Earnings Preview: AOL to report 4th-qtr results

Internet company AOL Inc. will report its fourth-quarter results on Wednesday before the market opens.

WHAT TO WATCH FOR: Analysts and investors will be looking for an update regarding AOL's restructuring plans, which it has been focused on since splitting with Time Warner Inc. more than a year ago.

In the past year, the troubled company has worked to turn around its business. This has included selling off unprofitable businesses and acquiring others, launching and relaunching numerous websites, rolling out a new Web advertising system and laying off employees.

Because of all these changes, AOL CEO Tim Armstrong said in November that the fourth quarter would be "bumpy," and that he doesn't expect results of AOL's efforts to be evident until this year.

Analysts and investors will also be keeping an eye out for growth in AOL's online advertising business and signs that more people are checking out its expanding network of websites.

Online ads bring in a major chunk of the company's revenue. AOL has been working for several years to make this its main revenue source since the number of people who use the dial-up Internet service that made it famous in the 1990s has dropped steadily.

But the New York-based company has had a tough time making this transition. For the first three quarters of 2010, AOL's advertising revenue fell, even though the overall online ad market seemed to be improving compared to 2009.

As for websites, AOL has been making plenty of changes in hopes of snagging more traffic. It has built up its network of Patch.com community news sites, and planned to have more than 500 by the end of the year. More recently, it said in January that it will start getting its health, sports and real estate content from three outside companies: sports news site operator Sporting News, health site operator Everyday Health and real estate listings website operator Move Inc.

WHY IT MATTERS: AOL's results help give a better idea of how the online ad market is faring.

Competitors' results have been mixed so far for the fourth quarter - Google showed better-than-expected growth in online advertising, while Yahoo declined year over year.

WHAT'S EXPECTED: Analysts polled by FactSet expect an adjusted profit of 53 cents per share on $590.1 million in revenue.

YEAR-AGO QUARTER: AOL reported a profit of a penny per share - or 71 cents per share excluding one-time items - on $809.7 million in revenue in the fourth quarter of 2009.

ANALYST TAKE: In a Monday client note, Jefferies & Co. analyst Youssef Squali predicted the company's revenue will come in slightly above Wall Street estimates due to growth in display advertising.

Squali said that AOL's management is "doing all the right things" to fix its platform and position the company for growth, but the "headwind of ongoing subscriber losses, still-yet-to-be proven content strategy and dwindling search share" cause him to keep his "Hold" rating for the stock.

Squali has a $27 price target for the stock, which closed Monday at $23.52.

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