

AOL says to sell 800 patents to Microsoft for \$1.0 bn

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AOL has announced it would sell more than 800 patents to Microsoft and license more than 300 additional patents and patent applications for \$1.056 billion in cash.

AOL announced plans to sell more than 800 patents to Microsoft in a \$1.056 billion deal giving the struggling Internet pioneer a needed cash injection as it seeks to fend off pressure from shareholders.

The deal also provides Microsoft with licenses to more than 300 additional patents and patent applications, AOL said in a statement.

AOL chief executive Tim Armstrong said the deal "unlocks current dollar value for our shareholders and enables AOL to continue to aggressively execute on our strategy to create long-term shareholder value."

Microsoft general counsel Brad Smith said in the statement that the software giant is getting "a valuable portfolio that we have been following for years and analyzing in detail for several months."

He said Microsoft "was able to achieve our two primary goals: obtaining a durable license to the full AOL portfolio and ownership of certain patents that complement our existing portfolio."

AOL said that after the deal is complete, it will continue to hold "a significant patent portfolio of over 300 patents and patent applications spanning core and strategic technologies, including advertising, search, content generation/management, social networking, mapping, multimedia/streaming, and security among others."

AOL also received a license to the patents being sold to Microsoft.

The patent sale includes stock in an AOL subsidiary on which AOL expects to record a loss for tax purposes and as a result, AOL will offset most taxes in the deal.

The company said it intends "to return a significant portion of the sale proceeds to shareholders and will determine the most efficient and effective method to do so prior to the closing of the transaction."

Earlier this year a US hedge fund with a large stake in AOL criticized the strategy of the current management for failing to deliver for shareholders and sought a shakeup.

Starboard Value said in a February 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."

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

AOL has been losing money since the collapse of its leadership as an Internet subscription service, and has been seeking to become a more diversified Web firm.

The company 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.

Under Armstrong, hired three years ago, the company formerly known as America online has invested heavily in online content, purchasing The Huffington Post and TechCrunch websites and putting money in local news network Patch.

The transaction is expected to be completed by the end of 2012, the companies said.

AOL did not release details on the patents being sold or licensed. But a report last month by the research firm Envision IP said AOL could get value from about 140 patents related to online communications, focused mainly on instant messaging and email technology.

The report said AOL also owns 77 patents related to search engine technologies, some dating back to the "formative years of Internet development" from 1995 to 2001. Also of value were 41 patents for voice communication including Voice-Over-IP (VoIP) used for Internet telephony.

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