US hedge fund seeks five seats on AOL board

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Starboard Value said in a letter to the AOL board it was "troubled that the company remains closed-minded to alternative value creation initiatives, and instead appears solely focused on pursuing the status quo."

Jeffrey Smith, chief executive of the New York-based Starboard Value, which claims to hold 5.2 percent of the outstanding shares of AOL, said the company's assets "are being undervalued in the marketplace."

Specifically, Starboard Value said AOL was not taking advantage of a portfolio of over 800 patents it holds for various Internet technologies.

"A significant number of large Internet-related technology companies may be infringing on these patents," Starboard Value said, and AOL's patent portfolio "could produce in excess of $1 billion of licensing income."

"The company's inaction is alarming given our understanding that many of the key patents have looming expiration dates over the next several years which could render them worthless if not immediately utilized," Smith said.

Starboard Value proposed five nominees for the AOL board at the next annual meeting.

Smith is one of the nominees along with a former director of licensing at computer chip giant Intel and a former president of the CBS television network.

"We do not currently intend to seek to replace a majority of the board," Smith said. "However, we do believe significant change to the composition of the board is warranted."

Responding to the Starboard letter, AOL said it is making "significant progress" in "executing our strategy to improve AOL's growth trajectory."

"We ended 2011 with our best performance as a company in the past five years, with substantial growth in advertising revenue, improvements in legacy revenue streams, and significant cost reductions," AOL said.

AOL said it has held several meetings with Starboard Value and offered "an opportunity to help shape the company's board of directors composition and size."

"Unfortunately, Starboard Value LP has a singularly focused agenda and rejected this productive path to address their stated concerns and drive increased shareholder value," AOL said.

AOL shares lost 1.08 percent on Wall Street on Friday to close at $18.24.

AOL's chief executive Tim Armstrong was hired away from Google three years ago to execute a turnaround at the company formerly known as America Online.

Under Armstrong, AOL has invested heavily in online content, purchasing The Huffington Post and TechCrunch websites and putting money in local news network Patch.

AOL fused with news and entertainment giant Time Warner in 2001 at the height of the dotcom boom in what is seen as one of the most disastrous mergers ever.

It was spun off by Time Warner in December 2009 into an independent company.