AT&T says it will invest heavily in network fixes

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In this Jan. 26, 2010 photo, AT&T phones are advertised in San Francisco. AT&T said Thursday, Jan. 28, it added a near-record 2.7 million wireless customers in the last quarter, defying expectations of a slowdown as the iPhone maintained its allure.(AP Photo/Marcio Jose Sanchez)

(AP) -- Stung by complaints about dropped calls and slow wireless downloads, AT&T Inc. is going to spend an additional $2 billion to improve its network this year.

The country's largest telecommunications company has faced an aggressive ad campaign from Verizon Wireless that attacks the quality and range of AT&T's network.

On Thursday, AT&T executives spent an unprecedented amount of time on their fourth-quarter earnings conference call to defend the wireless network and detail how they plan to make it better.

They acknowledged that wireless traffic, particularly from the iPhone, means that performance in San Francisco and Manhattan are below AT&T's targets.

AT&T said problems have been reduced in the last three months. And to keep tackling the service issue, it is ramping up its capital spending this year, from $17.3 billion last year to between $18 billion and $19 billion. While it didn't break out how much will be invested in wireless, it said the increase over last year would be about $2 billion. It will add more cell towers and connect the towers to faster, fiber-optic lines.

"Wireless is our No. 1 investment priority," said John Stankey, head of AT&T's Operations division.

In the fourth quarter, AT&T added a near-record 2.7 million wireless customers, defying expectations. However, 1 million were non-phone devices, largely consisting of e-book readers. AT&T has deals to support the latest version of Amazon.com Inc.'s Kindle, Sony Corp.'s Reader and Barnes & Noble Inc.'s Nook.

AT&T probably gets relatively little revenue from each e-reader device. Analyst Craig Moffett at Sanford Bernstein puts it at a few dollars per month. But AT&T is taking clear leadership in providing service for non-phone devices, which are seen as the next big growth area for wireless.

The highest-paying customers are those who sign two-year contracts, and AT&T added just 910,000 customers who have those, compared with 1.2 million at Verizon.

AT&T also said it activated 3.1 million iPhones, the second-highest quarterly total so far, demonstrating the continuing allure of the Apple phone. AT&T achieved that despite the lack of a new iPhone model in the quarter.

Analyst Craig Moffett at Sanford Bernstein called the wireless results "mixed." He was disappointed by the number of new contracts, and noted that AT&T continues to be very reliant on the iPhone, for which it is the exclusive U.S. carrier.

Apple and AT&T haven't said how long their exclusive contract lasts, but Apple appeared to reaffirm its commitment to AT&T on Wednesday, when it announced that AT&T will be the sole U.S. data provider for its new tablet-style computer, the iPad.

Analyst Christopher King at Stifel Nicolaus said it was unclear what motivated Apple to stay with AT&T. The decision does not necessarily preclude the possibility that the iPhone could come out with another carrier, like Verizon, later in the year, King said.

AT&T will be offering a novel deal for iPad owners: $30 per month for unlimited data service, with no contract. That's half of what data service costs for a laptop, but AT&T is also expecting data use from the iPad to be less than what laptops use. The iPad will run iPhone applications rather than full-blown and more data-intensive programs. Chief Financial Officer Rick Lindner said AT&T will have attractive service margins.

AT&T, which is based in Dallas, earned $3 billion, or 51 cents per share, in the last three months of the year. That was up 26 percent from a year earlier, and matched the average analyst expectation as polled by Thomson Reuters.

Revenue fell 0.7 percent to $30.9 billion, also matching expectations.

AT&T shares rose 9 cents to $25.71 in midday trading.

For the full year, AT&T earned $12.5 billion, or $2.12 per share, on revenue of $123 billion. That compared to 2008 earnings of $12.9 billion, or $2.16 per share, on revenue of $124 billion.