhere who could instead watch DirecTV, which didn't have to pay so much for programming. Second, controlling DirecTV would allow the sales staff to offer cellphone customers a bundle of wireless and satellite-TV service at discounted rates. AT&T also had the resources to invest in the kinds of online-only video services that were siphoning off customers, and DirecTV would throw off more cash to do so. Though AT&T was well aware of cord-cutting, "the decline of the traditional pay-TV bundle started faster than we assumed," Mr. Stankey testified last year in an antitrust case in which the Department of Justice tried to block the Time Warner acquisition. AT&T won the suit and closed the deal, though the DOJ has appealed.

On top of the accelerated customer losses, AT&T discovered that packaging cellphone and satellite service didn't make much sense. Strategy leader Mr. Stankey, who ended up running DirecTV for two years after its acquisition, later said the combination was an "unnatural bundle" that didn't appeal to most people. "The problem is, when a customer is thinking about buying pay TV, it doesn't necessarily align for when they're thinking about buying a cellphone or changing their cellphone carrier," Mr. Stankey testified in the antitrust case. "They tend to buy pay-TV services when they move. You have your cellphone all the time."

Mr. Stephenson, in the interview, said DirecTV's defections have been on a par with those at cable-TV rivals. "Where we are losing subscribers is where we don't have a broadband play with it," he said. "Where we pair an over-the-top product with a wireless product, it does quite well." AT&T's streaming option, called DirecTV Now, has acquired nearly two million subscribers since it launched in late 2016. The total includes customers who signed up for free trials and some cellphone subscribers who added low-cost channel packages.

AT&T hasn't been able to steer enough of the customers who ditched DirecTV's satellite service to DirecTV Now because the streaming service must compete with a growing field of online channel bundles from YouTube, Hulu and Sony Corp.'s PlayStation. AT&T was particularly wounded by **YouTube TV, an online package of live channels that cost $35 a month** when it launched in 2017. The service, run by Google owner Alphabet Inc., has more than a million users, according to investment bank UBS . AT&T executives think Google is subsidizing the unprofitable service. A YouTube spokeswoman declined to comment about the company's profitability.

Armed with entertainment assets from Time Warner, AT&T is rolling out more streaming-video products to answer Google, Netflix, Hulu and Amazon. Besides DirecTV Now, AT&T has launched a slimmer bundle of channels called WatchTV. In October it disclosed **plans to offer an HBO-centered video service with a selection of movies** and TV series acquired in the Time Warner deal. Such online packages are often unprofitable, at least at first. They will need time to build big enough audiences to offset the loss of traditional customers who shell out more than $100 a month, on average, for channel packages via satellite. AT&T's new offerings enter a market that will soon include streaming services planned by Walt Disney Co. and Comcast.

In the meantime, the hard work falls on the customer-service agents with the job of plugging the leaks at DirecTV. They are under growing pressure to keep customers from canceling, said former employees. The pay of call-center workers is so closely tied to their ability to hold onto subscribers that former employees said they sometimes crossed ethical lines to meet the goals. "There's no way that we could make the numbers we were told to make," said Altrina Grant, former manager of a Chicago-area AT&T call center. She said some agents would promise to call back a customer about a request to drop service rather than immediately disconnecting, which would count against their compensation. Irate customers would later call another employee to ask why their request wasn't honored, she said. "These reps were getting thousands of dollars because they knew how to manipulate the system," Ms. Grant said.

Cyrus Evans, a former call-center manager in Waco, Texas, said employees' pay could swing between $50,000 and $80,000 a year depending on their performance, which was often influenced by how many disconnection requests they could deflect. Mr. Evans said employees often got angry calls from customers who had been promised their service would end, only to receive a bill the next month. He said the incentive structure rewarded bad behavior. Former AT&T workers said the company launched a new audit team in 2017 to crack down on support staffers making promises they couldn't keep. Ms. Grant said this initiative led the company to fire some workers but several customer-care executives are still in their jobs.

The company said its incentives reward employees based on customer satisfaction, not sales or disconnections. "We have a dedicated team that monitors customer interactions and I can tell you that reps failing to disconnect a customer for any reason is extremely rare," AT&T said. "Our expectation is that customers receive a great experience. Our employees are held to the highest ethical standards and we consider anything short of that to be a serious violation of our company Code of Business Conduct." This year, about two million two-year DirecTV contracts are expiring, an opportunity AT&T plans to use to roll back discounts. "As those customers come due, we'll get closer to market pricing," said John Donovan, chief of the telecom business, at a November investor conference. "We'll be respectful of our customers, but that will move up."

DirecTV has had an edge over rival satellite and cable companies with NFL Sunday Ticket, an add-on subscription providing games that aren't shown locally. The service features prominently in marketing. The league has weakened DirecTV's hold on fans, however, by offering other ways to access some of the content. And the agreement is on shaky footing because the NFL has the option to open up Sunday Ticket to bidding early this year. AT&T executives have discussed the matter with NFL Commissioner Roger Goodell. The league hasn't signaled what it will do. – ***Wall Street Journal***

Republican Pennsylvania Sen. Don White announced on Tuesday that he will retire at the end of February, leaving a third vacancy in a chamber where the GOP majority recently shrank. White, 69, of Indiana County, has served in the Senate since 2001, most recently holding leadership roles on the Banking & Insurance and Law & Justice Committees. A member of the National Rifle Association, he has, among other issues, pushed for legislation that would allow school districts to **create their own policies** on whether some employees should be allowed to carry guns on school grounds.

The senator said on the floor Tuesday afternoon that he has been "back and forth" on whether to retire for the "better part of a year." His seat was set to come up for election again in 2020. "When I came here, I was 50 years old, and I felt like I was 30," he said, adding later: "But now, I'm 69 and I feel like I'm 89." White's district includes parts of Armstrong, Butler, Indiana, and Westmoreland Counties. Data from the Pennsylvania Department of State show that Republicans have a roughly 25,000 lead in voter registration over Democrats in the district.

White's resignation will leave three seats open in the chamber — leaving Republicans with 26 seats, and Democrats with 21. Democrats gained five seats in the Senate after **a strong showing** in the Philadelphia suburbs in the November election. Earlier this month, Sen. Richard Alloway, a Republican from Franklin County, announced plans to retire effective Feb. 28. One other seat remains open because former State Sen. Guy Reschenthaler, a Republican from Allegheny County, was elected to Congress. A special election to replace him is scheduled for early April. – ***Pittsburgh Post-Gazette***

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