

Microsoft takes lead in AOL bidding

November 7 2005

Microsoft Corp. has taken the lead in talks to purchase a major stake in America Online from Time Warner Inc., according to a news report Monday.

According to the New York Times, Microsoft is currently in the top position in negotiations with Time over an ownership stake in Time's Internet unit America Online.

The newspaper cited unnamed persons close to the negotiation.

The story reported that Microsoft hopes to fold its Internet service into a joint venture with AOL. The two online services have competed against each other for years.

A key issue for Time is whether ceding a stake in AOL to MSN would become too complicated a partnership, such as how much control would be ceded to Microsoft, the New York Times reported.

Other possible companies that have been previously reported to be in the running include Yahoo! Inc., News Corp. and a partnership of Google Inc. and Comcast Corp.

While AOL has regained some luster lately from a new Internet-based strategy and an upswing in Internet advertising -- which in turn has attracted big-name suitors -- the company has been the source of much criticism for acting as a drag on its parent, the old media giant Time Warner.

The widely expected synergy from the merger of new media and old media giants at the start of 2001 never played out. Ultimately over \$200 billion in shareholder value was wiped out from AOL Time's stock.

Among other problems, the once-highflying AOL has actually been losing subscribers to its ISP service in the last several years, dropping from over 30 million to a current estimate of around 20 million.

Time Warner now considers AOL a division of the larger company but has dumped the name from its overall title -- a move that was hailed by the market at the time.

Before the merger, both companies emphasized to the financial markets the various business synergies that would come from the marriage of technology (AOL) and content (Time Warner). AOL based its value on its millions of subscribers, many of whom spent then -- and still spend now -- hours a day on the AOL service getting their news, chatting with friends and buying products from a myriad of AOL merchant partners.

The Time Warner division of the merged company was the world's largest media company. Through its Time Entertainment unit, it owns Time Warner Cable as well as Warner Bros. Through its TBS subsidiary it owns CNN, New Line Cinema and the Atlanta Braves. The publishing arm, Time Inc., is one of the top publishers in the United States. The company's Warner Music Group has an array of record labels, including the famous Atlantic and Elektra.

In a large shift of strategy in June, AOL began putting more emphasis on the Internet at large -- and the possibility of gaining advertising from a Net portal -- vs. just the ads within its own subscriber-only domain.

Among the assets that suitors are also interested in getting access to is AOL's popular AIM instant-messaging service, which dominates the

instant-messaging market against Yahoo! and Microsoft. Also, the AIM service has entered the telecom market by allowing users to call each other from computer to computer via headsets.

Other AOL properties that are attractive to outsiders are MapQuest and Moviefone for movie listings. Additionally, AOL Music proved itself a killer application this summer with the airing of the Live8 concert, which garnered millions of listeners. The company has launched a large-scale music downloading service in a venture to compete with the likes of iTunes, which has proved a big moneymaker for Apple.

Time CEO Richard D. Parsons said last week that talks were taking place to sell a stake in AOL but limited expectations in his comments.

"Because the discussions are fluid, we don't know if they will result in a transaction or what form if any a transaction will take."

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