

AOL posts higher 4Q net income but revenue slides

February 2 2011, By BARBARA ORTUTAY , AP Technology Writer

(AP) -- Internet company AOL Inc. says its fourth-quarter net income grew from a year-ago period weighed down by hefty restructuring costs, but revenue fell sharply on weak advertising sales. The company sought to reassure investors that its turnaround is well on its way toward fruition and said it will start to see growth in the second half of the year.

"A year ago we were dealing with a 'sick company' and laying off 30 percent of our work force," said CEO Tim Armstrong in a conference call with analysts on Wednesday. "We have come a long way and our journey is just beginning."

AOL's [advertising revenue](#) plunged 29 percent during the quarter to \$331.6 million. Of this, [ad revenue](#) at AOL's properties fell 23 percent to \$247.5 million and third-party network ad revenue tumbled 43 percent to \$84.1 million as [AOL](#) shut down European businesses and shifted focus away from lower-margin products.

Armstrong said he sees 2011 as a "comeback year" for AOL as it finishes working on its turnaround and starts expanding its ad business in the second half of the year. In an interview, he said signs that the reorganization is working include AOL's "evolving great culture," and the great talent that the company is fostering. He added that AOL has been able to increase pricing around its ads, which means demand is growing.

AOL said its [net income](#) for the October-December quarter totaled

\$66.2 million, or 61 cents per share. That's up from \$1.4 million, or a penny per share, in the same quarter a year ago, when the company booked \$106.3 million in [restructuring](#) expenses tied to its split from Time Warner Inc. and its efforts to shift the focus of its business.

Revenue fell 26 percent to \$596 million from \$806.7 million. The company attributed a big chunk of this decline to changes it is making to turn its business around, including the selling of unprofitable units, including European operations and the social network Bebo. Search and display ad revenue also declined.

Even so, AOL's results surpassed Wall Street's expectations. Analysts polled by FactSet had expected a profit of 52 cents per share and revenue of \$589.7 million. Analysts had been expecting a bumpy quarter from AOL amid its reorganization, which has included acquiring new businesses, launching and relaunching websites, rolling out a new Web advertising system and laying off employees.

Less patient investors sent AOL's shares down 81 cents, or 3.4 percent, to \$23.04 in midday trading.

Rivals have been faring better. Online search leader Google Inc. recently reported a 26 percent jump in fourth-quarter ad revenue, and Yahoo Inc.'s ad revenue fell 10 percent in the same period, a smaller decline than AOL's. Research firm eMarketer estimates that the U.S. online advertising market grew nearly 16 percent in the fourth quarter.

AOL had just a 5.3 percent share of the U.S. display advertising revenue in 2010, down from 6.8 percent in 2009, according to eMarketer. Facebook, meanwhile, accounted for 13.6 percent of display revenue last year, up from 7.3 percent in 2009.

AOL's subscription revenue dropped 23 percent to \$235.9 million as

AOL continued to lose dial-up customers who upgraded to speedier Internet service from competitors. Churn, or subscriber turnover rate, was 2.3 percent as AOL ended the quarter with 3.9 million subscribers. At its peak in 2002, AOL had 26.7 million subscribers.

For all of 2010, AOL reported a loss of \$782.5 million, or \$7.34 per share, on revenue of \$2.42 billion. The company separated from Time Warner in November 2009. On a basis that's comparable to 2010 results, it earned \$248.8 million, or \$2.35 per share, on revenue of \$3.25 billion in 2009.

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Citation: AOL posts higher 4Q net income but revenue slides (2011, February 2) retrieved 12 May 2024 from <https://phys.org/news/2011-02-aol-higher-4q-net-income.html>

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