Newly single AOL posts 4Q profit, despite ad drop

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In this Jan. 12, 2010 file photo, the AOL Running Man icon is pictured at AOL's Hamburg, Germany headquarters. AOL Inc., newly released from its fizzled marriage with Time Warner, is reporting a slim profit for the fourth quarter despite revenue declines Wednesday, Feb. 3, 2010.(AP Photo/Axel Heimken, File)

(AP) -- AOL Inc., newly released from its fizzled marriage with Time Warner Inc., reported a modest profit for the fourth quarter on Wednesday, even as revenue from online advertising continued to fall.

Chairman and CEO Tim Armstrong said AOL is now a "leaner and more nimble organization," having cut costs sharply by laying off more than a third of its staff as it separated from Time Warner on Dec. 10.

Armstrong told analysts during a conference call that AOL may "experience a dampening of momentum" over the short term. But he said the company is not focused on quarter-over-quarter results but rather how it becomes a "valuable property on the Internet."

"The turnaround story, it's not an immediate process," he said later in an interview. Plans for 2010 include growing advertising, as well as the number of local communities served by AOL properties such as Patch Media Corp., which runs local news and general information sites.

AOL said Wednesday it earned $1.4 million, or a penny per share, in the last three months of 2009. That contrasts with a loss of almost $2 billion, or $18.52 per share, a year earlier, which included a $2.2 billion charge for the declining value of its assets.

Stripping out one-time expenses from the most recent quarter, AOL earned 71 cents per share. On average, analysts expected 63 cents per share, according to Thomson Reuters.

Revenue fell 17 percent to $810 million but topped the average forecast of $763.5 million.

AOL's spinoff from Time Warner ended a disastrous corporate union that began when AOL - then known as America Online - acquired the media conglomerate at the height of the dot-com boom in 2001.

AOL rose to fame in the 1990s on its dial-up Internet access business, but began to decline as faster broadband Internet connections from cable and phone providers gained popularity. AOL's U.S. subscriber count dropped 27 percent during the quarter to about 5 million. At its peak in 2002, AOL had 26.7 million subscribers.

The New York-based company has been trying to reinvent itself as a content and advertising business, with a variety of Web sites that include the popular tech blog Engadget, personal finance site WalletPop and food site Slashfood.

But the transition has not been easy. Far from offsetting the drop in dial-up revenue, advertising sales have even been declining in recent quarters. Ad revenue fell 8 percent in the fourth quarter compared with the year-ago period as display and search revenue continued to falter.

By comparison, Google Inc., the online advertising leader, reported fourth-quarter ad revenue grew 17 percent while rival Yahoo Inc. reported a drop of 4 percent.

However, like Yahoo's, the fourth-quarter decline for AOL was less than it had been in the first nine months of the year. That's a sign that AOL may be benefiting from the easing online advertising slump. Another positive sign: The company indicated that U.S. display advertising inched up 1 percent during the period, for the first time in eight quarters.

Armstrong said the weak economy should force advertisers to take online ads more seriously as they pay attention to where customers are going.

Despite the modest rise in U.S. display advertising, which are essentially online billboards, international display ad revenue sank 22 percent.

The company said it plans to exit the vast majority of its unprofitable international markets - even as rivals push to expand in Asia, Latin America and other markets.

Armstrong said the pullback should be temporary and eventually beneficial for the company. He said AOL wants to spend some time rebuilding the technology platforms for Web content and advertising so that the company can more efficiently serve international markets when it returns in 2011 or 2012.

RBC Capital Markets analyst Ross Sandler called the quarter "decent" overall, saying the growth in domestic display ads was a "clear standout."

"They're not without challenges, but I think they're off to a good start," he said.

AOL shares rose 90 cents, or 3.7 percent, to $25.55 in afternoon trading Wednesday.