AOL says 1Q profit fell; ad, subscriptions down

BARBARA ORTUTAY - AP Technology Writers - Associated Press

AOL's first-quarter earnings and online advertising revenue dropped sharply, but the struggling Internet company tried to reassure investors by pointing out that part of its ad sales grew for the first time in more than three years.

CEO Tim Armstrong called the quarter a milestone for AOL, but in an interview he also made it clear the company has a long way to go.

Monthly unique visitors to its network of content sites, which is referred to as the AOL Huffington Post Media Group since AOL's March 4 acquisition of news hub The Huffington Post, dipped 3 percent to 100 million.

Revenue from the company's long-declining dial-up Internet business also fell.

For the past several years, AOL has been trying to boost its online advertising business and beef up its stable of websites as subscribers steadily abandon the Internet access business that made it a household name in the 1990s. But the shift has been difficult.

AOL Inc. said Wednesday that it earned $4.7 million, or 4 cents per share, in the latest quarter, down from $34.7 million, or 32 cents per share, a year earlier. Excluding restructuring charges and other items, AOL would have earned 22 cents a share in the latest quarter.

The company's profit from continuing operations was 4 cents per share, compared with 39 cents in the year-ago quarter.

Revenue fell 17 percent to $551 million from $664 million, above the $535 million that analysts polled by FactSet were expecting.

AOL said its ad revenue would have been flat if not for changes associated with shutting down European businesses and shifting focus away from services with lower profit margins.

The New York -based company said revenue for display ads — billboard-like ads on websites — grew 4 percent to $130.5 million. This was the first time since the fourth quarter of 2007 that AOL's display advertising grew from the previous year.

AOL sees display growth as important because it's a segment of online advertising that is poised for major growth over the next several years.

The company's search and contextual ad revenue, meanwhile, fell 21 percent to $95.8 million.

Armstrong is optimistic about the online ad market overall, though, saying it's "more robust" this year than last and that it will keep improving.

"The stampede of consumers to digital services has been faster than advertisers' ability to keep up with consumers, so you have a significant pooling of consumers in Internet services and a trickle of advertisers that have been able to keep up with it," he said.

Still, even if the market grows AOL's share is expected to be small for now. Research firm eMarketer expects AOL to hold just 4 percent of the U.S. display ad market by revenue this year, behind Facebook, Yahoo and Google. And for all U.S. ads, eMarketer expects AOL's share to be less than 3 percent.

AOL's subscription revenue, which has long been in decline, dropped 24 percent to $215 million as AOL continued to lose dial-up customers who upgraded to speedier Internet service from cable TV and phone companies.

The company ended March with 3.6 million dial-up subscribers, down 22 percent from the previous year.

AOL shares dipped 41 cents to $19.99 in trading.

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Metz reported from San Francisco.