Time Warner To Spin Off AOL

by Paul Thomasch and Derek Caney

NEW YORK (Reuters) - Time Warner Inc on Thursday made official plans to separate its AOL division sometime around the end of this year, a widely expected move that sheds one of the media company's weakest divisions.
Time Warner, which for months has signaled such a plan was in the works, said the deal has been approved by the board and would be structured as tax-free to its stockholders. It still needs regulatory approval.

Once completed, the deal would once again make AOL an independent, publicly traded company, and close the door on a massive merger between the two media companies in 2000 that critics say failed to live up to its promise.

The unit was once how most people found their way onto the Internet. It has since been left behind as a relic as cable and phone companies picked off subscribers and Google and others swooped in to dominate online advertising.

AOL has been the subject of a series writedowns reflecting the declining value of the assets and a slowing online advertising market, and was increasingly out of place in Time Warner's broader plan to become a pure content company, focusing on media brands like CNN, HBO and Warner Bros.

Time Warner tried a number of efforts to help the struggling unit, including splitting it into two units, with one focused on audience and advertising, the other on a shrinking legacy dial-up web access business.

But as those failed to turn AOL around, Time Warner came under increasing pressure to shed the business either through a spin off or a deal with Yahoo Inc or Microsoft Corp's MSN.

"We believe that a separation will be the best outcome for both Time Warner and AOL," Time Warner Chief Executive Officer Jeff Bewkes said in a statement. "The separation will be another critical step in the reshaping of Time Warner that we started at the beginning of last year, enabling us to focus to an even greater degree on our core content businesses."

Earlier this year, Bewkes lured former Google Inc executive Tim Armstrong to head AOL with the possibility of leading a separation.

Google, in fact, purchased 5 percent of AOL from Time Warner in a 2005 deal that valued AOL at $20 billion. In January, Google wrote down the value of the stake, implying that, at least earlier this year, AOL was worth $5.5 billion.

Under the plan announced on Thursday, Time Warner will purchase Google's stake then separate AOL.

Earlier this year, as part of the strategy shift, Time Warner spun off Time Warner Cable Inc, its former telecommunications cable division.