AOL offers buyouts to over a third of work force

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FILE - In this May 12, 2008 file photo, the AOL Running Man logo decorates a coffee mug in AOL's New York office. AOL Inc., the struggling Internet company, said Thursday, Nov. 19, 2009, plans to cut about a third of its workers if its planned spinoff from Time Warner Inc. goes through. (AP Photo/Mark Lennihan, File)

(AP) -- The struggling Internet company AOL plans to shed up to 2,500 jobs - more than a third of its work force - as it prepares to separate from Time Warner and finally sever their ill-fated marriage.

Major job cuts had been expected and seemed certain after Time Warner said last week that AOL would take $200 million in charges for severance and other restructuring-related costs. But the magnitude was not known until Thursday.

AOL, which has already pared thousands of workers in recent years and now employs about 6,900, is asking for volunteers to accept buyouts. If it falls short of the 2,500 target, it plans layoffs to reach a payroll cut of up to 2,300 positions, a third of its current total.

The cuts will leave AOL at less than a quarter the size it was at its peak in 2004, when it had more than 20,000 employees.

The reductions show the company is endeavoring to become lean as it leaves Time Warner's side in three weeks, but it is still unclear how they will help the Internet company, which has been trying to reinvent itself as a content and advertising company amid an ongoing decline in its legacy dial-up Internet access business.

The voluntary offer is open to all employees from Dec. 4 through Dec. 11, AOL spokeswoman Tricia Primrose said. The job cuts still need approval from the new AOL board and come on top of about 100 layoffs announced Nov. 10.

"We're trying to put more choice and decision-making abilities in the hands of the employees, as opposed to having them wait for final cost recommendations or involuntary layoffs," Primrose said.

Frederick Moran, an analyst at The Benchmark Co., said the cuts suggest tough times ahead.

"Obviously companies don't make such massive layoffs unless their growth prospects are questionable, and that's the biggest issue overhanging AOL - can it ever see its growth restored after years of deterioration?" he said.

The layoffs and the impending spinoff cap one of the most disastrous marriages in U.S. corporate history. After being acquired by AOL in

2001, at the height of the dot-com boom, Time Warner said this week it will spin AOL off as a separate company on Dec. 9.

AOL's dial-up Internet access business has been declining for many years, and the company already had shed thousands of jobs as it pared down to focus more on producing online content to garner advertising revenue.

But AOL had staggered under those efforts, even before the recession drove the advertising market into a slump. It named one of Google Inc.'s advertising chiefs, Tim Armstrong, as chief executive this year to revive the business.

The decision to shed so many workers shows the company is sticking to the strategy laid out by Armstrong earlier this year, Primrose said, which means focusing around AOL's advertising, content, communications and local businesses. Communications includes AOL's AIM instant-messaging service, while local offerings include mapping service MapQuest.

Armstrong will also forgo a bonus this year.

AOL, which is based in New York and has major operations in Northern Virginia, hopes to trim annual costs by about $300 million. It's not known how much AOL now spends on salaries. A regulatory filing said only that "costs of revenues" totaled $2 billion in 2008, while "selling, general and administrative" expenses reached $617 million. Both categories include personnel.

AOL's operations still make money overall, but that profit has been falling. Nonetheless, AOL does have a few bright spots, including popular tech blog Engadget and celebrity Web site TMZ.com. TMZ is a joint venture with another Time Warner unit, Telepictures Productions, and is often credited with being the first to report major developments including Michael Jackson's death.

It is not yet clear what AOL will slash if it doesn't get the number of volunteers it seeks, though. Some analysts expect cuts to come from the dial-up Internet access business, which currently has about 5.4 million subscribers, down from its peak of 26.7 million subscribers in 2002. Others expect AOL may use more freelancers to produce content on its stable of more than 80 free, ad-supported Web sites.

In fact, even as AOL cuts workers, it is planning to greatly expand its content business. The company is expected to launch dozens of new Web sites next year using both full-time employees and freelance workers.

Kevin Lee, CEO of search marketing firm Didit, said AOL's layoff strategy might allow the company to cut down on paying severance and unemployment insurance, but it could backfire.

"The cons are they may end up losing some people they probably wouldn't have picked, and they may end up having to do the cuts anyway," he said.

Shares in Time Warner fell 52 cents to close Thursday at $32.30, near its 52-week high of $33.45. Time Warner also spun off its cable TV business this year as it tries to focus on producing movies, magazines and other content.

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