AOL 1Q profit slumps as ads, subscriptions wane

April 28 2010, By RACHEL METZ , AP Technology Writer

(AP) -- Very little went right for AOL Inc. in the first quarter as it cut way back on staff and tried to refocus its business. The Internet company said Wednesday that tumbling online advertising revenue, along with restructuring costs, led to a 58 percent drop in first-quarter net profit.

AOL shares sank $3.61, or 13 percent, to $24.40 in afternoon trading.

The company, which separated from Time Warner Inc. last year, earned $34.7 million, or 32 cents per share. This compares with $82.7 million, or 78 cents per share, in the year-ago quarter.

Revenue fell 23 percent to $664.3 million, missing analyst estimates for $679 million, according to Thomson Reuters.

AOL struggled in both its traditional business and its newer ones. Its long-declining dial-up Internet service revenue fell 28 percent to $282.7 million, while its advertising revenue fell 19 percent to $354.3 million. The ad shortfalls came in both "display" ads, which include graphical online billboards, and search ads.

AOL's results mark a sharp contrast from those of competitors Google Inc. and Yahoo Inc., which indicated the online advertising market was emerging from a slump that lasted much of last year. Google's first-quarter revenue rose 23 percent, and Yahoo Inc.'s first-quarter revenue rose 1 percent.

During an interview, CEO Tim Armstrong said the problems in advertising were "100 percent" due to AOL's staff cuts and other changes AOL made, including a reorganization of its domestic ad staff.

The company cut about a third of its employees, or about 2,300 of its 6,900 workers, through a combination of layoffs and buyouts during the first three months of the year. The cuts leave AOL at less than a quarter of the size it was at its peak in 2004, when its staff numbered more than 20,000.

"I'm pleased with the results from Q1," Armstrong said. "I would obviously love to have more ad revenue, but based on what we did it's what was expected and I think we were clear that was going to happen before the quarter."

AOL also said Wednesday that it agreed to sell its ICQ instant messaging business for $187.5 million in cash to Russian Internet investor Digital Sky Technologies Ltd., which also owns a small stake in Facebook. ICQ has mostly been popular outside the U.S. in places where AOL doesn't have a big presence, Armstrong said during a conference call with financial analysts.

The company said earlier this month that it plans to sell or close its social networking site Bebo, about two years after spending $850 million to acquire it. AOL Chief Financial Officer Artie Minson said the company expects to have a sale or shutdown of Bebo "wrapped up" by the end of May.

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