AOL & Time Warner: How the “Deal of a Century”
Was Over in a Decade

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ABSTRACT

AOL & Time Warner; How the “Deal of a Century” Was Over in a Decade
Roberta W. Harrington

In 2001, AOL and Time Warner came together in the midst of the rise of the internet to become, as the annual filing stated that year “the world’s first fully integrated, internet-powered media and communications company.” The company would “undertake a number of business initiatives to advance cross-divisional activities, including cross promotions of the Company’s various businesses, cross-divisional advertising opportunities, and shared infrastructures.” (Annual 10K Filing. March, 2001) However, the nearly decade long relationship between the two was tumultuous at best, and never panned out as the architects had hoped. (Arango, 2010) As the .com era bubble started shrinking and bullish targets were not met, the wishful synergies between the two began to collapse. An even bigger problem between the two companies was that… “Both sides seemed, to hate one another.’(Arango, 2010) Not only were the two companies businesses entirely different from one another making it difficult to agree on anything, the executives at the top were having trouble implementing synergistic practices. From the time merger went through, it seemed almost immediate to everyone involved that there were going to be significant problems. In the years to come, AOL Time Warner suffered a tumultuous relationship that caused monetary loss across the board. (Klein 2003) AOL and Time Warner were about to meet a fate that no one saw coming, which was an historic blow to the media industry and Wall Street alike.
The “Deal of a Century” (Times Online, 2009) quickly became the worst deal in history. (Arango, 2010)
CHAPTER 1: INTRODUCTION

If there is one thing to be known about media, it is simply this... first and foremost, media are businesses. Although the industry is often marked by creative and imaginative minds, the truth of the matter is that while the media serves the purpose of entertaining and informing people, the people behind it just like any other product, need to turn a profit in order to keep doing what they do. In any business, if a product doesn’t deliver a consumer, it is a strong indication that the product won’t succeed and the same goes for media. But we wouldn’t often think of media this way, where it’s so closely intertwined with making money. Despite this, monetary analysis is one of the only ways in which we can measure the effectiveness of media. Of course there are other ways to measure such as ratings, clicks, impressions, etc., but what these measurements all have in common is what they are being used for, and that is, to determine the fiscal worth or well-being of a property. However as consumers, we are constantly reminded and subjected to the fact that media are changing and in addition, as the industry continues to change over time, the future raises more questions than answers. It is certainly not the easiest industry to predict and what may be popular today can be a calamity tomorrow.

One of the biggest examples of media companies trying to adapt to change, and in doing so creating a large conglomerate was the acquisition of Time Warner by AOL. (Johnson 2000) Time Warner had been a large established company who itself had been created through the merger of Time Inc., Warner Communications, and more recently Turner Broadcasting. (Klein 2003) It was an
established company on its own and was one of the biggest players in the industry having a hand in everything from magazines to cable. (Johnson 2003) It was larger than most of its competitors, and while it wasn’t a flashy “get rich quick” stock like its counterpart AOL, it was an established entity that was for the most part consistent. (Klein 2003)

AOL on the other hand was a newcomer to Wall Street, born out of the vision of the newfound information super highway, the internet. (Johnson 2003) AOL was growing at unprecedented speeds, and became a Wall Street darling almost overnight. Although it had been a newcomer, its growth was mounting and popularity soaring. Not only was it gaining customers, it was gaining believers that assumed the company was unstoppable. (Munk 2004) With that kind of confidence behind it, it came time for a big move. AOL and Time Warner would “merge” to become the largest media company in the world. It was a move so big it would create history for years to come… however the footprint left on the industry was probably not what everyone was expecting.

STATEMENT OF THE PROBLEM

When Time-Warner Inc. merged with AOL in 2001, both companies believed that the merger would result in a leading media conglomerate that would benefit consumers, and overtake the industry. (BBC News 2009) However the effort failed miserably and destroyed billions of dollars in shareholder value. (Arango, 2010) Moreover, the most recent news with regard to the two entities is that the companies have now spun-off AOL into its own publicly traded company,
and both companies have gone back to operating as they did over a decade ago. (Swisher, 2009) The calamity of AOL Time Warner reverberated throughout the industry and on Wall Street, and certainly with all disasters there are lessons to be learned.

What is going to be addressed in the latter pages are the implications surrounding this merger. The union would have had the ability to create presumably the single largest media corporation in history, yet the attempt between AOL and Time Warner backfired disastrously. The biggest question is, why? What were the main problems that this company faced, that couldn’t be overcome?

**Synergistic Feasibility**

The problems began early on with the architects of the merger and imploded internally almost as soon as it was finalized. (Klein 2003) Adjoining business segments of the new company soon found that any synergistic rhetoric clearly couldn’t be implemented. As stated before, it seemed as though the two companies “hated each other.” (Arango 2010) Moreover, it didn’t seem as though each of them understood the other’s business and therefore couldn’t take advantage of the union. (Klein 2003) The amalgamation process, although talked about extensively in a number of meetings, seemed to have no effort behind it. (Klein 2003)

**Organizational Feasibility**

In addition, the executives in charge of the merger seemed to be moving forward but in different directions, with little communication to help organize the
plan. (Klein 2003) They’re roles would be pivotal, albeit seemingly unintentional, on the impact of the AOL Time Warner merger. While each of them played a role, what’s more interesting is how each of their roles were so different amongst a streamlined decline. (Munk 2004)

Financial Feasibility

As stated previously, the merger came to be known as one of the largest financial failures in the history of media mergers. AOL purchased Time Warner in a no-cash, all stock deal (Munk 2004) which was seen as shaky from the start. For one, AOL’s revenue was only a fraction of Time Warner’s but the stock was valued so highly on Wall Street that it was able to boost its image of having more financial power than it actually had. Not only was AOL a victim of the .com era bubble burst, but adding questionable accounting practices to the mix coupled with bullish revenue targets, it seemed unfeasible that this merger could work at all, and as we would find out later, would slowly dissolve. (Klein 2003)

EXPLANATION OF THE IMPORTANCE OF THE PROBLEM

This issue is especially important because it uncovers some of the fundamental issues that can arise when trying to establish a media conglomerate of such large proportions. The anticipation of this kind of merger can be vast, and in some cases the results, devastating. It’s important to look at this kind of issue critically because it will give transparency and insight into information often overlooked given its complexity. Being the biggest doesn’t always mean being the best, and the quest to become the largest can even diminish a company by a great
amount of worth, as it did for AOL Time Warner. Large growth by mergers and acquisitions should be looked at with caution, as the benefits don’t always outweigh the risks. It may seem like a smart idea on paper, but the actual implementation could be a much different scenario. By having and understanding this information, it serves as preparation for a more successful understanding of the business of television.

PURPOSE OF STUDY

The purpose of this study is to understand the lack of feasibility for this merger in the wake of its collapse. At the forefront, it seemed as though this merger made perfect sense regardless of its magnitude and impact on the industry. The fact that it failed, and quite miserably at that, is a constant reminder that the risk involved must be dealt with carefully and with due diligence. In hindsight, the purpose of analyzing these mishaps is to help better understand what happened organizationally and financially so that moving forward, we can identify and rectify problems this company faced as to not have to experience them again with other mergers.

RESEARCH QUESTIONS

1. Understanding the Architects: What did the architects have to gain if this merger were to go through? What was the motivation behind their decisions to move forward with this merger? What was the impact that each of them had on the outcome of the merger?
2. Technology: What was the motivation for wanting to merge these two companies from a technological perspective? What about the technology at that time limited their ability to make the merger work? Why did the merger make sense at the time for the two companies technologically speaking?

3. Logistics/Operational: What happened between the two companies organizationally that made this huge deal fail so quickly? What happened internally that made the merger weaken almost from the beginning? How did the architects inhibit the ability of the company to act as one?

SIGNIFICANCE TO THE FIELD

Media more recently is becoming a much more vertical field, with larger corporations owning a number of different properties across different lines of business. The mergers seen today may help make the operations more lean and cost effective, and yet it also impacts the industry because it also has the potential of homogenizing the industry. It is important to understand mergers in this industry from a past perspective so that in the future, these kinds of failures are less likely to happen.

DEFINITIONS

Stock - A type of security that signifies ownership in a corporation and represents claim on part of the corporation’s assets and earnings
**Market Capitalization** – Total value of the tradeable shares of publicly traded company; it is equal to the number of shares outstanding

**Net Income** – A company’s total earnings (or profit); Calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses.

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**LIMITATIONS**

The major limitation for the researcher in this project was the obvious fact that the researcher did not have direct contact with the architects of the merger as they are very high ranking officials within the media industry. However, through careful consideration and by numerous second hand accounts, the researcher was able to gain significant knowledge of the architects feelings, actions and reactions throughout the process. In addition, AOL has gone through several changes in technology since it first launched and the researcher was unable to use the product as it had been back then.

**ETHICAL CONSIDERATIONS**

The original intent of the researcher was to draw a comparison between the AOLTW merger and the Comcast/NBC merger. Subsequently, the researcher accepted a position within the Comcast/NBC organization, and had access to proprietary information which would have been inappropriate to use in this thesis.
Therefore, this thesis focuses on the AOLTW merger, and is based on public information.
CHAPTER 2: REVIEW OF THE LITERATURE

The literature review will address the research questions which were set forth in the earlier part of this thesis. The review will follow the merger as it happened in a time line which is meant to describe how the merger started and ended. In the first section, the problems that will be addressed are those that each company faced prior to the merger, and what gave them the sense to move forward with the combination of the two companies. In addition, what happened between the architects during this time will also be explored as well as the decision and announcement of the merger. In the second section, the synergistic difficulties will be addressed that the company faced after the merger as well as the financial fallout from the merger and how the architects distanced themselves from the company during the years after. Finally, the breakup of the two companies and the effects and aftermath of the union will be discussed.

Making Business Sense of the Information Superhighway

In 1999 the rise of the internet was in full swing, and companies around the globe were scrambling to figure out just how the phenomenon would ultimately affect their business. (Munk 2004) It was no different for media companies. As growth of the internet among consumers became vastly larger and larger, companies began to realize that without utilizing the information super highway, they would be left behind in the wake of outdated traditional media. Time Warner at the time had been struggling with this issue just as many other companies had, and was trying to figure out how to parley their vast portfolio of
assets onto the web. The idea of utilizing the web wasn’t lost on then CEO Gerald Levin. In fact, Levin had made it a point to create a special branch within Time Warner in order to deal with this issue head on and called it Time Warner Digital Media. Levin, who asserted himself as a visionary and was dubbed the resident genius, was growing increasingly frustrated with the lack of evolution of his assets to the internet. (Munk 2004) Levin’s thoughts were consumed by the fact that “by now, everyone who mattered on Wall Street had embraced the digital revolution or was riding on its coat tails; yet in the small blinkered minds of Levin’s executives, the internet had barely figured. Some division heads didn’t even use e-mail. (Munk 2004) And yet although it was a growing phenomenon, Levin was overcome with despair. “None of Time Warner’s divisions had come up with a convincing internet initiative or strategy, not even the music division which everyone knew was losing market share to free online music exchange services like Napster.” (Munk 2004) Levin was determined to take matters into his own hands. He knew the digital revolution was here and was determined to lead Time Warner into the digital period. In July of 1999, Levin unveiled the creation of Time Warner digital media to be headed up by then CFO Richard Bressler. The new division was specifically created in order to create and fund the company’s to-be-determined internet assets. (Munk 2004)

The appointment of Bressler to the new post was confusing for most people, but according to some, epitomized Levin’s rationale as a leader. It had come to be known that Levin had only a few executives that were confidants and people that he trusted. For most of his career, he had a talent of being able to
pinpoint threats to his reign as CEO and an even bigger gift of getting rid of them. Levin described Bressler as “uniquely qualified to take over the job” but what was baffling to many was just what exactly his unique qualifications were. (Munk 2004) Bressler had worked as an accountant for many years, and really lacked any kind of technical background. In fact it was said that his appointment, “exposed one of Levin’s greatest weaknesses as a CEO. Convinced that only he, Gerald Levin, had the foresight to transform Time Warner and lead it through the revolution… Time and again, he’d assigned competent but uninspired executives to senior posts; many were courtiers, glad to be of use.” (Munk 2004) In essence, Levin wasn’t looking for the next idea-generator, as he thought he played the role well. What he really wanted was someone that would execute his idea for the internet strategy with little objection or interference, and for all intents and purposes, Richard Bressler was the right candidate for Levin.

As Levin began building his digital masterpiece, unbeknownst to him at the time, there was another digital masterpiece in the making in which he would soon become involved in and that would change the fate of his company forever. The .com era was popping up new companies everywhere, and it seemed these new companies were trumping the old traditional ones with what many considered overblown IPO’s and inflated stock worth. (Klein 2003, Munk 2004) Needless to say, Wall Street had picked up on the popularity of digital companies and was rewarding them. One of the biggest companies at the time was none other than AOL, formerly known as America Online. The company was a baby compared to Time Warner and in stark contrast, had no real assets of its own other
than its users. In addition, many regarded AOL as “technology for dummies.”
(Munk 2004) By no means did AOL define the internet, but provided a portal that consumers could access in order to help navigate around the web as users began to use the technology more frequently. AOL was known as the “training wheels” for the internet. (Kramer 2009) At the helm of this primitive Infobahn (albeit Wall Street money maker) was a man by the name of Steve Case. Regardless of many techy insults, AOL had become one of the most recognized brands in all of cyberspace. Instead of building the platform to higher technological levels, AOL spent scores of money on marketing efforts by assuring that almost every person in America had an AOL disc in their hand in order to install it on their computers. (Munk 2004) For the time being, it worked, and to much surprise, very well.
Case’s mission statement for the company was simple, and inscribed on a metal plaque of AOL’s lobby which read, “To build a global medium as essential to people’s lives as the telephone or the television… and even more valuable.” (Munk 2004) As he would soon find out, his long term product may have been in stark contrast to his long term mission.

Mission statement or not, Steve Case became highly recognized among the industry with the deployment of AOL. He had become such a household name that in 1999 a sixth-grader told the Wall Street Journal that, “I had a school assignment where I had to pick one person I would add to Mount Rushmore. I was going to add Steve Case. But it had to be historical… so I added Harriet Tubman. I thought Steve Case was better than Harriet Tubman.” (Munk 2004) The truth of the matter was, not only was that not going to happen in this lifetime
but according to sources, that was never what Steve Case wanted to happen either. While AOL was never regarded as “cool” back in the day, it was a beacon of the internet industry. Case consistently worried about its future and whether or not it would be able to sustain its operating levels. To put it simply,

“The success of AOL was breeding resentment and hostility and envy in his competitors; from Case’s perspective he was surrounded by enemies… He knew how vulnerable AOL was to an attack by Yahoo and also MSN, Microsoft’s fast-growing online service. In itself, MSN's market share was tiny, a sliver of AOL's, but, as Case warned his executives, Microsoft was lethal: in the face of an assault by Microsoft's browser, Internet Explorer, Netscape's share of the browser market had collapsed. The same kind of thing could happen to AOL if Case and his executives weren't careful. What if Microsoft decided to offer MSN gratis, just like that? What would happen to AOL? Case was not being an alarmist. Face it: apart from its 17 million members, what was AOL? The company had no hard assets, nothing tangible like a factory, a film library, a computer operating system, or a collection of cable networks.” (Munk 2004) Essentially Case speculated that his company’s stock levels wouldn’t last forever and he needed to do something to establish his company, as a pre-emptive strike against a disaster.

**Case Strikes**

It seemed at the time that Case was ready to make a move, and a big one at that. Case realized that he had been lucky with AOL’s success, but that at any point, the tide could turn and the company could fall victim to a takeover or even worse, a collapse. For the most part he knew AOL had no real assets of its own.
This wasn’t a company that stored libraries of video and content. The only assets it had were its subscribers, and so Case began eyeing potential partners in the world that would help make his company viable should the impending .com bubble burst. Case began looking at companies across the board. “It would take Case nine months to reach the decision to buy Time Warner. In his typically meticulous, unhurried manner, he brought together huge amounts of data and studied them; throughout 1999 he called meeting after meeting to weigh the options. With its giant market capitalization, AOL could buy anything it wanted, almost. The only question was what to buy.” (Munk, 2004)

So there it was on the table, two companies with a seemingly similar problem. What was the future of their company? How would they hold onto the power that each of them had built up? The irony of the matter is that although their worries were the same, how they came to existence was completely different. Time Warner, was an established company with years of operations under its belt, while AOL was just 15 years old, a newcomer of sorts, but one that had taken Wall Street by storm. Although he wouldn’t know it when he decided to buy Time Warner, Steve Case and Jerry Levin were confronted by the same questions regarding the fate of their companies. (Munk 2004)

Case had been studying Time Warner for months, and started planning his attack well before he put it into action. Case and Levin knew of each other but for the most part had never really interacted. Levin had always in the past found Case to be cold and calculated, a shared feeling among many people. However the turning point for these two men was at the Fortune Global Forum in Shanghai in
1999. At this point, Case had already made the decision to buy Time Warner, but it would take some convincing on the part of Jerry Levin. (Munk 2004) Case seemed to be impressed by Levin from the get-go noting how Levin was treated by the government there; it was almost as if he was equivalent to a head of state. (Klein 2003) Levin also changed his tune and suddenly became impressed by Case. Levin noted that he may have misjudged Case at first, and that perhaps Case wasn’t as cold as he had first thought. (Munk 2004)

Two weeks after the Shanghai event, Steve Case was calling Jerry Levin at his office perched high atop 75 Rockefeller Center. Case being the man that he was put the friendly banter aside and skipped right to the point with Levin, the conversation going:

“Jerry? I’ve been thinking: we should put our two companies together. What do you think? Any Interest?”

Although caught off guard at the prospect of this deal, Levin’s interest suddenly peaked. Levin knew exactly what it would mean for him, and it would be the perfect way to fix the issues with the digital segment. But Levin didn’t immediately jump. Case had thrown out something that whether he knew or not, would be the deciding factor for Levin. “If America Online and Time Warner came together, he promised, Levin would of course be CEO of the new giant company, while Case would be chairman. ‘I'm not interested in being an operating guy,’ Case told Levin confidingly. ‘You understand this business, Jerry. If we merge our companies, you should be the man in charge. I work better at this sort of strategic level.’” (Munk 2004)
Although Case had succeeded in grabbing Levin’s attention, Levin knew the implications that would ensue had he discussed any of it with Case right then. Levin who was also calculated and meticulous wasn’t ready to divulge any of this to his board or the public, and by continuing the conversation he was putting himself in jeopardy. Instead, Levin gave Case a simple “I don’t think so Steve. But I’ll think about it.” (Munk 2004)

Levin was nearly sold with just the mere mention of CEO and ultimately has been speculated, as the deciding factor in the creation of AOL Time Warner. Levin had said later that “if he’d said anything else, there’s no <expletive> way I would have gone ahead.” (Munk 2004) The truth of the matter was that Levin, who was now 60, couldn’t help but think about his legacy and what it would mean to Time Warner. However if AOL and Time Warner merged, it would mean an even greater impact for his legacy, and the bragging rights of running the largest media corporation in the world. Case had hit the nail on the head with Levin and played the game perfectly. The play was all about the image of the two companies as they forged ahead. Although AOL was buying Time Warner, it couldn’t look as though it was the stronger component. The merger had to be perceived as if it was made amongst two equals, and by making Jerry Levin CEO, it would smooth out any bumps in the road for the future. (Munk 2004)

When the two men finally met up to discuss the impending nuptials, their fate was sealed. Levin and Case both found that they were of the same thinking and that both believed that business should be run from a “moral compass” and that “making profits is not incompatible with making a real difference in
society. (Munk 2004) Together, the two would create the world’s most powerful and respected Internet-driven media-and-entertainment company. And they’d make the world a better place.” (Munk 2004) Coming back to another variation of reality however, the two had a long way to go in order to make this merger happen. After all, if they were to create the largest company in media history, and go through the largest merger in history, surely a mere discussion of these events was a long way off from sealing the deal.

**The Whirlwind Begins**

While Case and Levin’s private meetings had gone for the most part smoothly over dinner and bottles of wine, the impending announcement and due diligence of the deal would be a much different scenario. The whirlwind began on January 7th, 2000 past midnight. On a flight back from Dulles where AOL was headquartered, Levin called Chris Bogart who at the time served as Time Warner’s Executive Vice President and General Counsel, and let him know the news. Bogart immediately summoned the rest of the legal team to 75 Rock, where he would announce the deal to the legal team as well as others in the Time Warner family who were surprised to hear the news that late in the game. (Munk 2004) Levin had only told a very small squad of team members about the impending deal and some surprising executives had been left out, such as CFO Joseph Ripp. In addition, so were Peter Hage the company’s general counsel and Joan Nicolais Sumner who was the company’s head of investor relations. (Munk 2004) In any other case, these positions would have been key components in the execution of a merger, however were left out at Levin’s discretion. Because he had left them out,
it was said that many members of the management team were left with a feeling of resentment and the ultimate feeling of a “sell out.” (Munk 2004) By this point, it was understood that AOL would be purchasing Time Warner, even as Levin tried profusely to make a “deal among equals.” But the truth of the matter was that it was not equal; Time Warner would control only 45% of the new company while AOL would control 55%. (McCullagh 2000)

Once told of the news, the executives had a hard time figuring out why this was happening. AOL was a new company of 15 years that had revenues, which were 1/5 of what Time Warner’s were. However Wall Street valued it at nearly double of what Time Warner was with a market capitalization of close to $165 billion, (Stone 2000) and the stocks was continuing to rise. Regardless of this, it didn’t seem to help sequester the doubts and worries of all who found out that day.

The Time Warner and AOL teams had three days to put their due diligence together, which normally might have taken at least two weeks. In essence, the procedures had to be done quickly. Had news leaked out of the merger, stocks would have been moving all over the sheets and would throw off the exchange ratio that Levin and Case had agreed upon. The exchange ratio was an important factor as well because it would determine the favorableness of the acquisition by the shareholders. Ultimately, the exchange ratio determines the number of shares by the acquiring company that a shareholder will receive for one share of the acquired company. Consequently, this was a positive push for shareholders as when the deal ultimately went through, Time Warner shareholders
were given 1.5 shares of the new company for each share they owned. (WSWS 2000)

It had to be done quickly and secretly. In retrospect however, the procedures were described as “sloppy.” (Munk 2004) Speculation emerged that there was no way the proper due diligence could be done in such a limited time, for a merger of this magnitude. ‘If you do a deal over a weekend, you take shortcuts,’ one of the bankers involved [said] later, acknowledging privately what he could not say in public.” (Munk 2004)

“‘It really was a joke,’ one AOL lawyer remarked. ‘It was a done deal. We were just going through the motions so there wouldn't be any shareholder lawsuits. I got the feeling that no matter what I uncovered this deal was going to happen.’”(Munk 2004)

Tensions were running high during the impending weekend before the merger was to be announced. Exhausted and overworked, the AOL and Time Warner teams were becoming more and more agitated with each other, which many thought might have been indicative of how the two companies would work once acting as one. (Munk 2004) In the eleventh hour of the deal, on that Sunday before the deal was announced, an especially interesting disagreement took place. Ken Novack noticed something suspicious about the management details for the new company. Steve Case was being described as a non-executive chairman of the company, which would mean that Case would have no operating control over the company, and that control would be left solely to Jerry Levin. Case upon hearing of the description vehemently denied that that was the agreement. Case
was enraged. After all, he felt had made the first steps in putting the merger together, and although he wanted Levin to handle the day-to-day operations, he still wanted to be involved with the new company. (Munk 2004)

Time was running out, and not in just the sense of clock ticking away. As the two men argued over the agreement, Time Warner’s board was getting ready to vote on the proposed deal. As it turned out, Steve Case would have his way, and Levin would have to concede. “It was one hell of a way to begin a marriage of equals.” (Munk 2004)

**Word on the Street**

The first news outlet to break the story was the LA times in the wee hours of January 10, 2000. Bloomberg news followed 20 minutes later and the wires started going ballistic.

“NEW YORK - In a stunning development, America Online Inc. announced plans to acquire Time Warner Inc. for roughly $182 billion in stock and debt Monday, creating a digital media powerhouse with the potential to reach every American in one form or another.

With dominating positions in the music, publishing, news, entertainment, cable and Internet industries, the combined company, called AOL Time Warner, will boast unrivaled assets among other media and online companies. The merger, the largest deal in history, combines the nation’s top internet service provider with the world’s top media conglomerate. The deal also validates the Internet’s role as a leader in the new world economy, while redefining what the next generation of digital-based leaders will look like.” (Munk 2004)
“Together, they represent an unprecedented powerhouse,’ said Scott Ehrens, a media analyst with Bear Stearns.” If their mantra is content, this alliance is unbeatable. Now they have this great platform they can cross-fertilize with content and redistribute.’ [Case, the chairman and chief executive of AOL, will become chairman of the board of the new company. Time Warner's Levin will become AOL Time Warner's CEO.]” (Munk 2004)

The Announcement

As the press conference started to unfold the excitement started to build. AOL and Time Warner merging (as they called it) would create the biggest merger in history, as well as the largest company. The company would be valued somewhere in the likes of $350 billion, (McCullagh 2000/See Appendix A4) and Wall Street was anticipating a field day. Although AOL’s cash flow was only a fifth of Time Warner’s, AOL’s market capitalization had skyrocketed throughout its tenure and was a .com darling of the stock market; (Munk 2004)

Steve Case spoke at the conference saying, "This is a historic moment in which new media has truly come of age." Jerry Levin also spoke saying, “the Internet had begun to ‘create unprecedented and instantaneous access to every form of media and to unleash immense possibilities for economic growth, human understanding and creative expression.’” Ted Turner who was also present at the meeting quipped that the merger “was better than sex,” an inapt, but regarded as a typical comment for Turner. The deal seemed synergistic and positive. (Munk 2004)

The announcement caused a surge in both companies’ stocks initially.
“Time Warner shares catapulted $30 to $95 in pre-open trade [that] morning, while America Online jumped $13 to $85.88. The enthusiasm spurred shares of media stocks higher [and] sent the combined market capitalization of both companies higher by some $10 billion.” (McCullagh 2000) As the week went on, there was a slight downturn and an eventual stabilization by the end of week. It was as expected by the executives hence the need for secrecy during the talks prior to the announcement. (Munk 2004)

AOL was going to buy Time Warner for $164 Billion which was going to be purchased through all stock and debt. (Sutel 2000) Surprisingly enough, the price ticket turned out to be around $110 (WSWS 2000) for a TW share, when on the Friday before the announcement, the shares were only valued at $65, a huge premium that would prove enticing to shareholders. (Stone 2000) Still though, it didn’t seem to be contentious because at the point, it looked as if both companies market caps were going to increase as mentioned earlier as the impending excitement on Wall Street would start to grow. What made the makeup of the union so spectacular was the fact that AOL would be the purchaser. At the time of the announcement, Time Warner’s revenues of $26.8 billion trumped AOL’s at just $4.8 billion. It was the “most dramatic instance yet of new media supplanting old media.” (Sutel 2000)

“Case and Levin’s projections of the deal’s synergies and future payoffs were, as expected, resoundingly optimistic. Levin projected that the combined company could generate $40 billion in annual sales. Many analysts were similarly bullish on the deal. Their positive outlook cited:
• A strong cable broadband distribution network
• Multiple subscription and advertising revenue streams
• Significant cross-selling opportunities
• A dominant global media presence
• Proprietary popular interactive content” (Klein 2003)

Gaining Regulatory Approval

AOL and Time Warner had to gain government approval before proceeding with the transaction. “The merger ran into… delays as government regulators probed every aspect of the deal in which the world's largest online service [would] take control of the world's largest media company and the nation's No. 2 cable company. (Munk 2004)

Critics of the acquisition, including business rivals and consumer groups, complained that the combination could restrict consumer access to content online and stifle competition in emerging services such as high-speed Internet access, interactive television and instant messaging.” (Munk 2004) As expected, the new company had to make concessions to the government to merge, but given the promise of being the biggest media company in history, they were willing make these concessions to have the chance to create the new company. Instant messaging was on the top of the list, as well as internet ISP’s, and disclosure of ownership stakes. AIM, AOL’s instant messenger had to be more open accessed with future improvements, the new company couldn’t hinder competition from other ISP’s, all websites had to be identically delivered to consumers in the aspect of quality and speed, and AT&T who had had an ownership stake in Time Warner
Entertainment also had to adhere to these rules. (Aufderheide 2005)

A year later with FCC approval, AOL and Time Warner finalized the deal and became the much anticipated mega-media giant Levin, Case and much of Wall Street dreamed of, with several concessions being made as part of the deal. However by the time they merged, the company had already experienced a drop in market value. The combined company, which had a speculated market capitalization valued at $350 billion just a year ago, would now be valued at $205 billion. (Klein 2003/See Appendix A4) In addition, the deal itself to combine the two had fallen as well. It was no longer valued in the $160 billion dollar range, but had dropped to $113 billion, nearly 30% in just a year. (CNNfn 2000) In fact, the bad luck didn’t end there and it was just the beginning of what was about to be a long, tumultuous and painful relationship.

Mixing Oil with Water

“Before the ink was dry” on the merger, the problems began. In actuality, the problems were there even before the merger was announced; however few of the executives who were involved were aware of these problems from the offset. If any of them had the ability to fast forward to 2009, or even 2005 for that matter, they might have thought harder about their idea and in effect, the destiny of their companies. In the years following the merger of AOL and Time Warner, it had been looked at critically by everyone from Hollywood to Wall Street. It seemed almost impossible that a merger of this size would be destined to fail. It seemed even more impractical that the giant media moguls who facilitated the
merger wouldn’t be able to foresee this failure and yet there was a host of problems that helped determine why the merger didn’t work.

Between Case & Levin, the two had trouble figuring out who was going to run the company, and during the ensuing arguments prior to the merger, agitation and frustration between both sides grew. (Klein 2003) The potential of the deal was promising, and with proper implementation could have been successful. AOL at the time was one of the biggest web portals and in 1999, was servicing nearly 20 million customers in the United States and abroad, which was double the number of subscribers the company had in 1997. (Kramer 2009) AOL looked as if it was on the fast track to growth, and both the service and number of subscribers was unprecedented. Time Warner had an established presence in the media community and its library of content was continuing to grow. Therefore it seemed to make sense that the two, one being a content distributor and the other a content provider, would be a huge hit in the world of media giants. When looking at it in its simplest form, it does in fact not only make sense, but also seems as though the idea would sell itself. Conversely, regardless of how great the idea was, making it work was an entirely different mission.

Case had known for a while that at some point AOL’s success was precarious. As internet providers kept popping up, he knew that at some point it would create more competition for his company as well as create the desire among the competition to take it over; a fundamental reason for the merger. What he couldn’t predict however was when it was going to happen and how fast it would be. Additionally, to his surprise perhaps, the reason for the failure of his
company had nothing to do with takeovers or inflated stock at all, at least not directly. The thought process going into the merger was that AOL was revolutionary, a product so simple and yet necessary. But things quickly changed regarding its technology. For one, technology got the best of AOL, and AOL never kept up with competitors such as high bandwidth. AOL began as a web portal during the use of dial-up Internet, and back when the Internet was a new technology, people utilized the service as “training wheels” (Kramer 2009) if you will, to access and understand the world of the Internet. However with the introduction of broadband service, AOL was quickly pushed aside by consumers once they figured out that the Internet could be accessed through a simple web browser such as Internet Explorer, Mozilla Firefox, or Safari. (Kramer 2009) People began navigating the web more and more. Essentially, the consumer’s role changed for AOL. Consumers figured out that they didn’t need to be restricted to AOL and more and more figured out they wanted to navigate on their own and see what was of interest to them, not just what was on AOL. Furthermore, AOL was a dial-up service. Although they had merged with Time Warner in order to gain access to the cable wires, it wouldn’t be quick enough. AOL Time Warner had other big competitors to worry about, such as vast cable systems covering the entire United States. Case had always worried about the competitive landscape when it came to digital entities as he should have for AOL and now being attached to Time Warner, competitors across the board would emerge and in great numbers.
In addition to the irony of not engaging broadband were the concessions the new company had to make as part of the deal with the FCC and FTC when it first merged. The two government watchdogs had set in place mandatory sanctions that AOL Time Warner allow for other broadband providers to be given the chance to offer customers their own technology. Being that AOL hadn’t kept up with technological advancements, they really weren’t in any place to be truly competitive. Other companies that engaged this technology quickly surpassed the new company as mentioned before and because of this, the broadband concern became a moot issue. (Kramer 2009, CNNfn 2000) AOL Time Warner’s customers also figured out that not only did broadband give them faster connection speeds; there wasn’t any compelling reason to keep the paid subscription to AOL in addition to the paid subscriber fee for broadband. Once consumers became more comfortable accessing the Internet on their own, the need for AOL quickly diminished. (Kramer 2009)

When the Time Warner and AOL deal went through from a corporate standpoint, very few people were actually involved in the negotiations and implementation of the deal, and therefore felt they didn’t have a vested interest in making it work. Brand managers were never persuaded by higher execs that the deal needed to succeed, and therefore the company lacked any kind of cohesiveness. (Klein 2003) This was especially apparent when it came time to make advertising deals for the new company for instance. From a sanguine view, one might think it would be easy for the company to create these deals given the amount of properties the new company had and how many opportunities it gave
potential advertisers to get their brand across all of them. Unfortunately, this
didn’t seem to be the case. In many instances, Time Warner and AOL entities
didn’t want to have shared deals amongst advertisers. In fact, each of the
companies believed that they needed their own teams to make the deals separately
in order to gain the greatest benefits for each. As one former Time Warner
executive put it, “Something like that (shared deals) sound good in theory but for
managers inside those businesses, it was never desirable. So many of the
businesses wanted to control their own revenue streams. The idea that someone
on the buying side wanted media placements everywhere wasn’t right. It doesn’t
work that way. It’s a theoretical vision.” (Klein 2003) Many times, the two
companies were more concerned with how the investment would help their own
business sector as opposed to thinking of it as a joint investment. The autonomy
of AOL and Time Warner throughout the deals created confusion for their
advertisers and in many cases, advertisers were unsure as to who they were
supposed to be dealing with. In addition, in the instances where there was a cross-
promotional opportunity, often times the company was “required to give
advertisers substantial discounts.” Many felt that these discounts weren’t worth
the price. (Klein 2003)

Furthermore, AOL never really acted like a Time Warner company where
content is the primary asset. AOL’s content was weak on their platform, yet they
hadn’t done much to improve it because up until then, most of their subscribers
had been forced to stick with them because of the technology. Once this
technology was surpassed, consumers quickly found other outlets that offered
editorial platforms that were much more appealing to them than AOL’s. AOL had started out strong, but had lost direction over time, as well as a grip on the technological advantages. What was thought to be a union of content, seemed to be dismantling. In some cases, the great brands of Time Warner couldn’t even be found on AOL, which was obviously troubling for them both. (Kramer 2009)

In 2001, not long after the merger had been solidified, an example of the content trouble the new company was having came to fruition with Time Warner’s *Fortune* magazine and AOL’s Netbusiness website. A Time Warner exec had agreed to allow Netbusiness to use Fortune’s content, for a price. The deal would have been valued somewhere around $1 million, which seemed trivial given the amount the entire company was worth. However, it seemed neither side was willing to cooperate. Upon hearing that AOL would have to pay for Fortune’s content, the AOL exec replied, “Why would I have pay for something produced in house?” To which the Time Warner exec responded, “Because it costs money to write articles.” The situation grew sour from there and the deal never went through. In fact, the situation was never really resolved and Fortune ended up pulling its content from the website which was then left to sit, as AOL “dramatically scaled back operations.” (Klein 2003)

Another example in 2001 of AOL and Time Warner’s failed efforts to work together was with AOLTv. AOLTv introduced one of the most promising opportunities for the new company as it was one of the newest and most futuristic properties the company owned. The idea seemed perfect. Now that the company had a host of content properties to choose from, AOLTv, which was part of the
firm’s interactive television unit would try and strike “deals with Time Warner’s television and movie studios. Both sides were excited by the prospects. Imagine as they did, running current event quizzes online that would run simultaneously on CNN.” But the problems arose even before the idea could get its foot off the ground. Although neither side could be accused of foul play, what the problem really boiled down too was the fact that neither side really understood the opposite business. As one AOLTV exec stated,

“There was nothing nefarious about it. Both sides were hamstrung by minimal staffing. Neither side really understood the other’s medium. And perhaps most important, everybody was doing other things, like running their core businesses. We were two hundred and seventy-five miles away from each other. One was sitting in Dulles (AOL’s headquarters) and one was in New York (Time Warner’s) and you both have other jobs to do. It was simple human things that could make it hard.” (Klein 2003)

AOLTV which at one time had been a beacon of hope for the futurism of AOL Time Warner, soon became nothing more than a “shell of an operation” for the company, and eventually was left to sit just as Netbusiness had and the company “actively stopped marketing it.” (Klein 2003)

The differences in the two companies were quickly becoming more and more apparent as time went on. Just five months after the deal was sealed in May of 2001, disagreements began to emerge over things as trivial as the company email system. AOL Time Warner began switching all employees over to the AOL email system, which resulted in protest from many of the Time Warner
employees. These employees believed that “AOL’s e-mail system was designed for computer users at home-not for corporate dwellers like themselves, who often attached big files to their emails. AOL email, they insisted, wasn’t robust enough.” (Klein 2003) The bigger problem however for AOL is that these employees wanted to continue to use email services from one of their competitors; none other than Microsoft. Unfortunately for them, they lost their battle and all employees were mandated to use the AOL email system. While it may not have been the most popular option or the one that could have made the most sense, there was no changing the decision of upper management. (Klein 2003)

The simple fact was, if it were that hard to make a decision over something such as email, it would be nearly impossible to see these two companies make joint decisions and concessions on anything, especially bigger issues and deals. The companies were entirely different from one another when it came to the nuts and bolts of operations. Yet whenever these differences were introduced in negotiations it was almost as if each side took the other’s concerns and ideas as an insult. Instead of compromising, often times the disagreements would lead to each other vengefully holding out until one of them got their own way, which rarely happened, causing the company to act as two contentious separates, rather than a peaceful whole.

The Architects

Of course, it wasn’t as if the company was just imploding from the bottom up. Upper management and executives of the new company had their own troubles. The first issue was that the new company, in its first year, failed to
achieve bullish revenue targets set when the two companies came together. In January of 2001, Levin had promised Wall Street and every other onlooker that the new company was looking at more than $40 Billion in revenue for the first year it was in business. However, in July of that same year, due to a struggling advertising industry brought on by recession, executives were forced to admit that $40 Billion “would be at the top end of the range.” By August, the company in what looked to be sheer desperation slashed almost 2000 jobs, focusing on the online division, and by September, it had deserted the revenue targets all together citing the slow growth due in part to the September 11th attacks. By fourth quarter, “the stock had plunged from a high of about [$97] in January 2001, to [$30]… hacking off nearly $100 billion of its market cap which now stood at about $148 billion.” (Klein 2003/See Appendix A2 for Historical Stock Prices; Appendix A4 for Market Caps)

In an ensuing problem between Jerry Levin and Steve Case, it seemed that neither of these men wanted to be blamed for the financial problems of the new company which had promised so much to the Street. Levin and Case weren’t getting along and many times failed to communicate at the very least, important business matters pertaining to the company. Levin would alienate Case, and leave him out of important discussions, such as firing off emails to employees about corporate strategy without consulting Case. The two men were agitated by each other and each felt as though they alone should be the primary decision maker for the business. Additionally during this time, Jerry Levin was beginning to feel the effects and pressure of being a CEO, both emotionally and physically. (Klein
2003) He was physically drained by ailments such as high cholesterol and high blood pressure, and was emotionally disengaged about the company altogether. He retreated from board members and rarely asked them for their advice and opinions. In the bigger picture, Levin was tired of AOL Time Warner, and the executives of the company were tired with him. Levin announced his retirement in December of 2001 and he would be replaced by Dick Parsons, who was up until that point, a co-chief operating officer from the Time Warner side. (Klein 2003)

When Levin announced his departure from AOL Time Warner in December of 2001, things had slowed for the mega media giant but worse times were yet to come. Two months before in October, AOL Time Warner had announced its third quarter earnings saying its net loss had widened from $996 million from $902 million a year earlier. “While overall results beat Wall Street expectations, which had been lowered after the Sept. 11 attacks on the United States, Merrill Lynch cut its rating on the company's stock to ‘neutral’ from ‘buy’ because of the online unit's outlook.” (Reuters 2001) Although revenue had grown for the company from the year previous, analysts, even those that had originally been convinced of the mergers future success were now starting to doubt the long term reliability of AOL and the online unit’s advertising revenue. AOL had added subscribers in the third quarter which was a positive for the company that mainly relied on subscriber fees to keep afloat, and it contributed to the 6% revenue increase to $9.3 billion from $8.8 billion a year ago. (Reuters 2001) However, Wall Street couldn’t ignore the promises that were made about
being able to grow the ad revenue business in addition to subscribers.

Shareholders demonstrated their disapproval of the lagging advertising revenue on the day of the earnings announcement, sending the stock down nearly 8% for the trading day, at this point in time hovering around the $30 mark. (Reuters 2001/See Appendix A2)

The attacks on September 11th slowed the entire economy, but of the industries hit hardest was the advertising industry. (Reuters 2001) The attacks also had a profound effect on Jerry Levin as well. In addition to his own personal reasons, Levin’s fate was all but sealed after the disastrous attacks. (Hu 2001)

Of the architects of the merger, Levin was the first to go but certainly not the last. As it happened, the first earnings reports wouldn’t be the worst the company would have to face and as it continued to sink deeper and deeper, it was only a matter of time before others would fall victim to the struggling company. An example of this was Bob Pittman. Pittman had been a co-chief operating officer of AOL Time Warner along with Parsons and had worked at AOL before the merger. Pittman had actually been granted more operational responsibilities when the merger went through and was a true advocate of the synergistic capabilities of the new company, but as many would notice, Pittman’s “call for companywide synergy seemed to generate more flash than substance.” (Klein 2003) Employees since the early days of the new company had grown tired of Pittman’s pitches of how to make the new company work and grew resentful of his long and frequent meetings where it was said he demanded everybody attend no matter where in the country they were located. In addition, it was Pittman that
had promised the optimistic results of the merger, which included the bullish revenue targets that never came to fruition. Pittman from AOL, wasn’t especially popular with the Time Warner side of the business and as more and more executive spots were being filled with Time Warner people, it seemed he was losing ground. (Klein 2003) Although he retained his co-chief operating officer of the new company, Parsons appointed Pittman the chairman and CEO of AOL, which by this point, due to inferior content and bad technology was fledgling to survive amongst the competition. What was really happening was Pittman was being relocated from New York to Dulles, Virginia to fix the problems that continued to take place. Not only had Pittman been unhappy being overlooked by Levin as CEO, now he was unhappy being relocated to Dulles by his replacement. (Klein 2003)

In addition to being alienated by Parsons, Pittman was also losing ground with Steve Case. It was noted that the two had never really cared for each other and in the months following, the relationship only grew sourer. Parsons move to shuffle Pittman down to AOL in Dulles angered Steve Case. Case believed that Pittman would be given the opportunity to “save” AOL. Case knew that Pittman was a good operating person but for Pittman, he wasn’t given a choice. Parsons had called for the move and as CEO; there was nothing anyone could do to change it. Pittman unfortunately was unable to resurrect the division due to continually slumping ad sales. In addition, Time Warner people in the past had just thought of him as a figurehead, and as they moved forward it was turning into a full-fledged rebellion against his reign. The Time Warner people believed that
Pittman’s guidance had helped lead the company into deeper and deeper financial troubles. By June of 2002, the company’s market cap had fallen to $90 billion, which had been $240 billion from January 2001. (See Appendix A4) Many employees were ready to hold Pittman responsible as their retirement and other riches were tied up in company stock, which lost huge amounts of money. (Klein 2003) In that same year, AOL Time Warner faced one of the biggest blows to its financial health. In the first quarter, the company sent shockwaves throughout the industry by reporting a first quarter loss of $54 billion, the largest in U.S. corporate history. (Mediaweek 2002) The loss, the company said, was in part due to changes in U.S. accounting rules. “Previously, companies have been allowed to write off the cost of acquisitions over a number of years. This [was] no longer the case and AOL was required to write off the cost of the AOL and Time Warner merger [two years previously] in one go, leading to a loss larger than the GDP of many countries.” (Mediaweek 2002) The stock was taking a turn for the worse as well. It was now down to just $19 from the $30 mark a year previous. (See Appendix A2)

In the meantime, a bigger story was brewing on the Street. AOL was now under fire and being accused of bad accounting practices and was under an investigation by the SEC. The investigation was due in part because “AOL had among other things, booked revenue from ads sold for eBay and renegotiated long-term advertising contracts to recognize revenue more quickly” which in turn is usually done in order to make financials look better. (Lieberman 2002) Before the merger, Time Warner employees had been hesitant about being taken over by
such a juvenile company when their own company had been such a vested
institution. The idea that the financials had been tampered with through the series
of unorthodox business transactions served as another reason for Time Warner
employees to despise Bob Pittman. (Klein 2003)

In addition to the SEC investigation, AOL was starting to lose ground at a
much quicker pace both financially and with consumers. The online division was
still suffering from dramatic losses reporting “core earnings of $473 million,
down from $652 million a year earlier. [In addition, the company] added just
492,000 subscribers, which was less than half of [Wall Street’s] estimates of 1
million.” (Teather 2002) The stock had continued to drop, and was now down to
just $10 a share. (Teather 2002)

In a one-two-punch over the week of July 7th 2002, two stories surfaced in
major publications that would question the success of AOL Time Warner and the
pinpointed Pittman as the focus of employee and investor contentions and both
questioned whether or not he would stay the long haul with the company. Shortly
afterwards, Pittman tested this belief with Dick Parsons to which Parsons
agreed… Pittman had had enough as did the company of him, and soon thereafter,
left AOL Time Warner (Klein 2003)

With Levin and Pittman now out of the game, the only true architect left
within AOL Time Warner was Steve Case. However problems began for Case
just as soon as word had gotten out that AOL was now under review by the SEC
for improper transactions. There was a host of companies that had been involved
within these transactions and while Case denied any knowledge of the accounting wrong doings, many were not ready to believe or agree with his innocence. After all, even if he hadn’t known the details of each sour transaction, many speculated he would have known that the valuation of the company was overblown. AOL had been his baby from the start, and Case was the type of person that would skip over heads of divisions directly to “call a programmer about a specific page he didn’t like in the internet setup,” a trait Bob Pittman had always despised. (Klein 2003) Part of the questionable transactions had to do with AOL revenue shifting among different quarters throughout the year. In order to make revenue look bigger in a measly quarter, they would hold back on reporting it in its rightful quarter and report it in a following quarter where revenues were lacking. (Klein 2003) Many blamed Case for not being aware or they assumed, figured he was aware and blindly went along with it. By 2002, it was no secret that the “deal of a century” (Times Online 2009) was quickly becoming a catastrophic combination. Dropping stock prices were wiping out people’s investments and many felt “duped by Case who had made tens of millions of dollars in the sale of company stock while they had held on to their rapidly diminishing investment.” (Klein 2003) In addition, it was believed that many weren’t behind in Case to the point that they thought he would be the fearless leader to bring them out of the problem that was ensuing around them. In theory, the best thing to do for the company was to get rid of the ever dwindling AOL, but because of the investigations underway it was nearly impossible. The problems kept arising and although Case’s fate never emerged, at a board meeting he took a pre-emptive strike to what he
inevitably imagined happening anyway. On January 12, 2003, Steve Case resigned as Chairman, which would be effective in May of that same year. Parsons was immediately named Chairman of the company and would also take over the helm in May when Case departed, although Case would remain on the board as a director (a title he would fully relinquish in 2005). (Gray 2005) Interestingly enough, in that same year, the company would drop AOL from its name all together and once again come to be known as Time Warner.

In that same month, the company took another huge blow when it announced that it would be writing down nearly “$45 billion in its fourth quarter… the value of its struggling internet unit, AOL. Coming on top of the $54 billion goodwill charge it took in the first quarter, AOL Time Warner had finished 2002 with a historic bang. The company would once again make history with the largest annual loss to date in corporate history of nearly $100 Billion.” (Klein 2003)

As Case left and Parsons took the helm, the company would continue to have problems that were mounting and seemed to be unresolvable as the company had fallen into such turmoil over the past few years with slowing ad growth, dropping stock prices and market cap, and instability among upper management. Interestingly enough, in December of 2005 Case resurfaced with a different argument for AOL Time Warner, where he argued that the company should be split up into four business segments which would be AOL, Time Inc., Time Warner Cable and Time Warner Inc. (Sutel 2005) Case at the time was no longer a board member as he had stepped down in October of that same year (Sutel
2005) but was still a stock holder owning approximately 0.4% of the company which was now going by the name of Time Warner Inc. AOL had changed its business plan in that it was starting to abandon the subscriber based model, and focus solely on advertising driven business. In addition, Time Warner had begun to establish a much more solid footing with investors because of that fact that each of the companies were abandoning much of their synergistic strategy and they began to work more autonomously, focusing on their core businesses. Unfortunately however for Case, and many other investors for that matter, it would be many years before any kind of unraveling was introduced.
The Breakup and Aftermath

In the years that ensued, Time Warner and AOL continued to grow apart from one another. With most of the original architects gone, talks of synergy and moving forward as one company eventually fell apart, and the companies began to act as separate entities. There was never a time of resurrection, where others came in and believed they could make it work. It was finished, the dream of so many had eventually fizzled out, and everyone had lost hope of a unified company.

On December 10, 2009 after nearly a decade of sinking revenues and a tumultuous relationship, AOL was spun-off from Time Warner and was left on its own to operate as it once did, as its own entity. On its first day of trading the company was valued at just $2.5 billion, a far cry from the $164 billion merger, while Time Warner was valued at $36 billion. (See Appendix A5) AOL’s stock dropped, while Time Warner’s stock rose slightly. For the spin off, investors would receive one share of AOL stock for every 11 shares of Time Warner.

AOL continues to utilize the web in order to make revenue from selling advertising on its portfolio of websites. It has abandoned its subscriber fees along with the membership based revenue model all together and is focused solely on selling internet advertising. It is now run by Tim Armstrong, a Google veteran who in the past year has put his money where his mouth his. In February, Armstrong purchased $10 million in AOL shares, giving him a 4% stake in the company under the belief that the company will rebound after a whirlwind of a past. (Guynn 2011)
On August 11, 2011, AOL announced that the company would be taking part in a stock buyback plan worth $250 million after the stock lost nearly a third of its value. Typically on Wall Street, a company will buy back their stock when they believe it’s undervalued by investors, in essence defending their stock price. (Associated Press 2011) When AOL was spun-off back in 2009 the stock was worth approximately $29. In September of 2011, the stock sank to a historic new low of just $10.

AOL continues to have its struggles in the internet world, but ironically enough could still arguably be one of the most recognized .com brands. The company is working to build its content and delivery under CEO Armstrong through some big purchases such as the Huffington Post to help bolster audiences and draw in consumers. (Associated Press 2011) The company still has a long way to go, and it is speculated that the task won’t be easy for Armstrong. Seeing as the company over the past many years has been constantly hitting new lows, hopefully the only way for the company to go from here, is up.

Time Warner is now run by Jeff Bewkes, a Time Warner veteran who began his career at the company in the HBO division. Bewkes became an executive at Time Warner just as the many troubles of the acquisition were emerging in 2002. Bewkes stayed the course however and was appointed to his current post of Chairman and CEO in January of 2009 after also serving as President and COO before-hand. Bewkes was never a supporter of the AOL and Time Warner merger and believed like many others that AOL devalued what the Time Warner brand stood for. (Klein 2003) Bewkes has been a solid leader for the
business in that he developed a plan for Time Warner Inc. and so far has stuck to it. He has once again re-focused Time Warner on content, which before the merger was the company’s primary asset, while moving away from a delivery strategy. Not only was he the executive to get rid of AOL from under the Time Warner umbrella, but he also spun-off the Time Warner Cable unit before that, freeing Time Warner Inc. of the distribution unit. Although the cable business was successful, Bewkes believed it would be better if the two companies acted separately. “Cable is highly capital-intensive business. Time Warner Cable has wanted to invest money into capital improvements and marketing campaigns to fight off growing competition from satellite television companies and Verizon’s FiOS service.” (Ahrens 2008) Bewkes stated, “We've decided that a complete structural separation of Time Warner Cable, under the right circumstances, is in the best interests of both companies' shareholders." (Ahrens 2008)

It appears as though Jeff Bewkes has made some good decisions regarding the reinvention of Time Warner. In the third quarter of 2011, the stock was upgraded from hold to buy citing that “the company’s strengths can be seen in multiple areas, such as its growth in earnings per share, revenue growth, attractive valuation levels, good cash flow from operations and expanding profit margins.” (The Street 2011) In addition, the company got more good news in a report that stated, “Time Warner Inc. posted second-quarter earnings that rose from a year
earlier and beat Wall Street's expectations, as revenue climbed at the fastest pace in almost four years.” (The Street 2011)

The New York-based [company] said its net income rose to $638 million, or 59 cents per share, up 14% from the same quarter in the prior year.” (Yousuf 2011) Bewkes believes that the investment in content is what’s helping the turnaround and continues to stay true to this philosophy, with the content making it a more attractive brand than others on the street. (Yousuf 2011) Moreover, the company is also forging ahead in the digital field where it is in ongoing talks to make its content more available on digital platforms in agreements with such companies as Apple, Netflix and Amazon, making it a formidable contender across the industry even in the face of slower than usual ad sales. (Yousuf 2011) Shares of the company are up almost 6% for 201, and as of August of 2011, the stock is trading approximately between $28-$39 a share, a modest but stable price. (Yousuf 2011)
CHAPTER THREE: METHODS

This study sought to identify the problems with the AOL Time Warner merger and how the magnitude of this merger was so impactful on not just the media industry but on the economics of Wall Street as well. The following research questions were addressed in this study:

1. Understanding the Architects: What did the architects have to gain if this merger were to go through? What was the motivation behind their decisions to move forward with this merger? What was the impact that each of them had on the outcome of the merger?

2. Technology: What was the motivation for wanting to merge these two companies from a technological perspective? What about the technology at that time limited their ability to make the merger work? Why did the merger make sense at the time for the two companies technologically speaking?

3. Logistics/Operational: What happened between the two companies organizationally that made this huge deal fail so quickly? What happened internally that made the merger weaken almost from the beginning? How did the architects inhibit the ability of the company to act as one?
In the thesis, the setbacks that the company suffered were addressed, and why what was thought to be feasible prior to the merger, didn’t not pan out how the architects had planned.

**Setting**

The setting for this study took place at Drexel University, the New York public library and the Bloomberg offices in NY. Research was conducted in the libraries for most of the information pertaining to the architects, organizational information and technological information. Financial information was conducted at the Bloomberg offices where access is readily available for financial documentation.

**Participants**

When the researcher began this study, the focus was on a comparison between Time Warner and AOL as well as the impending merger of Comcast and NBCUniversal at the time. Because of a conflict of interest (the researcher became employed by Comcast-NBCU), the focus needed to change for this thesis and would eventually just include Time Warner and AOL.

**Measurement Instruments**

In terms of measurement, financial documents for these two companies (as well as the post-merger documents) were used for this study as the researcher has some experience in using these documents from previous employment.
Procedures

The data was collected through extensive research for an extended period of time from October 2009-December 2011. The research was then organized and used for the written analysis of this study.

Data Analysis

As mentioned, the data for this study was collected over an extensive period of time, from October 2009 to December 2011. The collected data was categorized into sections which included data prior to the merger, during the union as well as after the companies had split apart. In addition, the researcher also included a separate data group for the financial information. Quotations were used based on their relevance to the data presented and the significance these quotes had on the study itself. The data used and referenced was also checked against other sources in order to ensure that it was as accurate as possible for this study.
CHAPTER 4: RESULTS

When looking at the results for this study, it is obviously noted that the merger between AOL and Time Warner was a disastrous union and that certain points needed to be addressed both during that merger as well as future mergers in order to avoid this from happening again. Of course, it can be said that there are no black and white rules for these unions, but a general sense of what went wrong can help us avoid these types of issues in the future. The major themes of what went awry were:

Technology

Time Warner failed to pick up on the modern digital technology of the time which forced them into a union which was ill-suited for their needs. Instead of understanding the technology industry, they opted to instead merge with a company with dated technology that did not necessarily compliment the products they already had in place. Moreover AOL, the technology provider, in a sense failed to keep up with the ever-changing technological demands by its consumers and others. When they should have been focusing on improving their product, they were instead focused on marketing the already existing product which ultimately hurt them.

Organization

The merger had been condemned to organizational problems from the start. Neither of these companies held the same idea of how the business should be run and in addition to that, their offerings as separate companies were very different from one another. In essence, neither side was able to appreciate the
other’s positive attributes nor the tone of the merger after it was finalized became exceedingly negative and as an after effect, unproductive nor cohesive. The architects did little to fix this issue and mostly ignored what needed to be done in order to make the company more unified.

**Financial**

The financial outcome from this merger was obviously grave. The merger was built upon a theory that AOL could buy Time Warner due to its value which at one point was five times that of TW. (Stone, 2000) Yet that valuation was inflated and by any other standard may have been dismissed as proof of its financial success. The financials represented what was happening within the company at the time, and were in a constant downfall even before the actual merger went through. The stock had dropped (-90%) from early 2001 to July of 2002 (Appendix A2) and the result was that both companies lost an immense amount of money as well as the confidence of its investors. By the time the union unfolded, both companies had a value much lower than would have been thought had the companies remained as two separate entities. After the split, the market caps of both companies separately (TW: $38 Billion AOL: $2 Billion) were nearly 60% less of the lowest market cap of the company ($90 Billion) when it was merged. (Appendix A4 & A5)
CHAPTER FIVE: DISCUSSION

Without acknowledging the faults of what could happen in these scenarios, it’s hard to predict what could potentially go wrong with future mergers. In this case, the merger wasn’t destined to fail; in fact the idea of the merger was very forward thinking in that it was supposed to marry the idea of traditional and new media. This is an idea that still exists today within the business and if anything the concept is usually applauded in that each of the properties act complimentary to each another, helping each of the categories become more advantageous and popular amongst consumers.

Unfortunately, in the case of AOL and Time Warner, it was the inner workings and the way the two were paired that didn’t work for them. It can be harder to identify the successes of a merger as opposed to the faults because people don’t simply talk about it as much when it works, an unfortunate but true realization. When a merger is successful, it’s hard to pinpoint the exact points and give credibility, however when it goes south, people are quick to find the reasons. Mergers make people very reactive and not necessarily proactive, but by studying them in depth, hopefully this attitude would change throughout the industry.

The result of the merger was one that many had not anticipated including the architects of it. This study was meant to uncover and analyze the problems with the merger which had to do with the technological, organizational and synergistic downfalls which ultimately led to its untimely fate. Not only did the company not accomplish what it had set out to do, but in addition to the disabilities that each was trying to correct, it only added more on to each of the
properties. Moreover, it obviously also hurt the financial position of each of the companies as well as the architects and the shareholders.

**Limitations**

Because the researcher couldn’t speak one on one with the architects focus was placed on second hand information. Obviously, because these men are very high ranking within the media industry, the researcher would not have had the ability to speak with them one on one. In addition, this study began as a comparison between two mergers, however because the researcher became employed by the company it was determined that it would be a conflict of interest to use the Comcast-NBCU comparison.

**Recommendation for Future Research**

Based on the information collected, suggestions for future researchers would be to do the comparison between two mergers so that we are able to see not just the negative effects of a merger, but possibly the positive effects of one as well. At the time of beginning this study, the Comcast and NBCUniversal merger had just been announced and a comparative analysis of this merger with Time Warner and AOL would have been very beneficial. Mergers have very different characteristics based on the companies and the people involved, and to see the differences and possible likenesses can help identify what can work with these unions take place.
Conclusion

The bottom line for AOL and Time Warner is that the idea was innovative and had the potential of creating an empire that would have been a dynamic force in the media industry. However it fell well short of expectations, and eventually had to be broken up in order to remain successful in the long run. Moving forward towards the future we would think that other media companies would steer away from mergers like these or at least give extreme caution before moving forward. Without a doubt, in the future we are likely to see this kind of risk again.

However, after watching AOL and Time Warner fall into a downward spiral for nearly a decade, it would be wise for companies to use this example when planning for massive mergers and acquisitions. All in all, AOL Time Warner didn’t fail because of lost money and stocks. The fiscal devolution of the company was a mere representation of the problems going on internally, and how mismanagement, negligence and lack of synergistic vision can lead to disappointment and ultimate failure. In this industry nothing is guaranteed and what may be a brilliant idea one day can be catastrophic the next. Companies don’t fall on their own, a company’s demise is the result of colliding company cultures which can be to blame. It doesn’t happen in all cases, but in the case of AOL Time Warner, the decision was hasty and the execution of the merger was negligent. What’s more important than personal vision is the ability to see past what a person wants for themselves, and be able to make decisions based on what is good for everyone involved such as investors, employees and consumers. With that belief, comes intense and enormous responsibility.
LIST OF REFERENCES


APPENDICES

A1. Below is the performance of the stock price for TWX (which included AOL & Time Warner after the merger.) As you can see, soon after the merger was announced, the stock began losing ground and falling to historical lows. Interestingly enough, at the point where the two companies split in 2009, the stock begins to retreat higher.

![Stock Closing prices for TWX(AOL) 1998-2011](image.png)
A2. Below are Stock Prices that are highlighted at points in the text above. You can see how the stocks came together at the point of the merger and dropped as they began working as one company. After the split, both companies begin to retreat higher but are not nearly as high as where they had been prior to the merger.

![Historically Significant Stock Prices for AOL/TWX](chart.jpg)
A3. Below is the Net Income for the joint company of AOL/TWX as of March 1, 2001 (right after the merger)-November 1, 2009 (right before the split.) Net income is the company's total earnings and is an important measure of how profitable the company is over a period of time. As we can see, in the first few years of the merger, the Net Income (or loss in this instance) is dramatic. But as the company moves away from acting as one business and begins to have new leadership, the numbers begin to increase over time.
A4. Below are Market cap valuations which were significant in that they are mentioned in the text above. Note that the Market cap is highest after the merger is announced but ultimately drops afterwards. Market caps are important because it tells us the total dollar market value of all of the outstanding shares and is used to determine a company’s size.
A5. After the split of AOL and Time Warner (2009), the two companies had market caps which were extremely lower than what was speculated at the time of the merger ($350 Billion)