Letter to Our Shareholders

AOLers,

It is important to start with a "Thank You." The most important asset we have as a company is our team – a team that includes our shareholders – and you made 2011 another strong year in the comeback of AOL. We do not make small plans and we do not have small goals. Our team comes to work knowing that every day matters, every decision matters, and every experience we create matters to the consumers we serve. AOL is a global brand that has made – and will continue to make – people's lives more interesting, entertaining and meaningful. More than 200 million people worldwide rely on AOL's products and services every month, representing more consumers and customers than the populations of Brazil, Russia, or Japan. We are at the start of a massive business opportunity for our company.

We accomplished a great deal in 2011, ending the year with our best relative financial performance in five years and returning AOL to a path of revenue and Adjusted OIBDA growth. Specifically, during 2011 we:

- Returned AOL to advertising revenue growth for the first time in three years;
- Significantly reduced the rate of decline in subscription and search revenue;
- Significantly reduced expenses in the last two quarters of 2011, with Adjusted OIBDA expenses, excluding TAC and a legal settlement, remaining flat year-over-year in the fourth quarter. This was accomplished despite acquiring The Huffington Post and goviral during the year; and
- Repurchased over 10% of our shares outstanding at an average price of $13.59, which compares very well to where the stock is trading today.

These results reflect better operations, while also validating the clear strategy we defined three years ago, focused on strong digital brands and services that solve critical problems for consumers and advertisers. Our strategy is highly synchronized with the current and future landscape of our industry. The Internet is improving rapidly, driven by technology innovations that dynamically impact how people search, consume information, share and socialize in the digitally connected world. AOL is building brands and services that will thrive within the Internet of tomorrow and we have made significant investments in areas that will be defined in the coming years. All of our investments are aimed at capturing meaningful returns for our consumers, customers, and shareholders.

Amid this change in our industry, three secular trends remain the same:

First, the lines that once defined and separated media platforms continue to blur, driven by an explosion of devices, bandwidth and closed networks. With that, we know an important element of a successful strategy should include a series of publisher services that cuts through devices and networks.

Second, brands continue to matter: 83% of consumers use fewer than 30 digital brands per month to cut through the clutter of choice. This is why we have built and continue to invest in our portfolio of must-carry brands, which we believe will only increase in value as the years pass.

Third, advertisers are rapidly shifting their spending to digital platforms and are working with fewer players – those who can provide premium reach and scale. This trend is accelerating, and AOL provides three simple solutions: creative formats and innovative platforms that aid brand preference; real time targeting catching in-market shoppers; and a national-to-local platform driving consumers from the "pages to the parking lots," with the proven knowledge that online activity drives offline commerce.

Our strategy is designed to align with these secular trends as they play out over time. We are also keenly aware that the rubber meets the road with results and we ended 2011 with meaningful trend improvements in every one of our key revenue areas.

In display advertising, we grew revenue year-over-year in every quarter of 2011, representing a meaningful improvement from 2010's double-digit declines. We now have a full-service suite of display advertising products that allows our advertising partners to reach meaningful audiences at scale and we are focusing our efforts in some of the fastest growing areas of the space: Premium Formats, Video and Mobile.

In Premium Formats, our innovative ad product – Project Devil – turns advertising into content and is now an official Interactive Advertising Bureau (IAB) standard. We believe this is the future of successful online brand advertising and Devil's exceptionally strong consumer metrics and high renewal rates back up this thesis.

In online video, advertising spend is projected to grow over 40% in 2012, according to eMarketer, and AOL has grown rapidly to become the fifth largest player in that space. We have invested in the space for two years and we now have the platform to source, produce, distribute and monetize video on our own properties and through our network. In 2012, we expect video to represent an increasing portion of our advertising revenue.

In Mobile, eMarketer projects 80% growth in advertising spend in 2012 and AOL has become the fourth largest player in the space by audience. In 2011, we focused on building great mobile web experiences for our brands, while innovating in mobile-first experiences like Engadget's Distro, Editions and AOL Play. We ended 2011 with over 50 million application downloads and with all of our mobile inventory on one unified ad platform. In 2012, Mobile – like online video – should represent an increasing portion of our revenue.

On the third party network side of our business, our Advertising.com Group has returned to double-digit growth by strengthening our premium advertising networks for both publishers and advertisers. Our network now serves over 30,000 publishers with premium ads, formats, content and video. With Ad.com and the additions of our publisher video offerings at StudioNow, 5Min and goviral, we have built a very strong, differentiated and valuable stack of publisher services that is attractive to both the supply and demand sides of the market. With Ad.com we were the original innovators in this space and we have continued the pace of innovation in 2012, with the launch of AdLearn Open Platform and Pictela Enterprise. Both of these offerings pipe AOL's ad systems into our clients daily work flow, making it significantly easier to do business with AOL.

On the subscription services side, we have invested significantly in improving the value proposition for our subscribers. We have also simplified our pricing structure so that our subscribers can easily choose the subscription products that make the most sense for them. The result has been an ongoing improvement in the trends of our subscription operations, and we are looking forward to rolling out additional subscription services in 2012.

Successful companies employ strategies which marry improved operating performance and business health with calculated investments for the future. AOL did both in 2011.

We acquired The Huffington Post in March. As part of AOL, The Huffington Post expands the strength and appeal of our brand portfolio, opening an engaging and scaled commenting platform for consumers. Metrics since acquisition have been impressive:

- We expanded the number of Huffington Post sections from 21 to over 50 – all with a scaled, socially fueled, and cost effective platform at their core;
- We expanded internationally in key markets, including the UK and Canada and we entered into meaningful partnerships in France and Spain; and
- We have grown users over 45% and we surpassed over 1.5 billion page views per month at the turn of the year.

This is an outstanding accomplishment and The Huffington Post has now surpassed the New York Times in monthly unique visitors.

In 2012, we expect to launch the Huffington Post Streaming Network (HPSN) which, with minimal incremental investment, adds a video dimension to the engaged discussion happening daily on the pages of The Huffington Post. We believe The Huffington Post can be a global brand with a global business and we are on our way to realizing that vision.

Our investment in local content is anchored in Patch. To date, we have Patches in over 850 towns across 23 states and we attract over 10 million users on a monthly basis. Patch has grown rapidly to be the fourth largest local digital property in the U.S. and represents a significant growth opportunity for AOL and for our shareholders.

We are investing smartly in Patch to build a truly useful platform that streamlines daily living for hyper-local communities. Our strategy is differentiated and our consumer metrics serve as proof points that hyper-local information is critically important to people in communities across the United States.

2012 is an important year for Patch. We are growing the number of advertisers and growing revenue rapidly off a small base and we are looking to continue that momentum in a very systematic way. In the coming years, we expect Patch to play a very large part in organizing lives and helping individuals and families in towns across the United States.

In 2012, my goals remain largely unchanged:

- Grow usage of AOL's services in our key areas: AOL Services, Branded Content, Local, Network Partnerships, Video and Mobile;
- Improve revenue trends in our key categories: Advertising (Premium Formats, Video, Mobile, Local), Search, Subscriptions and Commerce;
- Grow AOL talent: We want to ensure that AOL has the world's most creative and performance driven team and we are taking all aspects of talent development very seriously; and
- Foster an esprit de corps culture: Our company is a reflection of our culture and we are building a culture to reflect the bold, committed and innovative company we are today.

To close, we want AOL to be the company that empowers people to improve their lives easily. We come to work every day to make things faster, better and more enjoyable for our consumers and customers. At AOL, we are interested in attracting team members who are passionate about building incredible products, services, relationships and ultimately, careers. We are committed to providing our shareholders with above average returns over reasonable time periods. We are committed to creating and unlocking value in our portfolio as evidenced by our recent $1.056 billion patent sale and license deal with Microsoft. We are committed to our shareholders' shareholder, the people who invest their hard-earned money, savings, and pensions into the funds that own AOL stock.

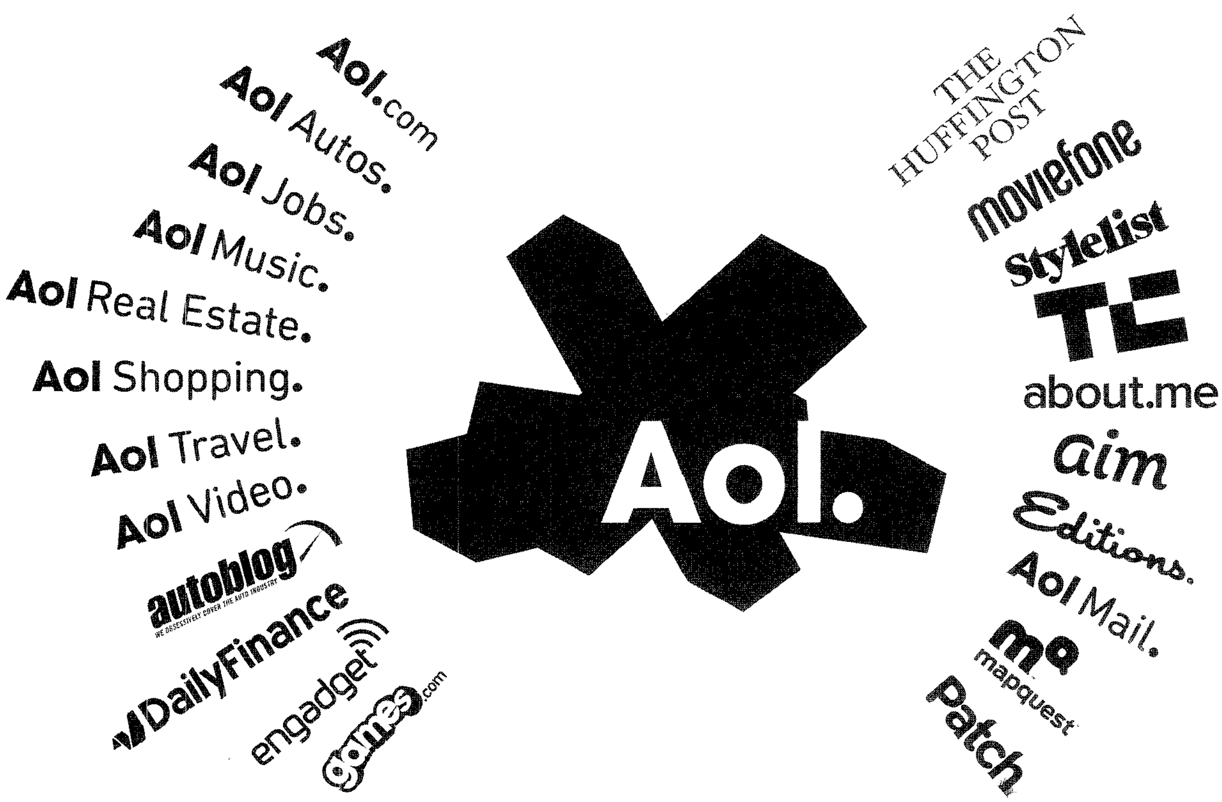
We have come a long way since spinning off from Time Warner in December 2009 and I would like to thank our Board of Directors for its tireless work and guidance. As a group and individually they have lit the path to the turnaround of AOL. Finally, I would like to thank all AOLers, past and present. Looking back, 2011 was another year of battling for a global brand on a big mission and I recognize the sacrifices that come along with that challenge, both personally and professionally. We're going to do even more in 2012 and the mission is only going to get deeper and more interesting.

Go AOL – TA

Tim Armstrong
Chairman & CEO, AOL Inc.

* Please see page 1 of AOL's Annual Report on Form 10K enclosed herein for cautionary language concerning forward looking statements

AOL is a brand company, committed to continuously innovating, growing and investing in the brands and experiences that people love. How do we bring this to life? For consumers, we provide the news, information and entertainment that people search for and share every day. For marketers, we help connect them to these audiences through effective and engaging digital advertising solutions.



In 2011, AOL touched an average of over 220 million high-value consumers each month, tens of thousands of publishers, and an ever expanding list of important partners.

Our Audience

The AOL audience is influential, affluent and highly engaged. And, when marketers place their brand's message in front of our audience – surrounded by the content they love, in a context they've grown to trust – they get better results.

32+

AOL.com users visit
32+ times each month
more often than other portals

22%

AOL.com visitors are
22% more likely
than visitors to other portals to pay attention to and click on online ads

53.3

AOL.com visitors watch
53.3 minutes of video each month
nearly 2x more than other portals

comScore Media Metrix, February 2012

AOL owns today and all the wonder and anticipation that comes with every morning. No matter what time of day, AOL is the place where everything about anything that's happening is sifted, sorted and served to consumers with simple convenience.

engadget

"Best Consumer Electronics Site" 2011 Webby Award
"Best Consumer Technology site" 2011 Webby People's Voice Award

Stylelist

Ranked in comScore Top 3 for Beauty/Fashion/Style category throughout all of 2011
comScore Media Metrix Jan 2011 – Dec 2011

HUFFPOST POLITICS

#1

#1 comScore ranking in Politics category
comScore Media Metrix July 2011 – Dec 2011

Aol Autos.

+19%

19% YOY growth in total unique visitors
comScore Media Metrix average of 2010 and 2011

moviefone

#3

Finished 2011 as the #3 Movies site with 16.7MM UV's, growing +12% YOY
comScore Media Metrix, December 2010 vs. December 2011

Aol Mail.

8.3 Million

Our 8.3MM daily UVs visit over 21 times more than the average mail user
comScore Media Metrix February 2012

mapquest

#2

#2 comScore ranking in Maps category throughout all of 2011
comScore Media Metrix Jan 2011 – Dec 2011

Patch

More than tripled its UV traffic between Dec 2010 and Dec 2011
comScore Media Metrix, February 2012

AOL.com has

12.0MM

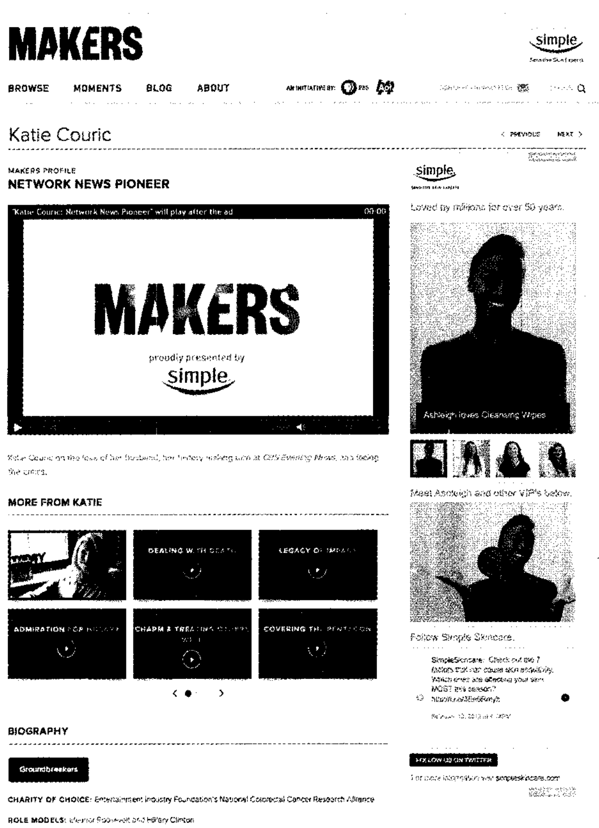
Daily Unique Visitors

comScore Media Metrix, February 2012

In 2011, AOL's total revenues exceeded $2.4 billion. Of this total, more than half came from online advertising revenue while our subscription services provided the next largest area of our revenue.

Advertising

The digital advertising industry is a high growth dynamic business and continues to grow as a significant percentage of media spending shifts online. Advertising will remain AOL's primary revenue focus and the company expects it to generate an even greater share of overall revenue in the future. AOL's advertising revenue takes three forms: Display, 3rd Party and Search.



Video

AOL Video delivers a comprehensive video solution for marketers offering premium video content, targeted distribution, innovative technology and incredible scale. From custom content creation to contextually-relevant pre-roll, AOL makes video advertising easy to create, customize, target and execute. Our innovations, investments and partnerships make it easier than ever to deliver the results that our clients need.

AOL is the partner of choice for numerous premium publishers, Fortune 500 advertisers and global agencies seeking to maximize the value of their online brands by providing comprehensive and effective advertising solutions.

Premium Formats

At AOL, we are re-imagining the intersection between content, advertising and the consumer experience with our suite of Premium Formats. Our mission is to provide advertisers with a format that delivers results while enhancing the consumer experience. Our Premium Formats have received an overwhelming response from the advertising industry, and in fact, two of our Premium Formats were named Official IAB Standards – IAB Portrait and IAB Pushdown.

Subscriptions

AOL's premium subscription offerings provide consumers with a range of best-in-class products and VIP services that meet their personal needs. AOL partners with leading companies to offer an increasing number of curated subscription services and tools to both new and existing members while providing unparalleled customer service.

AOL's mission is to inform, entertain and connect the world. Our vibrant and innovative employees are the people who bring our mission to life. They are the ones who drive our company culture that, above all else, values helping people.

Our Values

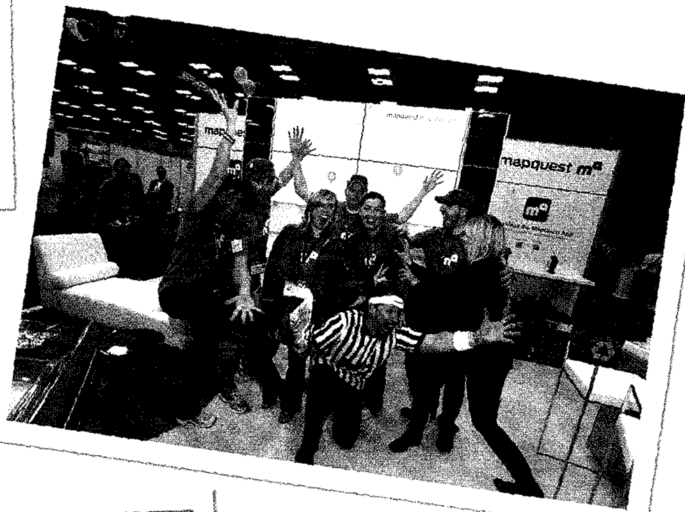
We are in the business of helping people. Period.
We say what we mean and do what we say. We act with integrity.
We embrace change and a DNA of curiosity – we think big and take chances.
We hire and empower smart people who love what they do.
We trust and root for each other – we win as a team.
We take fun seriously.

I've stayed at AOL for as long as I have because I love what I do, and I love the people with whom I do it.

Chris Nims, IT Security Department

My role at AOL requires me to be a leader, a learner, and a team-player all rolled into one.

Cara Santa Maria, HuffPost Science



The energy at AOL keeps me going like no other. For someone like me who thrives on ideas, the creative freedom at AOL is incredible and I love coming to work every morning!

Shipla Mudiganti, Patch

I love working at a place that consistently and unrelentingly requires me to think, learn and grow at every turn.

Jen Asbury, MapQuest

What motivates me are the people I work with every day – they're passionate and dedicated but they know when to have fun. I strongly feel AOL's employees are its biggest asset.

Christina Wick, Games.com

AOL is in the business of helping people, period. Now, more than ever, we are committed to using our best-in-class assets and corporate social responsibility initiatives to drive impact in the following ways: strengthening our local communities where AOL does business, empowering our consumers to take action on behalf of causes they care about, and enabling our partners to share their cause-related stories.

Strengthening our Local Communities

AOL makes a difference in our local communities through a combination of our employee-led volunteerism, matching grants programs, and internet safety advocacy.

Deployed over

3,000

employee volunteers in 22 cities across the world to donate 22,000 hours during AOL's Monster Help Day.

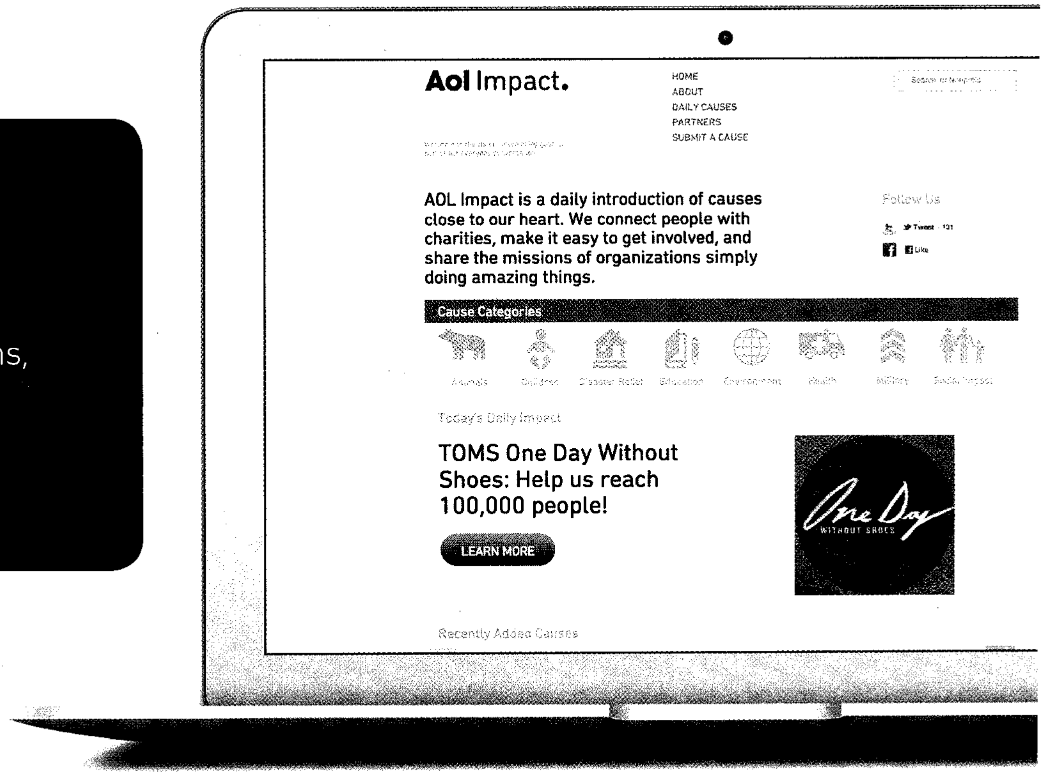
Empowering Consumers

We empower our consumers to make a difference on behalf of the causes they care about through the use of our best-in-class assets.

We've featured over

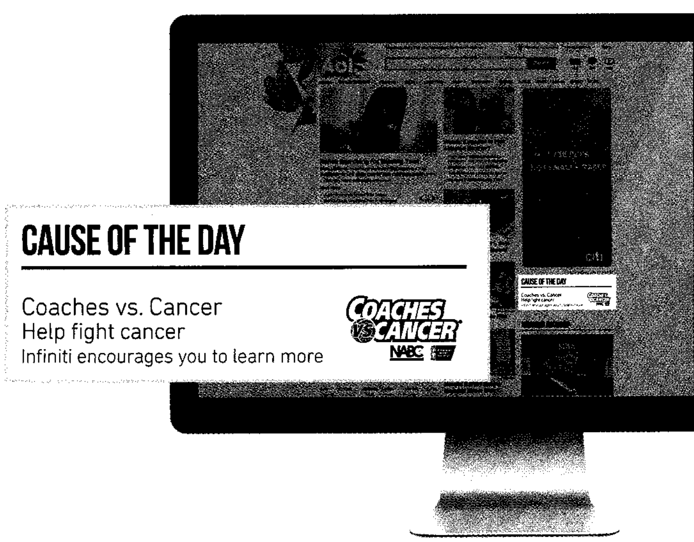
330

non-profit organizations, helping them amplify their cause to our socially conscious and engaged audience.



Supporting our Partners

We enable our non-profit and advertising partners to utilize our platform to share their cause-related stories to our audience of millions.



To date, the Cause Module has driven over

17 Billion

pro bono impressions on behalf of these organizations.

Our Management Team

Tim Armstrong
Chairman and Chief Executive Officer

Tim Armstrong has served as Chairman and CEO of AOL since 2009. In December of 2009, he took the company public on the New York Stock Exchange. AOL serves over 200 million consumers a month and is one of the world's biggest consumers brands.

Prior to joining AOL, Tim served as President of Google's Americas Operations and served on the company's operating committee. Prior to Google, Tim served as an executive of multiple Internet and media companies, including Snowball.com, Disney's ABC/ESPN Internet Ventures, and Paul Allen's Starwave Corporation. Tim also has started or co-founded multiple companies during his career including Associated Content (sold to Yahoo) and Patch (sold to AOL).

He is a graduate of Connecticut College, home of the Camels.

Arthur "Artie" Minson
Executive Vice President
Chief Financial Officer and President
AOL Services

As Executive Vice President, Chief Financial Officer and President of AOL Services, Artie Minson is responsible for AOL's financial functions including accounting, financial planning and analysis, including international expansion planning, tax, treasury, investor relations, mergers and acquisitions support and internal audit.

Minson also leads AOL Services, the business unit responsible for providing a unified experience to AOL consumers, and includes AOL's subscription services; search and distribution; AOL.com homepage operations; marketplace and commerce offerings; AOL Mail and communications and identity products including AIM and About.me; and the company's centralized mobile operations.

Prior to joining AOL, Minson was Executive Vice President and Deputy Chief Financial Officer of Time Warner Cable, where he oversaw the company's accounting, financial planning and analysis, corporate services and internal audit functions. Minson joined Time Warner Cable in 2006 as Senior Vice President of Finance in connection with the company's planned IPO. Previously, Minson was Senior Vice President of Corporate Finance and Development at AOL. He has also held leadership roles at Rainbow Media Holdings, Inc. and at Time Warner Digital Media.

Minson, a CPA, began his career in the audit practice of Ernst & Young. He graduated cum laude with a BSBA in accounting from Georgetown University and an MBA with a concentration in finance from Columbia Business School.

Julie Jacobs
Executive Vice President
General Counsel and Corporate Secretary

As Executive Vice President, General Counsel and Corporate Secretary of AOL, Julie Jacobs is responsible for all legal, regulatory, compliance and public policy matters for AOL. Jacobs also oversees AOL's Corporate Development function encompassing mergers, acquisitions, investments and strategic planning, as well as the Corporate Services function, which includes AOL's physical office facilities. In addition, Jacobs serves as Corporate Secretary to AOL's Board of Directors. In this role, she is responsible for advising senior management and the Board of Directors on strategic and corporate governance matters.

Jacobs led AOL through its 2009 spin-off from Time Warner as well as AOL's 2011 acquisition of The Huffington Post.

Prior to becoming General Counsel, she served as SVP and Deputy General Counsel at AOL. Jacobs joined AOL in 2000 from Milbank Tweed Hadley & McCloy LLP, where her practice focused on a wide variety of international development and telecommunications projects.

In addition, Jacobs was the subject of a feature article in Super Lawyers Business Edition 2011 and was named AOL's Working Mother of the Year for 2011 when AOL earned a spot as one of Working Mother magazine's "100 Best Companies."

Jacobs graduated cum laude from Georgetown University Law Center where she was an editor of The Georgetown Law Journal and holds a bachelor's degree in Finance from the University of Colorado at Boulder.

John Reid-Dodick
Executive Vice President
Chief People Officer

As Executive Vice President and Chief People Officer, John Reid-Dodick joined AOL in 2011 from Thomson Reuters, where he headed HR for Thomson Reuters Markets. Following the Thomson acquisition of Reuters in 2008, Reid-Dodick led the people and culture integration of Reuters and Thomson Financial. Previously, he held a range of senior HR roles at Reuters in New York and London.

An expert in leadership, talent, and organizational culture and change, Reid-Dodick has led a number of initiatives that have received industry awards of excellence and been featured as best practice in publications such as Stephen Bungay, The Art of Action: How Leaders Close the Gaps Between Plans, Actions and Results (2011); Jeff DeGraff and Shawn Quinn, Leading Innovation: How to Jump Start Your Organization's Growth Engine (2006); and Simon Barrow and Richard Moseley, The Employer Brand (2005).

A lawyer by training, Reid-Dodick joined Reuters in 1995, serving as General Counsel for Reuters America from 1997 to 2000. Prior to Reuters, he was an associate with Sullivan & Cromwell and a law clerk for the Honorable Robert W. Sweet of the Southern District of New York. Reid-Dodick graduated cum laude from Harvard Law School, where he was Managing Editor of the Harvard Law Review, and he holds a master's degree in politics from New York University and a bachelor's degree in political studies from the University of Manitoba.

Ned Brody
Chief Revenue Officer and President
AOL Advertising

As Chief Revenue Officer and President of AOL Advertising, Ned Brody oversees AOL's global advertising businesses, including advertiser and publisher facing businesses. As part of his purview, Ned manages the sales forces, Advertising.com, ADTECH, AOL Video, Goviral, Pictela, Content Solutions, 5min Media and Sponsored Listings businesses.

Ned previously served as AOL's Executive Vice President of Paid Services, where he led the company's paid services including management of dial-up and premium broadband subscription services as well as the development of new paid services.

Previously, he was founder and CEO of ARPU.com (now SnappCloud), a commerce company focused on increasing yield per user for large service-oriented Internet companies. ARPU had been designed as a spin-out of AOL, where Ned worked as SVP of Premium Services from 2003-2004.

Prior to his AOL and entrepreneurial career, Ned was the CFO of Looksmart, an early search monetization company. Earlier in his career, he was a partner, founder of the Internet practice, and head of the San Francisco office of Mercer Management Consulting.

He holds a B.S., magna cum laude, and an MBA from the Wharton School of the University of Pennsylvania.

Arianna Huffington
President and Editor-in-Chief
The Huffington Post Media Group

Arianna Huffington is the president and editor-in-chief of the Huffington Post Media Group, a nationally syndicated columnist, and author of thirteen books.

In May 2005, she launched The Huffington Post, a news and blog site that quickly became one of the most widely-read, linked to, and frequently-cited media brands on the Internet.

In 2006, and again in 2011, she was named to the Time 100, Time Magazine's list of the world's 100 most influential people.

Originally from Greece, she moved to England when she was 16 and graduated from Cambridge University with an M.A. in economics. At 21, she became president of the famed debating society, the Cambridge Union.

Arianna has made guest appearances on numerous television shows, including "Charlie Rose," "Oprah," "Nightline," "Real Time with Bill Maher," "Hardball," "Good Morning America," the "Today" show, "The Tonight Show with Jay Leno," "The Daily Show with Jon Stewart," and "The O'Reilly Factor."

She serves on several boards that promote community solutions to social problems, including A Place Called Home, which works with at-risk children in South Central Los Angeles. She also serves on the board of EL PAÍS and the Committee to Protect Journalists.

Our Management Team

Curtis Brown
Interim Chief Technology Officer

As AOL's Interim Chief Technology Officer, Curtis Brown leads all aspects of AOL's technology strategy, platform development and external technology partnerships. Brown previously served as Senior Vice President of Engineering and Chief Technology Officer of AOL's global advertising business, Advertising.com.

He is a technology leader with over 20 years of experience across a range of media and Internet driven businesses and has an extensive background in building and managing large web sites and technical teams. An Internet pioneer, Brown built and launched one of the first music e-commerce sites, CDNow, back in 1995. He has held the title of CTO at Skymall, Oxygen Media, The Princeton Review, CTB/McGraw-Hill and Kaplan Test Prep. Brown has lectured at Columbia University in the field of Executive Information Technology Management, served as a member of the IT Technology Advisory Board at the New School and the CTO Advisory Council for InfoWorld magazine and is a founding member of the New York City CTO Club.

A New York native, Brown graduated cum laude from New York University and has additional graduate studies in Psychology.

Tim Lemmon
Chief Analytics Officer

As Chief Analytics Officer, Tim Lemmon oversees and drives analytics and project management on a company-wide basis. Tim's team includes Pricing and Yield Management, Business Metrics & Analytics, Consumer Research & Analytics and Project Management for key initiatives. These areas provide fact-based guidance for our businesses and help drive executional focus for the company.

Tim draws upon extensive experience advising, operating and investing in business services, information and media companies. Before joining AOL he spent ten years in growth equity investment firms where he worked hands-on with entrepreneurial CEO's to accelerate growth using information-based, sales-driven business models often relying on internet technologies. Prior to this Tim was a Vice President at American Express working with top management on business strategy and special projects, and later led the development of Amex's merchant services on the Internet. Previously Tim was a partner at Mercer Management Consulting, where he advised Fortune 500 companies on business strategy, including the impact of new media and communications technologies.

Tim holds an MBA from the Wharton School of Business and a PhD and MA in Materials Science from Cambridge University, UK.

Jon Brod
President
AOL Ventures, Local and Mapping

As President of AOL Ventures, Local and Mapping, Jon Brod is responsible for the company's global innovation efforts including investing in promising start-ups with exceptional leaders, incubating and supporting employee-originated innovations, and growing recent acquisitions of early-stage companies, as well as our local and mapping initiatives including Patch and MapQuest.

Jon has more than 15 years experience as a senior executive with media and technology companies, both at the start-up and Fortune 500 levels. He joined AOL in 2009 through the company's acquisition of community news and information site Patch, which Jon co-founded and served as CEO. Prior to that, he served as President and Chief Operating Officer of Polar Capital Group, was Senior Vice President and General Manager of the Portals Division of InterActiveCorp (IAC), was Senior Vice President and a member of the Executive Committee at Ask Jeeves, and was the first employee and Senior Vice President of Operations for Interactive Search Holdings, which was purchased by Ask Jeeves in 2004.

During his career, Jon also spent time in sports, including six years at the NBA where he held various marketing and operations positions and where he established NBA Canada and launched the Raptors and Grizzlies expansion franchises.

Jon currently sits on the Board of Directors of the Online Publishers Association and is a Director of Action America. Jon graduated, cum laude, with a BS in History and Government from Bowdoin College.

Maureen Sullivan
Senior Vice President
Brand, Marketing and Communications

As Senior Vice President of Brand, Marketing and Communications, Maureen Sullivan oversees AOL's global brand development as well as the company's marketing and corporate communication initiatives. She is a member of AOL's executive leadership team.

In this role, she has successfully led the global re-branding of AOL as well as defining AOL's consumer brand portfolio. Sullivan manages all brand and consumer marketing initiatives, media investments, including sponsorships and brand partnerships, as well as corporate events. She also oversees all elements of integrated communications including public relations and internal communications. She has responsibility for the company's corporate social responsibility practices, including the development of AOL Impact and AOL's cause related initiatives.

Prior to AOL, Sullivan served as Chief of Staff for Tim Armstrong at Google, where she managed partnership development and business planning. In this role, she worked across Google's product and engineering organizations to drive business development and new initiatives as well as managed communication strategies for key customers and partners. Previously, Sullivan was an Agency Sales Representative at Google and began her tenure there as an engineering associate.

Sullivan graduated magna cum laude from Stanford University where she was selected as a participant for the Stanford Business Leadership Program hosted by the Stanford Business School and serves on the board of the non-profit, Network For Good.

Our Board of Directors

Tim Armstrong
Chairman and Chief Executive Officer
AOL Inc.
Director Since 2009

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He is a graduate of Connecticut College, home of the Camels.

Richard Dalzell
Former Senior Vice President and
Chief Information Officer
Amazon.com, Inc.
Director since 2009

Mr. Richard Dalzell was Senior Vice President and Chief Information Officer of Amazon.com, Inc., an online retailer, until his retirement in 2007. Previously, Mr. Dalzell served in numerous other positions at Amazon.com, Inc., including Senior Vice President of Worldwide Architecture and Platform Software and Chief Information Officer from 2001 to 2007, Senior Vice President and Chief Information Officer from 2000 to 2001 and Vice President and Chief Information Officer from 1997 to 2000. Prior to his employment with Amazon.com, Inc., Mr. Dalzell was Vice President of the Information Systems Division at Wal-Mart Stores, Inc. from 1994 to 1997.

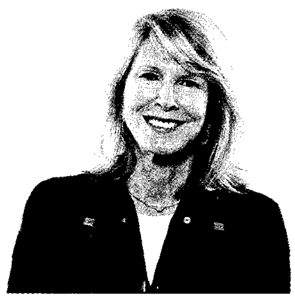
Mr. Dalzell brings to the Board extensive experience, expertise and background in internet information technology gained from his service as the Chief Information Officer of Amazon.com, Inc. He also brings corporate leadership experience gained from his service in various senior executive roles at Amazon.com, Inc.

Karen Dykstra
Former Chief Operating Officer and Chief
Financial Officer, Plainfield Direct Inc.
Former Chief Financial Officer, Automatic
Data Processing, Inc.
Director since 2009

Ms. Karen Dykstra is a former partner at Plainfield Asset Management LLC and was Chief Operating Officer and Chief Financial Officer of Plainfield Direct Inc. from 2006 to 2010. Plainfield Asset Management LLC manages investment capital for institutions and high net worth individuals in the United States and abroad. Plainfield Direct Inc., a direct lending and investment business of Plainfield Asset Management, is now known as Plainfield Direct LLC. Prior to joining Plainfield, Ms. Dykstra was the Chief Financial Officer of Automatic Data Processing, Inc., a company that provides business outsourcing solutions, from 2003 to 2006. Ms. Dykstra serves on the boards of directors of Gartner, Inc. and Crane Co.

Ms. Dykstra brings to the Board extensive experience, expertise and background with regard to accounting and financial matters gained from her previous position as the Chief Financial Officer and director of Plainfield Direct, Inc. and her previous service as the Chief Financial Officer of Automatic Data Processing, Inc., as well as her service on the Audit Committees of Gartner, Inc. and Crane Co. She also possesses public company board experience gained from her service on the boards of directors of Gartner, Inc. and Crane Co.

Alberto Ibargüen
President and Chief Executive Officer
John S. and James L. Knight Foundation
Director since 2011



Susan Lyne
Chair, Gilt Groupe, Inc.
Director since 2009

Patricia Mitchell
President and Chief Executive Officer
The Paley Center for Media
Director since 2009

Mr. Alberto Ibargüen is the President and Chief Executive Officer of the John S. and James L. Knight Foundation, a private, independent foundation dedicated to the promotion of quality journalism, advancing media innovation and the arts. Before joining the Foundation in 2005, Mr. Ibargüen served in various positions at Knight-Ridder, Inc. from 1995 to 2005, as Chairman & Publisher of The Miami Herald (1998) and as Vice President of International Operations, The Miami Herald and Publisher of El Nuevo Herald. Mr. Ibargüen serves on the boards of directors of AMR Corporation and PepsiCo, Inc.

Mr. Ibargüen brings to the Board extensive experience, expertise and background with regard to media, journalism, and financial matters gained from his current position as the President and Chief Executive Officer of the John S. and James L. Knight Foundation and from his service in various positions at Knight-Ridder, Inc., in addition to his service on the Audit Committees of PepsiCo, Inc. and AMR Corporation. He also brings public company board experience gained from his service on the boards of directors of PepsiCo, Inc. and AMR Corporation.

Ms. Susan Lyne has served as the Chair of Gilt Groupe, Inc., an online fashion and luxury brand retailer, since September 2010. Previously, she was Gilt Groupe's Chief Executive Officer from September 2008 to September 2010. Ms. Lyne served as President, Chief Executive Officer and director of Martha Stewart Living Omnimedia, Inc., an integrated media and merchandising company, from 2004 to 2008. Prior to joining Martha Stewart Living, Ms. Lyne served in various positions at The Walt Disney Company, including President, ABC Entertainment from 2002 to 2004, Executive Vice President, Movies & Miniseries, ABC Entertainment from 1998 to 2002, and Executive Vice President, Acquisition, Development & New Business, Walt Disney Motion Picture Group, from 1996 to 1998. Prior to joining Walt Disney, she worked for News Corporation Ltd. and K-111 Communications for approximately nine years as Founder, Editor-in-Chief & Publication Director, Premiere magazine. Previously, Ms. Lyne served on the board of directors of CIT Group Inc. from 2006 until 2009.

Ms. Lyne brings to the Board extensive experience, expertise and background in interactive media, and internet marketing gained from her current position as the Chair of Gilt Groupe, Inc., her former role as Chief Executive Officer of Gilt Groupe, and her previous service as President and Chief Executive Officer of Martha Stewart Living Omnimedia, Inc. and as President of ABC Entertainment. In addition, she brings corporate leadership experience gained from her former service as Chief Executive Officer of Gilt Groupe, Inc. and Martha Stewart Living Omnimedia, Inc.

Ms. Patricia Mitchell has served as President and Chief Executive Officer of The Paley Center for Media, a global non-profit cultural institution, since 2006. Before that, Ms. Mitchell was President and Chief Executive Officer of the Public Broadcasting Service, a non-profit public broadcasting television service, from 2000 to 2006. For more than two decades, Ms. Mitchell was a journalist and producer, serving as reporter, anchor, talk show host, producer and executive for three broadcast networks and several cable channels. Ms. Mitchell previously served on the board of directors of Sun Microsystems, Inc. from 2005 to 2010 and of Bank of America Corporation from 2001 to 2009.

Ms. Mitchell brings to the Board extensive experience, expertise and background in media, telecommunications and broadcasting gained from her current service as the President and Chief Executive Officer of The Paley Center for Media, as well as her former role as President and Chief Executive Officer of the Public Broadcasting Service. In addition, she brings public company board experience gained from her service on the boards of Sun Microsystems, Inc. and Bank of America Corporation.

Our Board of Directors

Fredric Reynolds
Retired Executive Vice President and
Chief Financial Officer
CBS Corporation
Director since 2009

Mr. Fredric Reynolds was with CBS Corporation, a media company, and its predecessor companies from 1994 until he retired in August 2009. Mr. Reynolds was Executive Vice President and Chief Financial Officer of CBS Corporation from 2005 to 2009. He also served as President and Chief Executive Officer of the Viacom Television Stations Group of Viacom Inc., and President of the CBS Television Stations Division of CBS, Inc. Before that, he served as Executive Vice President and Chief Financial Officer of Viacom Inc. and its predecessor CBS Corporation, which was formerly Westinghouse Electric Corporation. Mr. Reynolds joined Westinghouse from PepsiCo, Inc. Mr. Reynolds serves on the boards of directors of Kraft Foods Inc. and Metro-Goldwyn-Mayer Studios Inc. Mr. Reynolds previously served on the board of directors of The Readers Digest Association, Inc. from 2010 to 2011.

Mr. Reynolds brings to the Board extensive experience, expertise and background in media, telecommunications, accounting and financial matters gained from his service as the Chief Financial Officer of CBS Corporation, as well as his service on the Audit Committees of Kraft Foods Inc. and The Readers Digest Association, Inc. He also brings corporate leadership experience gained from his service in various senior executive positions at CBS Corporation and Viacom Inc.

James Stengel
President and Chief Executive Officer
The Jim Stengel Company, LLC
Director since 2009

Mr. James Stengel has been President and Chief Executive Officer of The Jim Stengel Company, LLC, a marketing think tank and consulting firm, since 2008. Mr. Stengel is also currently an adjunct marketing professor at UCLA's Anderson School of Management. Mr. Stengel worked at The Procter & Gamble Company, a global consumer products company, from 1983 to 2008, holding a variety of positions including Global Marketing Officer from 2001 to 2008. Mr. Stengel serves on the board of directors of Motorola Mobility, Inc. and served on the board of directors of Motorola, Inc. prior to the spin-off of Motorola Mobility, Inc. in January 2011.

Mr. Stengel brings to the Board extensive experience, expertise and background in branding and marketing, having served as the Global Marketing Officer of Procter & Gamble Company. He also brings public company board experience and leadership development experience gained from his service as a board member and as a member of the Compensation and Leadership Committee of Motorola Mobility, Inc. and of Motorola, Inc. prior to the spin-off of Motorola Mobility, Inc. in January 2011.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-34419

AOL INC.
(Exact name of Registrant as specified in its charter)

Delaware	**20-4268793**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
770 Broadway New York, NY	**10003**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: 212-652-6400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant (based upon the closing price of such shares on the New York Stock Exchange on June 30, 2011) was approximately $2.1 billion. As of February 17, 2012, the number of shares of the Registrant's common stock, par value $0.01 per share, outstanding was 94,779,540.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this report is incorporated by reference from the Registrant's proxy statement to be filed pursuant to Regulation 14A with respect to the Registrant's 2012 Annual Meeting of Stockholders.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("Annual Report") contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 regarding business strategies, market potential, future financial and operational performance and other matters. Words such as "anticipates," "estimates," "expects," "projects," "forecasts," "intends," "plans," "will," "believes" and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances. Except as required by law, we are under no obligation to, and expressly disclaim any obligation to, update or alter any forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Various factors could adversely affect our operations, business or financial results in the future and cause our actual results to differ materially from those contained in the forward-looking statements, including those factors discussed in detail in "Item 1A—Risk Factors." In addition, we operate a web services company in a highly competitive, rapidly changing and consumer- and technology-driven industry. This industry is affected by government regulation, economic, strategic, political and social conditions, consumer response to new and existing products and services, technological developments and, particularly in view of new technologies, the continued ability to protect intellectual property rights. Our actual results could differ materially from management's expectations because of changes in such factors.

Achieving our business and financial objectives, including growth in operations and maintenance of a strong balance sheet and liquidity position, could be adversely affected by the factors discussed or referenced in "Item 1A—Risk Factors" as well as, among other things:

- changes in our plans, strategies and intentions;
- continual decline in market valuations associated with our cash flows and revenues;
- the impact of significant acquisitions, dispositions and other similar transactions;
- our ability to attract and retain key employees;
- any negative unintended consequences of cost reductions, restructuring actions or similar efforts, including with respect to any associated savings, charges or other amounts;
- market adoption of new products and services;
- the failure to meet earnings expectations;
- asset impairments;
- decreased liquidity in the capital markets;
- our ability to access the capital markets for debt securities or bank financings; and
- the impact of "cyber warfare" or terrorist acts and hostilities.

References in this Annual Report to "we," "us," the "Company," and "AOL" refer to AOL Inc., a Delaware corporation.

ITEM 1. BUSINESS

Introduction

We are a leading global web services company with a suite of brands and offerings and a substantial worldwide audience. Our business spans online content, products and services that we offer to consumers, publishers and advertisers. We are focused on attracting and engaging internet consumers by creating high quality content, products and services at scale and providing valuable online advertising services on both our owned and operated properties and third-party websites. We also operate one of the largest internet subscription access services in the United States, with 3.3 million domestic AOL-brand access subscribers as of December 31, 2011. While subscribers to our access service are declining, our subscription access service remains a valuable distribution channel for our content, product and service offerings and an important source of our total revenues and cash flows.

Our Strategic Initiatives

We are in the midst of executing a multi-year strategic plan to reinvigorate growth in our revenues and profits by taking advantage of the continuing migration of advertising, commerce and information to the internet. Our strategy is to focus our resources on AOL's core competitive strengths in web and local content production, advertising and paid services while expanding the distribution of our content, product and service offerings on multiple platforms and digital devices, including on portable wireless devices such as smartphones and tablets. We continue to reinvigorate AOL's culture and brand by prioritizing the consumer experience, making greater use of data-driven insights and encouraging innovation. We have also actively supplemented our business strategy through targeted acquisitions and dispositions. Particular areas of strategic emphasis include:

- *Expanding The Huffington Post Media Group.* Through our acquisition of TheHuffingtonPost.com, Inc. ("The Huffington Post"), we have accelerated our strategy to deliver a scaled and differentiated array of premium news, analysis, commentary, entertainment and community engagement. As a part of this strategy, we have created The Huffington Post Media Group ("HPMG"), which includes The Huffington Post and its affiliated sites. Under HPMG, we have redesigned key properties and are in the process of expanding internationally to provide relevant and engaging online consumer content produced by us and through strategic partnerships. We seek to continue to grow unique visitor growth and engagement on our properties through our owned and operated content, products and services. We aim to continue to grow our core products and services and increase our content production in order to facilitate this goal. In addition, social networking is becoming a more popular form of communication for global consumers on the internet. As a result, we seek to ensure that our content, products and services are available on digital devices as well as social networks so that our consumers can readily access and use our content, products and services.

- *Enhancing Our Advertising Product Offerings.* During 2010, we acquired Pictela, Inc. ("Pictela") and introduced a new advertising format, "Project Devil," that seeks to enhance the consumer experience by improving the aesthetic quality, impact and interactivity of online advertising. We believe premium formats can enhance our advertising product offering and we seek to launch new format enhancements and increase advertiser adoption of these formats. Additionally, through recent acquisitions and our development of new video products, we seek to increase the editorial use of video on multiple platforms and digital devices. We believe that video enhancements across our owned and operated properties and third party websites can increase monetization and distribution of our content. We aim to create products that will deepen our relationships with existing advertisers and attract new advertisers by providing them with effective and efficient means of reaching our consumers. We seek to have an open, transparent and easy-to-use advertising system that offers unique and valuable insights to our publishers and advertisers and we remain focused on the continued expansion of our video platform for both our properties and our partners globally.

- *Pursuing Local Internet Opportunities.* We believe that there are significant opportunities for growth in the area of local content, platforms and services, by providing comprehensive content covering all geographic areas from local neighborhoods to major metropolitan areas. We believe that our local content, platforms and services will also enable us to build scalable and deliverable programs that create and enhance our advertising and commerce opportunities. By enhancing these local internet offerings, we seek to provide consumers with a comprehensive local experience that increases consumer engagement.

- *Enhancing AOL Services.* AOL Services includes subscription services and search operations in addition to properties such as mail, the AOL.com homepage, our AIM and About.me offerings, our marketplace and commerce offerings and the Company's mobile operations. We seek to enhance these operations through new products and strategic investments in order to increase traffic and create a more compelling user experience. We continue to offer and develop our third party and AOL products and services, such as our anti-virus software, identity theft protection, computer tools and maintenance and warranty services. We provide users with a bundle of products and services and we believe that these subscription services offerings enhance our access subscription service while increasing user engagement and satisfaction. We plan on cultivating our products and services through key initiatives, one of which is mobile development and strategy. We believe mobile advertising presents a significant opportunity for revenue growth and we continue to develop mobile applications for our existing products and services. We plan to continue investing in this area, prioritizing launches of key brands and expanding our mobile advertising platform.

Business Overview

Our business operations are focused on the following:

- *AOL Properties.* We seek to be a leading online publisher of relevant and engaging online content and provider of engaging consumer products and services, by utilizing open and highly scalable publishing platforms and content management systems. In addition, we have extended and continue to extend the reach of our offerings to our consumer audience on multiple platforms and digital devices. AOL Properties include our owned and operated content, products and services in HPMG, AOL Services and Local and Mapping strategy areas in addition to our AOL Ventures offerings. AOL Properties also include co-branded websites owned or operated by third parties for which certain criteria have been met, including that the internet traffic has been assigned to us.

- *Advertising.* We generate advertising revenues from AOL Properties through the sale of display advertising and search and contextual advertising. We also generate advertising revenues through the sale of advertising on third-party websites, which we refer to as the "Third Party Network." Our mission is to provide an open and transparent advertising system that is easy-to-use and offers our publishers and advertisers unique and valuable insights. We seek to grow the number of publishers and advertisers utilizing the Third Party Network.

We market our offerings to advertisers on both AOL Properties and the Third Party Network under the brand "AOL Advertising." We market our offerings to publishers on the Third Party Network under the brand "Advertising.com" and also market offerings as video advertisements distributed through goviral ApS ("goviral", formerly goviral A/S) and 5 Minutes Ltd ("5Min").

AOL Properties

HPMG

HPMG seeks to be a leading online publisher of relevant and engaging online content and provider of engaging consumer products and services, by utilizing scalable publishing platforms, social engagement platforms and content management systems. In addition, we have extended and continue to extend the reach of our offerings to our consumer audience on multiple platforms and digital devices. HPMG offerings include original content produced through our large network of content creators, which includes professional journalists from new and traditional media, freelance writers and bloggers, content we license from third parties and aggregations of user-generated content. Our content offerings are made available to broad audiences through sites such as The Huffington Post, as well as to niche audiences on highly-targeted, branded properties, such as The Huffington Post Women, The Huffington Post Parents and The Huffington Post Black Voices. Additionally, we seek to enter joint ventures and strategic partnerships with third parties with established brands in an effort to expand our content offerings. To facilitate the intake, creation, management and publication of original content, we utilize publishing platforms and content management systems that are designed to scale in a cost-effective manner in order to produce a large variety of relevant content for consumers.

We believe that our acquisition of The Huffington Post will solidify our strategy of creating a global content network while providing our consumers with an array of news, analysis, commentary, entertainment and community engagement. In 2011, we began expansion of The Huffington Post internationally and we aim to continue to expand The Huffington Post in order to provide relevant content and offerings to a wide array of consumers in new markets.

Search and Contextual

We offer AOL Search on AOL Properties. We provide our consumers with a general, internet-based search experience that utilizes the organic web search results of Google, Inc. ("Google") and additional links on the search results page that showcase contextually relevant AOL and third-party content and information, as well as provide a variety of search-related features (such as suggesting related searches to help users further refine their search queries). We also provide our consumers with relevant paid text-based search advertising through our relationship with Google, in which we provide consumers sponsored link ads in response to their search queries. In addition, we offer vertical search services (i.e., search within a specific content category) and mobile search services on AOL Properties.

We also offer contextually relevant advertising from both Google and AOL's proprietary products. These advertisements are placed on sites targeted by advertisers based on the content of the websites. In the second quarter of 2011, we launched a new search user interface and incorporated new web search features and advertisement formats that enhanced search results and streamlined the user experience.

Local and Mapping

We seek to be a leading provider of local content, platforms and services covering geographic levels ranging from neighborhoods to major metropolitan areas. We have developed and acquired platforms that are designed to facilitate the production, aggregation, distribution and consumption of local content. This local content includes professional editorial content, user-generated content and business listings. Our goal is to provide a compelling, accessible and comprehensive local experience on the internet.

Our local offerings include the following:

- Patch, which is a community-specific news and information platform dedicated to providing comprehensive and trusted local coverage for individual towns and communities; and

- MapQuest, which is a leading online mapping and directions service.

During 2011, we introduced blogging and aggregation platforms on Patch as a means of increasing and improving content production and amassing relevant local stories for its users. In addition, Patch integrated "Project Devil" on its sites as a means of enhancing the consumer experience. During the third quarter of 2011, we launched a self-serve platform that allows advertisers to create advertisements specifically for their customers. Although AOL is facing increasing competition in the local market, we believe we are well-positioned to be a leader in providing services to local markets through our established brands and through the continued expansion of Patch, which has grown from approximately 775 sites as of December 31, 2010 to 863 sites as of December 31, 2011. In order to take advantage of this position, we intend to continue to invest in this area and establish online destinations that provide comprehensive news, events and directories at the local level.

We seek to continue to supplement our MapQuest offerings beyond navigation through the launch of original travel content, better trip planning features and MapQuest Vibe, a social platform designed to help users explore and discover the best places in any neighborhood. We plan on further refining our mobile products with features, enhancements and new products that enable users to experience trips more efficiently.

In addition, we provide local directory listings through our AOL Yellow Pages product. The listings are provided by a third party and AOL receives a revenue share.

AOL Services

AOL Services encompasses our paid services, search, the AOL.com homepage and mail operations, including mobile development and other offerings.

AOL Services includes our subscription access service, which provides a number of online services including narrow-band (telephone dial-up) access to the internet. We are developing, testing and marketing additional AOL and third-party products and services that are offered to internet consumers generally. Some products or services are offered to access subscribers for no additional charge or at a discounted rate in order to increase customer satisfaction and retention. Computer tools, maintenance and warranty services, online technical support, anti-virus software, identity theft protection, online and social media privacy and reputation monitoring services, diet and fitness services, online learning and other lifestyle services are currently offered and additional categories may be added in the future. Consumers will be able to manage their products and services through this platform, including adding or canceling a product or service. AOL continues to develop and offer other paid services as a way to attract, engage and serve consumers. Currently, the majority of the consumers for our paid services products are also access subscribers.

The revenue related to these products and services is recognized as subscription revenue in cases where we are responsible for providing the service to the end consumer. In instances when we are promoting a third-party product and receiving performance compensation on those services, but the third party is responsible for providing the service to the end consumer, we recognize the revenue as display advertising revenue.

We also offer an array of consumer applications, such as AOL Mail and AIM, which are leading e-mail and instant messaging services in the United States. We seek to enable consumers to access our content, products and services on mobile devices. In 2011, we made significant improvements to our mobile web portal and launched a number of innovative mobile applications that extend our desktop properties.

Distribution of AOL Properties

Content, products and services on AOL Properties are generally available to online consumers and we are focused on attracting greater numbers of consumers to our offerings. In addition, we utilize various distribution channels as described below which allow us to more directly reach online consumers.

Subscription Access Service

Our AOL-brand subscription access service, which we offer to consumers in the United States for a monthly fee, is a valuable distribution channel for AOL Properties. As of December 31, 2011, we had 3.3 million AOL-brand subscribers in the United States of which approximately 11% use our service for dial-up access. Our access service subscribers are important users of AOL Properties and engaging both present and former access service subscribers is an important component of our strategy. In addition, our subscription access service will remain an important source of revenue and cash flow for us in the near term.

In addition to our content, products and services that are available to all online consumers, an AOL-brand access subscription provides members with dial-up access to the internet and, depending on the applicable price plan, various degrees of enhanced safety and security features, technical support and other benefits. In addition, we continue to offer internet access services under the CompuServe and Netscape brands.

Our major access service partners are Verizon Communications Inc. (formerly MCI Communications Services, Inc.) and PAETEC iTel LLC ("PAETEC"), which provide us with modem networks and related services for a substantial portion of our subscription access service. We have agreed to commit a significant portion of our access service subscribers' total dial-up network hours to the Verizon and PAETEC networks. More specifically, 50% of our total dial-up network hours are presently committed to Verizon, and 25% of our total dial-up network hours are presently committed to PAETEC. Through take or pay provisions in each agreement, we will incur penalty payments if we fail to dedicate the required percentage of dial-up hours to these service partners. As of December 31, 2011, we are meeting our volume commitments to each of these service providers. We have agreed to use both the Verizon and PAETEC networks until December 31, 2014. The agreement with Verizon may be renewed at our option until December 31, 2015, and the agreement with PAETEC may be renewed at our option for two twelve-month periods. Upon expiration of these agreements, we expect to continue our relationships with Verizon and PAETEC or enter into agreements with one or more other providers of modem networks and related services.

Our access service subscriber base has declined and is expected to continue to decline as a result of several factors, including the increased availability of high-speed broadband internet connections, the fact that a significant amount of online content, products and services has been optimized for use with broadband internet connections, the effects of our strategic shift which essentially eliminated our marketing efforts for our subscription access service and providing the vast majority of our content, products and services for free. See "Item 1A—Risk Factors—Risks Relating to Our Business—Our focus on our online advertising-supported business model involves significant risks".

Other Distribution Channels

We also distribute AOL Properties through a variety of other channels, including agreements with manufacturers of digital devices and other consumer electronics and mobile carriers. AOL also distributes its content, products and services directly to consumers on the open web and through the Apple App Store. Additional distribution channels include toolbars, widgets, co-branded portals and websites, third-party websites and social networks that link to AOL Properties. We also utilize search engine marketing and search engine optimization as distribution methods. In addition, we make available open standards and protocols for use by third-party developers to enhance, promote and distribute AOL Properties.

AOL seeks to make its AOL Properties and original content as well as other products and services available on social networks, whether offered directly or by means of partnerships with social network operators.

AOL Properties Revenue Generation

We generate advertising revenues from AOL Properties through the sale of display advertising and search and contextual advertising. We offer advertisers a wide range of capabilities and solutions to effectively deliver advertising and reach targeted audiences across AOL Properties through our dedicated advertising sales force. The substantial number of unique visitors on AOL Properties allows us to offer advertisers the capability of reaching a broad and diverse demographic and geographic audience without having to partner with multiple content providers. We seek to provide effective and efficient advertising solutions utilizing data-driven insights that help advertisers decide how best to engage consumers. We offer advertisers marketing and promotional opportunities to purchase specific placements of advertising directly on AOL Properties (**i.e.**, in particular locations and on specific dates). In addition, we offer advertisers the opportunity to bid on unreserved advertising inventory on AOL Properties utilizing our proprietary scheduling, optimization and delivery technology. Finally, advertising inventory on AOL Properties not sold directly to advertisers, as described above, may be included for sale to advertisers with inventory purchased from third-party publishers in the Third Party Network.

For the years ended December 31, 2011, 2010 and 2009, our advertising revenues on AOL Properties were $930.5 million, $940.4 million and $1,207.3 million, respectively.

Display Advertising Revenues

Display advertising revenues are generated through the display of graphical advertisements as well as performance-based advertising. Agreements for advertising on AOL Properties typically take the following forms:

- impression-based contracts in which we provide "impressions" (an "impression" is delivered when an advertisement appears in web pages viewed by users) in exchange for a fixed fee (generally stated as cost-per-thousand impressions);

- time-based contracts in which we provide a minimum number of impressions over a specified time period for a fixed fee; or

- performance-based contracts in which performance is measured in terms of either "click-throughs" (when a user clicks on a company's advertisement) or other user actions such as product/customer registrations, survey participation, sales leads or product purchases.

We utilize our own proprietary "ad serving technology" (*i.e.,* technology that places advertisements on websites and digital devices) as the primary vehicle for placements of advertisements on AOL Properties through our subsidiary, ADTECH GmbH ("ADTECH", formerly ADTECH AG). We also license this ad serving technology to third parties.

Search and Contextual Advertising

Search and contextual advertising revenues are generated when a consumer clicks on a text-based ad on their screen. These text-based ads are either generated from a consumer-initiated search query or generated based on the content of the webpage the consumer is viewing. Google is, except in certain limited circumstances, the exclusive web search provider for AOL Properties, based on our agreement that runs through December 31, 2015. In connection with these search services, Google provides us with a share of the revenue generated through paid text-based search advertising and contextual advertising on AOL Properties. For the year ended December 31, 2011, advertising revenues associated with the Google relationship (substantially all of which were search and contextual revenues generated on AOL Properties) were $335.3 million. In addition, we sell search-based keyword advertising directly to advertisers on AOL Properties through the use of a white-labeled, modified version of Google's advertising platform, for which we provide a share of the revenue generated through such sales to Google. As part of our relationship with Google, we have expanded the alliance to include the provision of mobile search and mobile search advertising services to AOL. AOL and Google also have a video partnership that features AOL's video content on YouTube. See "Item 1A—Risk Factors—Risks Relating to Our Business—We are dependent on a third-party search provider".

Third Party Network Advertising Revenues

We also generate advertising revenues through the sale of advertising on third party websites. Our advertising offerings on the Third Party Network consist primarily of the sale of display advertising and also include search and contextual advertising. Advertising arrangements for the sale of Third Party Network inventory typically take the form of impression-based contracts or performance-based contracts. In order to generate advertising revenues on the Third Party Network, we historically incurred higher traffic acquisition costs (TAC) as compared to advertising on AOL Properties. We currently market our offerings to publishers on the Third Party Network under the brand "Advertising.com."

We launched the Advertising.com Group during the second quarter of 2011. The Advertising.com Group's focus is to position AOL as a global partner for leading publishers, advertisers and agencies seeking to maximize the value of their online brands through premium formats, video, content, networks, platforms and monetization. The Advertising.com Group includes Advertising.com, ADTECH, AOL Video, goviral, Pictela, Content Solutions (including StudioNow, Inc. ("StudioNow") and SEED), 5Min and Sponsored Listings. During 2010, we launched a new advertising format, "Project Devil," that seeks to enhance the consumer experience by improving the aesthetic quality, impact and interactivity of online advertising, while also providing solutions for advertisers looking for innovative ways to showcase their products and services to consumers. We acquired Pictela in December 2010 in order to scale our delivery of video, photos and applications, both within the new advertising format and generally across AOL Properties. We believe that the Pictela acquisition, combined with Project Devil, will help us improve our display advertising product offering and provide new premium format systems under the Advertising.com Group. Our acquisition of goviral during the first quarter of 2011, provides us with branded online video for media agencies, creative agencies and content producers. Additionally, our acquisition of 5Min in the third quarter of 2010 provides us with video content and a syndication platform for web-based videos that enhances our ability to distribute content. We aim to increase the use of video on our sites, including the use of video on our branded properties and digital devices.

In order to effectively connect advertisers with online advertising inventory, we purchase advertising inventory from publishers and utilize proprietary optimization, targeting and delivery technology to best match advertisers with available advertising inventory. A significant portion of our revenues on the Third Party Network is generated from the advertising inventory acquired from a limited number of publishers.

The Third Party Network includes a display advertising interface that gives advertisers the ability to target and control the delivery of their advertisements and provides advertisers and agencies with relevant display analytics and measurement tools. We intend to utilize self-service systems and tools in order to expand our relationships with advertisers. For our publishers, inclusion in the Third Party Network offers a comprehensive set of tools and technologies to manage and maximize their return. We aim to develop our current relationships with publishers and advertisers and continue to expand the number of publishers and advertisers we serve through the products and services we offer on the Third Party Network.

We utilize AdLearn, a proprietary scheduling, optimization and delivery technology that employs a set of complex mathematical algorithms that seek to optimize advertisement placements across the Third Party Network and the available inventory on AOL Properties. This optimization is based on expected user response, which is derived from previous user response plus factors such as user segmentation, creative performance and site performance. AdLearn allows performance to be analyzed quickly and advertisement placement to be frequently optimized based on specific objectives, including click-through rate, conversion rate, sales volume and other metrics. We also offer advertisers the ability to target advertisements to specific users using technology that utilizes non-personally identifiable information, such as geographic location, previous exposure to certain advertisements or user behavior online.

During the fourth quarter of 2011, the Company, Yahoo! Inc. and Microsoft Corporation entered into nonexclusive agreements to allow advertising networks operated by each of the companies to offer each other's premium nonreserved online display inventory to their respective customers. We believe that this partnership will offer advertisers and agencies the efficiency of buying premium display at scale to reach customers and audiences.

For the years ended December 31, 2011, 2010 and 2009, our advertising revenues on the Third Party Network were $383.7 million, $343.7 million and $529.4 million, respectively.

Subscription Revenues

We generate subscription revenues through our subscription access service. As of December 31, 2011, our primary AOL-brand price plans were $25.90 and $14.95 per month. These plans include maintenance and warranty services, online technical support, anit-virus software and identity theft protection. We also offer consumers, among other things, enhanced online safety and security features and technical support for a monthly subscription fee. As noted above, our access service subscriber base has declined and is expected to continue to decline. This has resulted in year-over-year declines in our subscription revenues. The number of domestic AOL-brand access subscribers was 3.3 million, 3.9 million and 5.0 million at December 31, 2011, 2010 and 2009, respectively. For the years ended December 31, 2011, 2010 and 2009, our subscription revenues were $803.2 million, $1,023.6 million and $1,388.8 million, respectively.

Although our subscription revenues have declined and are expected to continue to decline, we believe that our subscription access service will continue to provide us with an important source of revenue and cash flow in the near term. The revenue and cash flow generated from our subscription access service will help us to pursue our strategic initiatives.

Other Revenues

In addition to advertising and subscription revenues, we also generate fee, license and other revenues. Through MapQuest's business-to-business services, we generate licensing revenue from third-party customers. We also generate other revenues by licensing our proprietary ad serving technology to third parties, primarily through our subsidiary, ADTECH. We generate fees from our consumer applications associated with mobile e-mail and instant messaging functionality from mobile carriers.

AOL Ventures

Some of the initiatives described above may be classified as part of AOL Ventures. We formed AOL Ventures with the goal of creating an entrepreneurial environment to attract and develop innovative initiatives. AOL Ventures focuses on acquisitions that we have previously made which have start-up characteristics or which do not currently fit within our other areas of strategic focus, investments we intend to make in early-stage, externally-developed opportunities and employee-originated innovations that we believe would benefit from incubation and development within the AOL Ventures environment. The size of our investment and corresponding ownership interest varies depending on the opportunity, as does our level of involvement and control. We intend to attract top talent and source attractive opportunities by partnering with leading angel investors, venture capitalists and universities.

Product Development

We seek to develop new and enhanced versions of our products and services for our consumers, publishers and advertisers. While in the past we have relied primarily on our own proprietary technology to support our products and services, we have been steadily increasing our use of open source technologies and platforms with a view to diversifying our sources of technology, as well as for cost management. Research and development costs related to our software development efforts for 2011, 2010 and 2009 totaled $56.9 million, $63.2 million and $63.2 million, respectively. These costs consist primarily of personnel and related costs that are incurred related to the development of software and user-facing internet offerings that do not qualify for capitalization. At December 31, 2011 and 2010, the net book value of capitalized internal-use software was $43.2 million and $62.6 million, respectively. For the years ended December 31, 2011, 2010 and 2009, we capitalized $21.1 million, $22.7 million and $48.7 million, respectively, related to the development of internal-use software.

Intellectual Property and other Proprietary Rights

Our intellectual property and other proprietary assets include copyrights, trademarks and trademark applications, patents and patent applications, domain names, trade secrets, other proprietary rights and licenses of intellectual property rights of various kinds. These assets and rights, both in the United States and in other countries around the world, are, collectively, among our most valuable assets. We rely on a combination of copyright, trademark, patent, trade secret and unfair competition laws as well as contractual provisions to protect these assets. The duration and scope of the protection afforded to our intellectual property and other assets depends on the type of property in question and the laws and regulations of the relevant jurisdiction. In the case of licenses, they also depend on contractual provisions. We consider the AOL brand and our other brands to be some of our most valuable assets and these assets are protected by numerous trademark registrations in the United States and globally. These registrations may generally be maintained in effect for as long as the brand is in use in the respective jurisdictions.

Competition

We compete for the time and attention of consumers with a wide range of internet companies, including Yahoo! Inc., Google Inc., Microsoft Corporation's MSN, IAC/Interactive-Corp. and social networking companies such as Facebook, Inc. and Twitter, Inc., as well as traditional media companies which are increasingly offering their own internet products and services. On the local level, we face increased competition from a wide range of companies offering services and products for towns and communities, such as Yelp!

We compete for advertisers and publishers with a wide range of companies offering competing advertising products, technology and services, aggregators of such advertising products, technology and services and demand side-platforms and other aggregators of third-party advertising inventory. We also compete for talent in technology skills and content creation. In addition to those companies listed above, competitors include WPP plc (24/7 Real Media, Inc.) and ValueClick, Inc. Competition among these companies has been intensifying and may lead to continuing decreases in prices for certain advertising inventory as well as lower demand.

Our subscription access service competes with other internet access providers, especially broadband providers.

Internationally, our primary competitors are global enterprises such as Yahoo!, Google, MSN, IAC, Facebook and other social networking sites, as well as a large number of local enterprises.

The internet industry is dynamic and rapidly evolving, and new and popular competitors, such as social networking sites, providers of communications tools and providers of advertising services, frequently emerge.

Government Regulation and Other Regulatory Matters

Our business is subject to various federal and state laws and regulations, particularly in the areas of privacy, data security and consumer protection.

Laws and regulations applicable to our business include the following:

- The Digital Millennium Copyright Act of 1998, parts of which limit the liability of certain eligible online service providers for listing or linking to third-party websites that include materials which infringe copyrights or other intellectual property rights of others.

- The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, which establishes requirements for those who send commercial e-mail, sets forth penalties for e-mail "spammers" and companies whose products are advertised in spam if they violate the law and gives consumers the right to ask e-mailers to stop spamming them.

- The Communications Decency Act of 1996, sections of which provide certain statutory protections to online service providers who distribute third-party content.

- The PROTECT Our Children Act of 2008, which requires online services to report and preserve evidence of violations of federal child pornography laws under certain circumstances.

- The Electronic Communications Privacy Act of 1986, which sets forth the provisions for access, use, disclosure and interception and privacy protections of electronic communications.

- The Children's Online Privacy Protection Act of 1998 and the Federal Trade Commission's related implementing regulations, which prohibit the collection of personal information from users under the age of 13 without parental consent. In addition, there has been an international movement to provide additional protections to minors who are online which, if enacted, could result in substantial compliance costs.

Our marketing and billing activities are subject to regulation by the Federal Trade Commission and each of the states and the District of Columbia under both general consumer protection laws and regulations prohibiting unfair or deceptive acts or practices as well as various laws and regulations mandating disclosures, authorizations, opt-out procedures and record-keeping for particular sorts of marketing and billing transactions. These laws and regulations include, for example, the Telemarketing Sales Rule, federal and state "Do Not Call" statutes, the Electronic Funds Transfer Act, Regulation E and anti-cramming regulations promulgated by state Public Utilities Commissions and other regulatory bodies. Moreover, our ability to bill under certain payment methods is subject to commercial agreements including, for example, the Credit Card Association rules and agreements between our payment aggregator and telephone carriers.

We regularly receive and resolve inquiries relating to marketing and billing issues from state Attorney Generals, the Federal Trade Commission and the Federal Communications Commission and, over the course of more than 20 years of operations, we have entered into several Consent Orders, Assurances of Voluntary Compliance/Discontinuance and settlements pursuant to which we have implemented a series of consumer protection safeguards. Examples include the prohibition of consumer retention-related compensation to call center personnel based either on non-third-party verified retention transactions or minimum retention thresholds; implementing tools that mandate adherence to various consumer protection procedural safeguards around marketing, sales, registration, cancellation, retention and reactivation transactions; recording and retaining particular call types; enabling and requiring full customer support for disabled consumers; and implementing regular training programs and monitoring mechanisms to ensure compliance with these obligations.

In the United States, internet access services are generally classified as "information services" which are not subject to regulation by the Federal Communications Commission.

Various international laws and regulations also affect our growth and operations. In addition, various legislative and regulatory proposals under consideration from time to time by the United States Congress and various federal, state and international authorities have materially affected us in the past and may materially affect us in the future. In particular, federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of third-party web "cookies" for behavioral advertising. We use cookies, which are small text files placed in a consumer's browser, to facilitate authentication, preference management, research and measurement, personalization and advertisement and content delivery. In the Third Party Network, cookies or similar technologies help present, target and measure the effectiveness of advertisements. More sophisticated targeting and measurement facilitate enhanced revenue opportunities. The regulation of these "cookies" and other current online advertising practices could adversely affect our business.

Marketing

We believe the most effective type of marketing in the near term will be our ability to deliver compelling content, products and services to the millions of consumers who visit us each day. In 2011, we combined our marketing and corporate communications groups into a single group supporting our business and brand, as we seek to deliver a clear and consistent message to consumers and other stakeholders. Our marketing efforts continue to support our new brand identity and our mission to inform, entertain and connect the world. In addition, we seek to evolve our brand to reflect our efforts to deliver high-quality innovative content, products and services to consumers by engaging in targeted and strategic marketing efforts. We intend to continue to promote and support the AOL brand as well as our family of content and product brands. We look for strategic opportunities to integrate AOL into high value sponsorships and targeted promotions aimed at defining our core value proposition to consumers. We also engage in meaningful marketing partnerships that allow us to grow our audience.

Employees

As of December 31, 2011, we employed approximately 5,660 people, including approximately 1,410 related to Patch. Our employees are based in 15 countries around the world, including the United States, the United Kingdom, Ireland, Germany, India and Canada. At that time, the country outside of the United States where we had the largest employee population was the United Kingdom, with over 280 employees.

We reduced our total workforce in India by approximately 750 employees in connection with a restructuring initiative that was largely completed during the second quarter of 2011, while also hiring new employees in areas of strategic focus, including Patch. A significant number of our international employees support our domestic operations. In general, we consider our relationship with employees to be good.

Global Presence

As of December 31, 2011, we had AOL-branded and co-branded portals and websites in North America and Europe. A Spanish language portal, http://latino.aol.com, is accessible in primarily Spanish-speaking regions. We offer internet access service under the AOL brand in the United States, Puerto Rico and Canada and have advertising operations in the United States, Canada and Europe, as well as in Japan through a joint venture with Mitsui & Co., Ltd. In addition, AOL provides consumer offerings, including Winamp and Shoutcast, internationally. We have also expanded our international operations through the expansion of The Huffington Post and the acquisition of goviral, a company that distributes branded online video for media agencies, creative agencies and content producers. As part of our recent restructuring initiatives to improve our ability to execute our strategy, we reduced our cost base in India. For geographic area data for the years ended December 31, 2011, 2010 and 2009, see "Note 1" in our accompanying consolidated financial statements.

Seasonality

In the fourth quarter, we have historically seen a sequential increase in advertising revenues associated with holiday advertising; however, this fluctuation can be offset by adverse economic conditions. Additionally, in the first quarter we have historically seen a sequential increase in average monthly churn of domestic AOL-brand access subscribers (the number of subscribers that terminate or cancel our services, factoring in new and reactivated subscribers).

WHERE YOU CAN FIND MORE INFORMATION

We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. Unless otherwise stated herein, these filings are not deemed to be incorporated by reference in this report. You may read and copy any documents filed by us at the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public through the SEC's website at *http://www.sec.gov*. Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol "AOL." You can inspect and copy reports, proxy statements and other information about us at the NYSE's offices at 20 Broad Street, New York, New York 10005. We also maintain an Internet website at *www.corp.aol.com*. We use our website as a channel of distribution of material company information. Financial and other information regarding AOL is routinely posted on and accessible at *www.corp.aol.com*. In addition, you may automatically receive e-mail alerts and other information about AOL by visiting the "e-mail alerts" section at *www.corp.aol.com* and enrolling your e-mail address. We make available on our internet website free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports as soon as practicable after we electronically file such reports with the SEC. In addition, copies of our (i) Corporate Governance Policy, (ii) charters for the Audit and Finance Committee, Compensation Committee, Executive Committee, Nominating and Governance Committee and Transactions Committee (iii) Standards of Business Conduct and Code of Ethics for Our Senior Executive and Senior Financial Officers are available through our Internet website at *www.corp.aol.com*. Our website and the information posted on it or connected to it shall not be deemed to be incorporated by reference into this report.

Executive Officers of the Registrant

The following sets forth certain information as of February 23, 2012 concerning our executive officers.

Mr. Tim Armstrong

Mr. Armstrong, age 41, has served as Chairman and Chief Executive Officer of AOL since April 2009. Prior to that, Mr. Armstrong was President, Americas Operations of Google Inc. Mr. Armstrong joined Google in 2000 as Vice President, Advertising Sales, and in 2004 was promoted to Vice President, Advertising and Commerce and then in 2007 he was named President, Americas Operations and Senior Vice President. Before joining Google, Mr. Armstrong served as Vice President of Sales and Strategic Partnerships for Snowball.com from 1998 to 2000. Prior to that, he served as Director of Integrated Sales and Marketing at Starwave's and Disney's ABC/ESPN Internet Ventures. Mr. Armstrong started his career by co-founding and running a newspaper based in Boston, Massachusetts. Mr. Armstrong is a trustee of Lawrence Academy and is a current Board member and former Chair of the Ad Council, a non-profit organization.

Mr. Arthur Minson

Mr. Minson, age 41, has served as Executive Vice President, Chief Financial Officer and President of AOL Services since December 2011. Previously, Mr. Minson was AOL's Chief Financial and Administrative Officer where he oversaw the Company's finance, human resources, corporate communications and marketing functions. Mr. Minson joined AOL in 2009 as its Executive Vice President, Chief Financial Officer and Treasurer. Prior to that, Mr. Minson served as Executive Vice President and Deputy Chief Financial Officer at Time Warner Cable Inc. Prior to joining Time Warner Cable in February 2006, Mr. Minson was Senior Vice President, Corporate Finance and Development at AOL from December 2004 to February 2006. Prior to that, Mr. Minson was Senior Vice President, Finance for AOL's Broadband and Premium Services division from April 2004 to December 2004. Mr. Minson has also held senior finance positions at Rainbow Media Holdings, Inc. and Time Warner, Inc. ("Time Warner"). Mr. Minson began his career in the audit practice of Ernst and Young LLP.

Ms. Julie Jacobs

Ms. Jacobs, age 45, has served as Executive Vice President, General Counsel, Corporate Secretary, and head of Corporate Development of AOL since December 2011. Prior to that, Ms. Jacobs served as Executive Vice President, General Counsel and Corporate Secretary, a role she held from May 2010 to December 2011. Prior to that, Ms. Jacobs served as Senior Vice President, Deputy General Counsel and Assistant Corporate Secretary, a role she held from March 2006 until May 2010. Ms. Jacobs joined AOL in 2000 as Assistant General Counsel. Prior to joining AOL, Ms. Jacobs was an attorney at Milbank Tweed Hadley & McCloy LLP, where her practice focused on project finance.

Mr. Alexander Gounares

Mr. Gounares, age 39, has served as Executive Vice President and Chief Technology Officer of AOL since May 2010. Prior to that, Mr. Gounares served as Corporate Vice President, Advertising Research and Development (2007-2009), and Corporate Vice President and Chief Technology Officer (2009-2010) for Microsoft's Online Services Division. Mr. Gounares also served for three years as Technology Advisor to Microsoft Chairman and founder Bill Gates (2003-2006), as well as Corporate Vice President of Corporate Strategy in Microsoft's Finance Department from 2006 to 2007. Mr. Gounares joined Microsoft in 1993. Before joining Microsoft, he worked at Los Alamos National Laboratory.

Mr. John Reid-Dodick

Mr. Reid-Dodick, age 50, has served as Executive Vice President and Chief People Officer of AOL since December 2011. Prior to that, Mr. Reid-Dodick served as Global Head of Human Resources of Thomson Reuters Markets (2008-2011) and Global Head of Human Resources, Reuters Business Divisions and Americas Human Resources (2005-2008). Mr. Reid-Dodick was the Global Head of Organizational Development and Learning at Reuters Group PLC from 2003 to 2005, and before that was Reuters interim Group Human Resources Director from 2002 to 2003 and Director of Human Resources from 2001 to 2002. Mr. Reid-Dodick joined Reuters America in 1995 as Corporate Counsel, and served as General Counsel from 1997 to 2000 and Executive Vice President for Corporate Affairs from 2000 to 2001. Before joining Reuters America, Mr. Reid-Dodick was an attorney at Sullivan & Cromwell LLP, where his practice focused on securities, antitrust and contract litigation.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are those which we consider material and of which we are currently aware. In addition, this Annual Report contains forward-looking statements that involve risks and uncertainties. You should carefully read the section "Cautionary Statement Concerning Forward-Looking Statements".

If any of the following events occur, our business, financial condition or results of operations could be materially and adversely affected and the trading price of our common stock could materially decline.

Risks Relating to Our Business

Our focus on our online advertising-supported business model involves significant risks.

As our subscription revenues continue to decline, we have become increasingly dependent on advertising revenues. We have not been able to generate sufficient growth in our advertising revenues to offset the loss of subscription revenues we have experienced in recent years. In order for us to increase advertising revenues in the future, we believe it will be important to increase our overall volume of advertising sold, including sales of advertising through our higher-priced channels, and to maintain or increase pricing for advertising. Our cash flows continue to be adversely affected by the continued decline of access subscribers. Additionally, advertising revenues are more unpredictable and variable than our subscription revenues, and are more likely to be adversely affected during economic downturns, as spending by advertisers tends to be cyclical in line with general economic conditions. Furthermore, we compete with traditional offline advertising media such as television and radio. The continued growth of online advertising will depend on its perceived effectiveness and the growth in consumers' use of the internet. Lack of growth in the online advertising market could decrease the value of online advertising and would adversely impact our business model. Further, because subscription revenues have relatively low direct costs, the expected decline in subscription revenues could result in declines in operating income and cash flows, even if we achieve significant growth in advertising revenues. If we are unable to successfully implement our strategic plan and grow the earnings generated by our online advertising services, we may not be able to support our business in the future.

If we do not continue to develop and offer compelling content, products and services, our ability to attract new consumers or maintain the engagement of our existing consumers could be adversely affected.

In order to attract consumers and generate increased engagement on AOL Properties, we believe we must offer compelling content, products and services. However, acquiring, developing and offering new content, products and services, as well as new functionality, features and enhanced performance of our existing content, products and services, may require significant costs and time to develop. In addition, consumer tastes are difficult to predict and subject to rapid change. If we are unable to provide content, products and services that are sufficiently attractive and relevant to consumers (including subscribers to our subscription access service), we may not be able to attract new consumers or maintain or increase our existing consumers' engagement. Even if we successfully develop and offer compelling content, products and services, we may not be able to attract new consumers and maintain or increase our existing consumers' engagement. We may acquire businesses in order to produce and offer new content, products and services, and the costs related to such acquisitions may be more expensive than developing new content, products and services internally.

In general, subscribers to our subscription access service are among the most engaged consumers on AOL Properties. As our subscriber base declines, we need to maintain the engagement of former subscribers and increase the number and engagement of other consumers on AOL Properties in order to successfully execute our business model. There can be no assurance that we will be able to maintain the engagement of former subscribers or attract and engage sufficient other consumers to sustain or increase historical engagement levels on AOL Properties. If we cannot do so, our business could be adversely affected.

Even if we are able to attract new consumers to, and generate increased engagement on, AOL Properties, we may not be able to maintain or increase our advertising revenues associated with AOL Properties.

Different AOL Properties generate varying volumes of advertising that are sold at a range of prices. To the extent our consumers are active on AOL Properties where we do not deliver a high volume of advertisements or high-priced advertisements, we are limited in our ability to generate advertising revenues from such activity. Accordingly, if we are not able to attract consumers to, and engage consumers with, those AOL Properties that typically generate higher-priced and higher-volume advertising, our advertising revenues may not increase even if the aggregate number of consumers on AOL Properties increases and their aggregate engagement increases.

If we are unable to develop our products and services to address the patterns of how consumers access information and communicate on the Internet through media such as social networking, our business could be adversely impacted.

As the internet continues to grow and evolve, consumers are also changing the way they access and use the internet. Consumers are increasingly using social networking sites to communicate and to acquire and disseminate information rather than through traditional means of instant messaging, electronic mail and portals. As consumers migrate towards social networks, we seek to build social elements into our content, products and services in order to make them available on social networks and to attract and engage consumers on our properties. There is no guarantee that we will be able to successfully integrate our content with such social networking trends. In addition, companies are increasing marketing and advertising on social networks, and if we are unable to penetrate this market it could adversely affect our business.

Any restructuring actions that we undertake may not deliver the expected results and these actions may adversely affect our business operations.

We may undertake various restructuring activities in an effort to better align our organizational structure and costs with our strategy. In connection with such activities, we may experience a disruption in our ability to perform functions critical to our strategy. While we strive to reduce the negative impact of such restructuring actions, such actions could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of our strategic objectives and the results of our operations. We expect to continue to actively manage our costs. However, if we do not fully realize or maintain the anticipated benefits of our restructuring plans and cost reduction initiatives, our business could be adversely affected.

We face intense competition in all aspects of our business.

The internet industry, with its low barriers to entry and rapidly shifting consumer tastes, is dynamic and rapidly evolving. New and popular competitors, such as social networking sites, online advertising businesses and providers of communication tools, quickly emerge. Competition among companies offering content, advertising products, technology and services, demand-side platforms and aggregators of third-party products and services, is intense. Competitors are providing more free products and services, for example, data storage, that may require substantial expenditures by us in order to offer comparable products and services. Internationally, we face intense competition from both global and local competitors. In addition, competition may generally cause us to incur unanticipated costs associated with research and product development.

The competition faced by our subscription access service, especially from broadband internet access providers, could cause the number of our subscribers to decline at a faster rate than experienced in the past. Dial-up internet access services do not compete favorably with broadband access services with respect to connection speed and do not have a significant, if any, price advantage over certain broadband services. Many broadband providers, including cable companies, bundle their offerings with telephone, entertainment or other services, which may result in lower prices than stand-alone services. Based on customer survey information, the majority of our canceling access subscribers either already had broadband internet connections or are leaving for broadband internet connections. There can be no assurance that we will be able to compete successfully in the future with existing or potential competitors or that competition will not adversely affect our business.

Weak economic conditions could adversely affect our revenues.

Advertising businesses may be adversely affected by weak economic conditions. Because we derive a substantial portion of our revenues from the sale of advertising, declines and delays in advertising spending that result from weak economic conditions have impacted our advertising revenues in the past and could adversely affect our advertising revenues in the future.

Additionally, declines in consumer spending due to weak economic conditions may cause advertisers to reduce their spending if consumers are purchasing fewer of their products or services, ultimately resulting in downward pricing pressure on our advertising inventory. As a result, declines in consumer spending could indirectly adversely affect our advertising revenues.

While we do not believe that our subscription access service was adversely affected by past weak economic conditions, there is a risk that subscribers may elect to cancel their subscriptions as a result of a weaker economic climate in the future. Should this occur, we may experience an accelerated decline in our subscription revenues.

We are dependent on a third-party search provider.

We do not own or control a general text-based web search service. Instead, Google is, except in certain limited circumstances, the exclusive web search provider for AOL Properties. For the year ended December 31, 2011, search and contextual advertising revenues comprised approximately 27% of our total advertising revenues. Changes that Google has made and may unilaterally make in the future to its search service or advertising network, including changes in pricing, algorithms or advertising relationships, could adversely affect our advertising revenues. Furthermore, except in certain limited circumstances, we have agreed to use Google's algorithmic search and sponsored links on an exclusive basis in the United States through December 31, 2015. Additionally, a decline or an unfavorable change in our relationship with Google could materially affect our advertising revenues.

Because we do not own or control such a search service, we are not able to package and sell search advertising along with display advertising services outside of AOL Properties. As search advertising represents a significant portion of online advertising spending, we believe that our lack of a proprietary search service could adversely affect our ability to maintain and increase advertising revenues.

We may need to raise additional capital, and we cannot be sure that additional financing will be available.

While subsequent to our separation from Time Warner we have funded our ongoing working capital, capital expenditure and financing requirements through cash flows from operations and asset dispositions, we may require additional financing in the future. Our ability to obtain future financing will depend on, among other things, our financial condition and results of operations as well as the condition of the capital markets or other credit markets at the time we seek financing. We currently do not have any ratings from the credit rating agencies, so our access to capital markets may be limited. We may not be able to obtain future financing on terms acceptable to us in a timely manner, or at all. Our ability to fund our working capital, capital expenditure and financing requirements in the future may be adversely affected if we are unable to obtain financing on acceptable terms. If we are unable to enter into the necessary financing arrangements or sufficient funds are not available on acceptable terms when required, we may not have sufficient liquidity and our business may be adversely affected.

If we cannot continue to make our content, products and services available and attractive to consumers via devices other than personal computers, our ability to attract consumers and maintain or increase their engagement could be adversely affected.

Global consumers are increasingly accessing and using the internet through devices other than personal computers, such as smartphones and tablet computers. In order for consumers to access and use our content, products and services via these devices, we must continue to ensure that our content, products and services are compatible with such devices. We may also need to secure arrangements with device manufacturers and wireless carriers in order to have placement on these devices. Even if we can secure placement of our products and services on these devices, our ability to generate revenues depends upon our ability to negotiate favorable payment terms. As consumer pricing with the carriers changes, AOL's ability to negotiate favorable payment terms and its ability to earn revenues may be adversely impacted. We must also ensure that our licensing arrangements with third-party content providers allow us to make this content available on these devices. These factors are also important with respect to AOL's ability to sell applications to consumers via alternative devices, and thus to generate revenues other than subscription or advertising revenues.

Currently we offer applications directly to consumers for download from AOL Properties, the Apple App Store, or through other distribution channels. We also offer certain applications, and access to their content, products and services by means of agreements with wireless carriers and device manufacturers. To the extent that consumers are using our applications, content, products and services, we have opportunities to generate advertising revenues. However, the amount of revenues, including advertising revenues, earned from such arrangements is currently small. Also, business models in the marketplace seem to be undergoing experimentation and rapid change. To the extent that we cannot generate consumer awareness and adoption of our applications, content, products and services available on mobile devices, and cannot develop means of generating advertising revenues from consumer usage, our business could be adversely impacted.

We rely on legacy technology infrastructure and a failure to update or replace this technology infrastructure could adversely affect our business.

Significant portions of our content, products and services are dependent on technology infrastructure that was developed a number of years ago. In addition, we incur significant costs operating our business with multiple and often contradictory technology platforms and infrastructure. Updating and replacing our technology infrastructure may be challenging to implement and manage, may take time to test and deploy, may cause us to incur substantial costs and may cause us to suffer data loss or delays or interruptions in service. These delays or interruptions in service may cause our consumers, advertisers and publishers to become dissatisfied with our offerings and could adversely affect our business.

Our dependence on legacy technology infrastructure may also put us in a weaker position relative to a number of our key web services competitors. Competitors with newer technology infrastructure may have greater flexibility and be in a position to respond more quickly than us to new opportunities, which could impact our competitive position in certain markets and adversely affect our business.

In addition, as the skills needed to maintain and repair our legacy technology infrastructure remain scarce, this may adversely impact our ability to effectively manage our legacy infrastructure.

If we are unable to hire, engage and retain key management and other personnel, our business could be adversely affected.

Our future success depends in large part upon the continued service of key members of our management team. In particular, Tim Armstrong, our CEO, is critical to AOL's overall management, as well as the development of AOL's strategic direction and culture. We do not maintain any key-person life insurance policies.

We are also dependent on our ability to hire, engage and retain talented, highly-skilled employees, including employees with specific areas of expertise such as content creation. Accomplishing this may be difficult due to many factors, including fluctuations in global economic and industry conditions, frequent changes in our management and leadership and the attractiveness of our compensation programs relative to those of our competitors. If we do not succeed in retaining and engaging our key employees and in attracting new key personnel, including personnel with specific areas of expertise, we may be unable to meet our strategic objectives and, as a result, our business could be adversely affected.

A failure to scale and adapt our existing technology architecture to manage the expansion of our offerings could adversely affect our business.

We expect to continue to expand our offerings to consumers, advertisers and publishers, whether through internal growth or through acquiring other companies or assets. Expanding the amount and type of our offerings or integrating third-party technologies will require substantial expenditures to scale or adapt our technology infrastructure. The technology architectures utilized for our consumer offerings and advertising services are highly complex and may not provide satisfactory support as usage increases and products and services expand, change and become more complex in the future. We may make additional changes to our architectures and systems to deliver our consumer offerings and services to advertisers and publishers, including moving to completely new technology architectures and systems. Such changes may be challenging to implement and manage, may take time to test and deploy, may cause us to incur substantial costs and may cause us to suffer data loss or delays or interruptions in service. These delays or interruptions in service may cause consumers, advertisers and publishers to become dissatisfied with our offerings and could adversely affect our business.

Certain parts of our business and operations are experiencing expansion. If we fail to effectively manage our expansion, our business and operating results could be harmed.

We have undertaken expansion in certain parts of our business in 2011, in particular Patch, growing from approximately 775 sites as of December 31, 2010 to 863 sites as of December 31, 2011. We also have approximately 1,410 Patch employees as of December 31, 2011. Additionally, since our acquisition of The Huffington Post, The Huffington Post has expanded internationally and may continue to expand its operations in the near future. Such expansion has placed, and will continue to place, demands on our management, operational, and financial infrastructure. If we do not continue to effectively manage our expansion, the quality of our products and services could suffer, which could negatively affect our brand and operating results. To effectively manage this expansion, we will need to continue to improve our operational, financial and management controls, including our reporting systems and compliance procedures. These systems enhancements and improvements may require capital expenditures and management resources. Failure to implement these improvements could hurt our ability to manage our expansion and our financial position.

One of the factors in the demand for our products and services is the success of our marketing campaigns, and there can be no assurance that our promotional and other marketing campaigns will be successful or will generate interest in our products and services.

We invest in strategic and targeted marketing campaigns in order to inform consumers about the products and services we offer. In addition, a core goal of our marketing efforts is to maintain and enhance the image of our brand and consumer perception of it. If we are unable to effectively use our resources to market and influence consumer perception of our brand, interest in our products and services may decline, and our ability to grow our services and products could be negatively impacted.

If we cannot effectively distribute our content, products and services, our ability to attract new consumers could be adversely affected.

As the behavior of internet consumers continues to change, distribution of our content, products and services via traditional methods (**e.g.**, toolbars) may become less effective, and new distribution strategies may need to be developed. Even if we are able to distribute our content, products and services effectively, this does not assure that we will be able to attract new consumers.

Currently, an important distribution channel for AOL Properties is through our subscription access service. However, our access service subscriber base has declined and is expected to continue to decline. This continued decline is likely to reduce the effectiveness of our subscription access service as a distribution channel. If we are unable to grow organically by attracting new consumers directly to our content, products and services, we may need to rely on distribution channels that require us to pay significant fees to third parties. Furthermore, these fees have been increasing as internet companies compete for a limited number of premium distribution channels. Any increased reliance on these third-party distribution channels could adversely affect our business.

If we cannot continue to develop and offer effective advertising products and services, our advertising revenues could be adversely affected.

Growth in our advertising revenues depends on our ability to continue offering effective products and services for advertisers and publishers. Continuing to develop and improve these products and services may require significant time and costs. If we cannot continue to develop and improve our advertising products and services, our advertising revenues could be adversely affected. Furthermore, if we cannot enhance our existing advertising offerings or develop new advertising offerings or technologies to keep pace with market trends, including new technologies that more effectively or efficiently plan, price or target advertising, our advertising revenues could be adversely affected.

Our access service subscriber base could decline faster than we currently anticipate.

Our access service subscriber base has declined and is expected to continue to decline. This decline is the result of several factors, including the increased availability of high-speed internet broadband connections, the fact that a significant amount of online content, products and services has been optimized for use with broadband internet connections and the effects of our strategic shift to focus on generating advertising revenues, which resulted in us essentially eliminating our marketing efforts for our subscription access service and the free availability of the vast majority of our content, products and services. Also, a substantial number of the subscribers to our subscription access service do not use the service to access the internet on a regular basis and may terminate their subscription at any time. In addition, we must maintain the current payment method information of our subscribers and, if we fail to do so, we may lose paid relationships with some of our access subscribers. If any of these factors result in our access subscriber base declining faster than we currently anticipate, our subscription revenues and business could be adversely affected.

A disruption or failure of our networks and information systems, the internet or other technology may disrupt our business.

Our business is heavily dependent on the availability of network and information systems, the internet and other technologies. Shutdowns or service disruptions caused by events such as criminal activity, sabotage or espionage, computer viruses, hacking and other cyber-security attacks, router disruption, automated attacks such as denial of service attacks, power outages, natural disasters, accidents, terrorism, equipment failure or other events within or outside our control could adversely affect us and our consumers, including loss or compromise of data, service disruption, damage to equipment and data and excessive call volume to call centers. Furthermore, such attacks are not always able to be immediately detected, which means that we may not be in a position to promptly address the attacks or to implement adequate preventative measures. Such events could result in large expenditures necessary to recover data, or repair or replace such networks or information systems or to protect them from similar events in the future. As not all of our systems are fully redundant, some data or systems might not be recoverable after such events. Significant incidents could result in a disruption of our business, consumer dissatisfaction, damage to the AOL brand, legal costs or liability, and a loss of consumers or revenues.

We are dependent on third-party providers of telecommunications services.

Although we currently have agreements with several different third-party telecommunications service providers, there are only a limited number of such providers that are capable of providing our network services. To the extent that we cannot renew or extend our contracts with these providers on similar terms or to the extent that we cannot acquire similar network capacity from other providers on similar terms, the cost of obtaining network services may increase and our financial results could be adversely affected. In addition, because of the limited number of telecommunications services providers, in the event that a provider decides to exit the business of providing telecommunications services, our ability to maintain the geographic scope of these network services could be adversely affected. In such an event, certain consumers in the affected geographic areas would be unable to continue to use our subscription access service and our business could be adversely affected.

If we cannot continue to enforce and protect our intellectual property rights, our business could be adversely affected.

We rely on patent, copyright, trademark, domain name and trade secret laws in the United States and similar laws in other countries, as well as licenses and other agreements with our employees, consumers, suppliers and other parties, to establish and maintain our intellectual property rights in the technology, content, products and services used in our operations. These laws and agreements may not guarantee that our intellectual property rights will be protected and our intellectual property rights could be challenged or invalidated. In addition, such intellectual property rights may not be sufficient to permit us to take advantage of current industry trends or otherwise to provide competitive advantages, which could result in costly redesign efforts, discontinuance of offerings, decreased traffic and associated revenue or otherwise adversely affect our business. As we acquire and publish more original content, our intellectual property may be increasingly subject to misappropriation by others, and the costs to protect and enforce our intellectual property rights may increase.

We have been, and may in the future be, subject to claims of intellectual property infringement or tort law violations that could adversely affect our business.

Periodically, third parties claim that we infringe their intellectual property rights. We expect to continue to be subject to claims and legal proceedings regarding alleged infringement by us of the intellectual property rights of others. These claims, whether meritorious or not, are time-consuming and costly to resolve, and may require expensive changes in our methods of doing business and/or our content, products and services. These intellectual property infringement claims may require us to enter into royalty or licensing agreements on unfavorable terms or to incur substantial monetary liability. Additionally, these claims may result in our being enjoined preliminarily or permanently from further use of certain intellectual property and/or our content, products and services, or may require us to cease or significantly alter certain of our operations. The occurrence of any of these events as a result of these claims could result in substantially increased costs, could limit or reduce the number of our offerings to consumers, advertisers and publishers or otherwise adversely affect our business.

Some of our commercial agreements may require us to indemnify parties against intellectual property infringement claims, which may require us to use substantial resources to defend against or settle such claims or, potentially, to pay damages. Additionally, we may be exposed to liability or substantially increased costs if a commercial partner does not honor its contractual obligation to indemnify us for intellectual property infringement claims made by third parties. The occurrence of any of these events could adversely affect our business.

As a publisher of original content, we also face risks of periodic tort claims such as libel, defamation or improper use of publicity rights in the course of our journalism and news reporting endeavors, as well as infringement claims such as plagiarism. These claims, whether or not they have merit, may be time consuming or costly to resolve.

The misappropriation, release, loss or misuse of AOL data or consumer or other data could adversely affect our business.

Our business utilizes significant amounts of data about our business, consumers and our advertising and publishing partners in order to deliver our content, products and services and our advertising solutions. The misappropriation, release, loss or misuse of this data, whether by accident, omission or as the result of criminal activity, sabotage or espionage, computer hacking or viruses, natural disasters, terrorism, equipment failure or other events, could lead to negative publicity, harm to our reputation, customer dissatisfaction, regulatory enforcement actions or individual or class-action lawsuits or significant expenditures to recover the data or protect data from similar releases in the future, and may otherwise adversely affect our business. Furthermore, as not all of our systems are fully redundant, some data or systems might not be recoverable in a catastrophic event or other significant service disruption.

Changes to federal, state or international laws or regulations applicable to our business could adversely affect our business.

Our business is subject to a variety of federal, state and international laws and regulations, including those with respect to privacy, advertising generally, consumer protection, content regulation, intellectual property, defamation, child protection, advertising to and collecting information from children, taxation, employment classification and billing. These laws and regulations and the interpretation or application of these laws and regulations could change. In addition, new laws or regulations affecting our business could be enacted. These laws and regulations are frequently costly to comply with and may divert a significant portion of management's attention. If we fail to comply with these applicable laws or regulations, we could be subject to significant liabilities which could adversely affect our business.

There are many federal, state and international laws that may affect our business including measures to regulate consumer privacy, the use of copyrighted material, the collection of certain data, network neutrality, patent litigation, cyber security, child protection, subpoena and warrant processes, employee classification and others.

In addition, most states have enacted legislation governing the breach of data security in which sensitive consumer information is released or accessed. If we fail to comply with these applicable laws or regulations we could be subject to significant liabilities which could adversely affect our business.

Many of our advertising partners are subject to industry specific laws and regulations or licensing requirements, including advertisers in the following industries: pharmaceuticals, online gaming, alcohol, adult content, tobacco, firearms, insurance, securities brokerage, real estate, sweepstakes, free trial offers, automatic renewal services and legal services. If any of our advertising partners fails to comply with any of these licensing requirements or other applicable laws or regulations, or if such laws and regulations or licensing requirements become more stringent or are otherwise expanded, our business could be adversely affected. Furthermore, these laws may also limit the way we advertise our products and services or cause us to incur compliance costs, which could affect our revenues and could further adversely impact our business.

Failure to comply with federal, state or international privacy laws or regulations, or the expansion of current or the enactment of new privacy laws or regulations, could adversely affect our business.

A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing and security of consumer data. In addition to the potentially differing interpretations of existing law, the present landscape of public policy and privacy creates uncertainty for business planning. In such an uncertain environment, it is difficult to make informed long-term business planning decisions about data use, notice, storage, access, retention or choice. The existing privacy-related laws and regulations are evolving and subject to potentially differing interpretations. In addition, various federal, state and foreign legislative and regulatory bodies may expand current or enact new laws regarding privacy matters. We have posted privacy policies and practices concerning the collection, use and disclosure of user data on our websites. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, Federal Trade Commission requirements or orders or other federal, state or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in claims, proceedings or actions against us by governmental entities or others or other liabilities, which could adversely affect our business. In addition, a failure or perceived failure to comply with industry standards or with our own privacy policies and procedures could result in a loss of consumers or advertisers and adversely affect our business.

Federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of third-party web "cookies" for behavioral advertising. We use cookies, which are small text files placed in a consumer's browser, to facilitate authentication, preference management, research and measurement, personalization and advertisement and content delivery. In the Third Party Network, cookies or similar technologies help present, target and measure the effectiveness of advertisements. The regulation of these "cookies" and other current online advertising practices could adversely affect our business.

AOL operates in an environment of high scrutiny and regulatory uncertainty: The use of consumer data by online service providers and advertising networks is a topic of active interest among a number of regulatory bodies at the national and state levels and the regulatory environment is unsettled.

Changes to products, technology and services made by third parties and consumers could adversely affect our business.

We are dependent on many products, technologies and services provided by third parties, including browsers, data and search indexes, in order for consumers to use our content, products and services, as well as to deliver, measure, render and report advertising. Any changes made by these third parties or consumers to functionality, features or settings of these products, technologies and services could adversely affect our business. For example, third parties may develop, and consumers may install, software that is used to block display or search advertisements or delete cookies, or consumers may elect to manually delete cookies more frequently. Likewise, search services providers may adjust their algorithms and indexes, which may hinder the ability of consumers to reach and use our content, products and services. This risk is increased because there are a small number of search services providers and any change made by one or more of these providers could significantly affect our business. We derive revenue from fees paid in connection with display advertisements and search advertisements on websites. The widespread adoption of products and technologies or changes to current products, technologies and services could adversely affect our business.

Acquisitions of other businesses could adversely affect our operations and result in unanticipated liabilities.

Since January 1, 2011, we have acquired The Huffington Post, goviral, and other smaller businesses and we may make additional acquisitions and strategic investments in the future. The completion of acquisitions and strategic investments as well as the integration of acquired companies or assets involve a substantial commitment of resources and we may fail to realize the anticipated benefits of such transactions and incur unanticipated liabilities that could harm our business. In addition, past or future transactions may be accompanied by a number of risks, including:

- the uncertainty of our returns on investment due to the new and developing industries in which some of the acquired companies operate;
- the adverse effect of known potential liabilities or unknown liabilities, such as claims of patent or other intellectual property infringement, associated with the companies acquired or in which we invest;
- the difficulty of integrating technology, administrative systems, personnel and operations of acquired companies into our services, systems and operations and unanticipated expenses related to such integration;
- the potential loss or disengagement of key talent at acquired companies;
- the potential disruption of our ongoing business and distraction of our management;
- additional operating losses and expenses of the businesses we acquire or in which we invest and the failure of such businesses to perform as expected;
- the failure to successfully further develop acquired technology, resulting in the impairment of amounts currently capitalized as intangible assets;

- the difficulty of reconciling potentially conflicting or overlapping contractual rights and duties; and
- the potential impairment of relationships with consumers, partners and employees as a result of the combination of acquired operations and new management personnel.

We face risks relating to doing business internationally that could adversely affect our business and we face risks from not doing more international business.

Our business operates and serves consumers globally. There are certain risks inherent in doing business internationally, including:

- economic volatility and the current global economic uncertainty;
- currency exchange rate fluctuations;
- the requirements of local laws and customs relating to the publication and distribution of content and the display and sale of advertising;
- uncertain protection and enforcement of our intellectual property rights;
- import or export restrictions and changes in trade regulations;
- difficulties in developing, staffing and simultaneously managing a large number of foreign operations as a result of distance as well as language and cultural differences;
- issues related to occupational safety and adherence to local labor laws and regulations;
- potentially adverse tax developments;
- longer payment cycles;
- political or social unrest;
- seasonal volatility in business activity;
- risks related to government regulation;
- the existence in some countries of statutory stockholder minority rights and restrictions on foreign direct ownership;
- the presence of corruption in certain countries; and
- higher than anticipated costs of entry.

One or more of these factors could adversely affect our business.

We have expanded our international operations through the acquisition of goviral, a company that distributes branded online video for media agencies, creative agencies and content producers. We have also supplemented our international operations through the expansion of The Huffington Post. International expansion involves increased investment as well as risks associated with doing business abroad, as described above. Furthermore, investments in some regions can take a long period to generate an adequate return and in some cases there may not be a developed or efficient legal system to protect foreign investment or intellectual property rights. In addition, as we expand into new international regions, we may have limited experience in operating and marketing our products and services in such regions and could be at a disadvantage compared to competitors with more experience.

We could be at a competitive disadvantage in the long term if we are not able to capitalize on international opportunities, especially as compared to our competitors who maintain a continuous expansive global presence.

We could be subject to additional tax liabilities which could adversely affect our business.

International, federal, state and local tax laws and regulations affecting our business, or interpretations or application of these tax laws and regulations, could change. In addition, new international, federal, state and local tax laws and regulations affecting our business could be enacted or taxing authorities may disagree with our interpretation of tax laws and regulations. Our subscription access service is protected from taxation through the Federal Internet Tax Non-Discrimination Act, which is in effect until November 2014. However, faced with decreasing revenues, several states have sought to increase revenue by taxing advertising generally, and internet advertising specifically, by changing the definition of "tangible personal property" to include digital products such as parental controls and digital storage, or by increasing general business taxes. Imposing new taxes on advertising or internet advertising would adversely affect us. A tax on digital products in a particular state would require us to either pay the sales tax on all non-access paid services sold in that state or implement a system to collect the tax from our customers and remit it to that state. An increase in general business taxes would adversely affect us if it occurred in a jurisdiction in which we operate. Other states have sought to expand the definition of "nexus" for the purpose of taxing goods and services sold over the internet. If enacted, these new taxes would adversely affect our consumers and, as a result, could adversely affect our business.

We could be required to record significant impairment charges in the future.

We are required under generally accepted accounting principles (GAAP) to test goodwill for impairment at least annually, and to review our identifiable intangible assets when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and identifiable intangible assets include significant adverse changes in the business climate and declines in the value of our business. Our estimated fair value is primarily based on our market capitalization and volatility in our stock price could have a significant impact on the estimated fair value of our sole reporting unit. As of December 31, 2011, our goodwill totaled $1,064.0 million.

Our historical financial information is not necessarily representative of the results we would have achieved as an independent, publicly-traded company and may not be a reliable indicator of our future results.

On December 9, 2009, the Company completed its legal and structural separation from Time Warner via a spin-off (the "spin-off"). The historical financial information we have included in this Annual Report may not reflect what our results of operations, financial position and cash flows would have been had we been an independent, publicly-traded company during the periods presented before 2010, or what our results of operations, financial position and cash flows will be in the future as an independent company. This is primarily because:

- we have entered into transactions with Time Warner that either have not existed historically or that are on different terms than the terms of arrangements or agreements that existed prior to the spin-off;

- our historical financial information reflects allocations for certain services historically provided to us by Time Warner that may not reflect the costs we have incurred or will incur for similar services in the future as an independent company; and

- our historical financial information does not reflect changes that we have experienced or may experience in the future as a result of our separation from Time Warner, including changes in the cost structure, personnel needs, financing and operations of our business.

We are responsible for the additional costs associated with being an independent, publicly-traded company, including costs related to corporate governance and public reporting. Therefore, our financial statements for the years before 2010 may not be indicative of our future performance as an independent company. For additional information about our past financial performance and the basis of presentation of our financial statements, see "Item 6—Selected Financial Data," "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and our accompanying consolidated financial statements and the notes thereto included elsewhere in this Annual Report.

Risks Relating to our Common Stock and the Securities Market

Our stock price may fluctuate significantly.

We experienced a significant decline in our stock price leading up to and subsequent to the announcement of our financial results for the three months ended June 30, 2011. Our stock price may continue to fluctuate significantly depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our business;
- success or failure of our business strategy;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations;
- changes in laws and regulations affecting our business; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters, located in New York City, is a leased property consisting of approximately 230 thousand square feet. We own a corporate campus in Dulles, Virginia comprising office buildings, a data center and support facilities of approximately 840 thousand square feet. We lease or own additional office space and data centers located in California and Virginia totaling approximately 620 thousand square feet. In addition to these properties, we lease approximately 50 facilities for use as corporate offices, sales offices, development centers, data centers and other operations in other locations in Colorado, the District of Columbia, Florida, Georgia, Illinois, Maryland, Massachusetts, Michigan, New York, New Jersey, Ohio, Pennsylvania, and Tennessee and in the countries of Canada, China, Denmark, France, Germany, India, Ireland, Israel, Japan, Spain, Sweden and the United Kingdom. We sublease to third parties approximately 208 thousand square feet of the properties discussed above.

We believe that our facilities are sufficient to meet our current and projected needs. We also have an ongoing process to review and update our real estate portfolio to meet changing business needs.

ITEM 3. LEGAL PROCEEDINGS

On April 30, 2008, Bascom Global Internet Services, Inc. filed claims against AOL Inc. in the Eastern District Court of New York alleging that AOL's WebUnlock Parental Controls technology infringes Bascom's U.S. Patent No. 5,987,606. Bascom sought $67,000,000 in damages. During the fourth quarter of 2011, Bascom and AOL entered into a settlement agreement and settled the claims for $8,500,000.

In addition to the matter described above, we are a party to a variety of claims, suits and proceedings that arise in the normal course of business, including actions with respect to intellectual property claims, tax matters, labor and unemployment claims, commercial claims, claims related to our business model for content creation and other matters. With respect to tax matters, we have received tax assessments in certain states related to sales and use taxes on our business operations. We have appealed these tax assessments and plan to vigorously contest these matters. In addition, we have received assessments in certain foreign countries related to income tax and transfer pricing, and plan to vigorously contest these matters as well. In certain instances, we were required to pay a portion of the tax assessment in order to proceed with the dispute of the assessment. While the results of such normal course claims, suits and proceedings cannot be predicted with certainty, management does not believe that, based on current knowledge and the likely timing of resolution of various matters, any additional reasonably possible potential losses above the amount accrued for such matters would be material to our financial statements. Regardless of the outcome, legal proceedings can have an adverse effect on us because of defense costs, diversion of management resources and other factors. See "Item 1A—Risk Factors—Risks Relating to Our Business—If we cannot continue to enforce and protect our intellectual property rights, our business could be adversely affected" and "Item 1A—Risk Factors—Risks Relating to Our Business—We have been, and may in the future be, subject to claims of intellectual property infringement or tort law violations that could adversely affect our business" included in our Annual Report.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

AOL's common stock is listed on the New York Stock Exchange (NYSE) under the symbol "AOL." The following table presents the quarterly high and low sales prices for the common stock on the NYSE as reported for each period indicated:

	High	Low
2010 Quarters Ended:		
March 31, 2010	$26.53	$23.23
June 30, 2010	29.45	19.61
September 30, 2010	25.56	19.80
December 31, 2010	27.65	23.48
2011 Quarters Ended:		
March 31, 2011	$24.91	$18.51
June 30, 2011	22.47	18.44
September 30, 2011	20.83	10.06
December 31, 2011	15.82	11.17

As of February 17, 2012 there were approximately 18,700 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. The closing price of the common stock on the NYSE on February 17, 2012 was $18.73.

Stock Repurchases

The following is a summary of common shares repurchased by the Company under its stock repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly announced Plans or Programs [a]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [a]
October 1,—October 31, 2011	4,643,413	$ 13.03	4,643,413	$ 120,400,000
November 1,—November 30, 2011	1,615,900	$ 14.46	1,615,900	$ 97,000,000
December 1,—December 31. 2011	1,461,174	$ 14.00	1,461,174	$ 76,500,000
Total	7,720,487	$ 13.52	7,720,487	$ 76,500,000

(a) On August 11, 2011 the Company announced that its Board of Directors approved a stock repurchase program effective August 10, 2011, which authorizes the Company to repurchase up to $250 million of its outstanding shares of common stock through August 2012. Repurchases are subject to market conditions, share price and other factors. Repurchases have been and will be made in accordance with applicable securities laws in the open market or in private transactions and may include derivative transactions, or pursuant to any trading plan adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The repurchase program may be suspended or discontinued at any time. The approximate dollar value of shares that may yet be repurchased under the program excludes commissions and other fees paid in relation to repurchases through December 31, 2011.

Dividend Policy

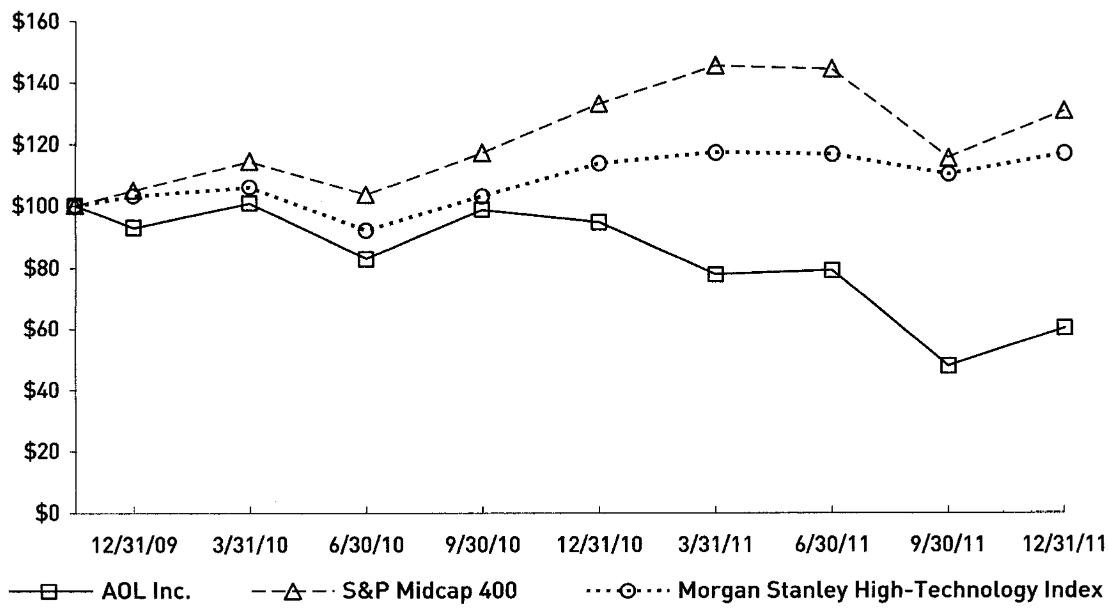
We have not paid cash dividends and we do not anticipate the payment of cash dividends on our common stock in the immediate future.

Performance Graph

The following graph compares the relative performance of our common stock, the S&P Midcap 400 index and the Morgan Stanley High-Technology index. This graph covers the period from November 24, 2009 (the first day our common stock began "when-issued" trading on the NYSE) through December 31, 2011.

COMPARISON OF 25 MONTH CUMULATIVE TOTAL RETURN*

Among AOL Inc., the S&P Midcap 400 Index,
and Morgan Stanley High-Technology Index



* $100 invested on 11/24/09 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	11/24/09	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10	3/31/11	6/30/11	9/30/11	12/31/11
AOL Inc.	100.00	92.86	100.84	82.93	98.72	94.58	77.90	79.22	47.87	60.23
S&P Midcap 400	100.00	105.03	114.58	103.60	117.19	133.01	145.46	144.40	115.69	130.71
Morgan Stanley High-Technology Index	100.00	103.19	106.08	91.99	103.14	113.93	117.25	116.87	110.55	117.10

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

ITEM 6. SELECTED FINANCIAL DATA

The following financial information for the five years ended December 31, 2011 has been derived from the Company's consolidated financial statements. The selected consolidated financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 is derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated financial data as of December 31, 2009, 2008 and 2007 and for the years ended December 31, 2008 and 2007 is derived from audited financial statements not included herein.

The selected historical financial data presented below should be read in conjunction with our consolidated financial statements and the accompanying notes thereto, and "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Annual Report. Prior to December 9, 2009, the effective date of the spin-off, we were a subsidiary of Time Warner. Our historical financial information included herein may not necessarily be indicative of our future financial condition, results of operations and cash flows. In addition, for the periods prior to December 9, 2009, the financial information included herein may not necessarily indicate our financial position, results of operations and cash flows in the future or what our financial position, results of operations and cash flows would have been had we been an independent, publicly-traded company during the periods presented.

($ in millions, except per share amounts)	Years Ended December 31, 2011	2010	2009	2008	2007
Statement of Operations Data:					
Revenues:					
Advertising	$ 1,314.2	$ 1,284.1	$ 1,736.7	$ 2,083.3	$ 2,230.6
Subscription	803.2	1,023.6	1,388.8	1,929.3	2,787.9
Other	84.7	109.0	120.3	140.1	162.2
Total revenues	$ 2,202.1	$ 2,416.7	$ 3,245.8	$ 4,152.7	$ 5,180.7
Costs of revenues	$ 1,584.4	$ 1,420.6	$ 1,893.2	$ 2,273.1	$ 2,652.6
Operating income (loss) [(a)]	$ 45.8	$ (982.6)	$ 462.6	$(1,163.5)	$ 1,853.8
Income (loss) from continuing operations	$ 13.1	$ (790.7)	$ 251.4	$(1,520.6)	$ 1,213.3
Net income (loss) attributable to AOL Inc. [(b)]	$ 13.1	$ (782.5)	$ 248.8	$(1,525.8)	$ 1,396.1
Per share information attributable to AOL Inc. common stockholders: [(c)]					
Basic income (loss) per common share from continuing operations	$ 0.13	$ (7.42)	$ 2.38	$ (14.36)	$ 11.48
Discontinued operations	—	0.08	(0.03)	(0.06)	1.72
Basic net income (loss) per common share	$ 0.13	$ (7.34)	$ 2.35	$ (14.42)	$ 13.20
Shares used in computing basic income (loss) per share (in millions)	104.2	106.6	105.8	105.8	105.8
Diluted income (loss) per common share from continuing operations	$ 0.12	$ (7.42)	$ 2.38	$ (14.36)	$ 11.48
Discontinued operations	—	0.08	(0.03)	(0.06)	1.72
Diluted net income (loss) per common share	$ 0.12	$ (7.34)	$ 2.35	$ (14.42)	$ 13.20
Shares used in computing diluted income (loss) per share (in millions)	106.0	106.6	105.8	105.8	105.8

(a) 2011 includes $35.2 million in retention compensation expense related to acquired companies. 2010 includes a $1,414.4 million non-cash impairment charge to reduce the carrying value of goodwill and a $106.0 million gain on the sale of our ICQ operations ("ICQ"). 2009 includes $27.9 million in amounts incurred related to securities litigation and government investigations. 2008 includes a $2,207.0 million non-cash impairment charge to reduce the carrying value of goodwill and $20.8 million in amounts incurred related to securities litigation and government investigations. 2007 includes a net pre-tax gain of $668.2 million on the sale of the German access service business and $171.4 million in amounts incurred related to securities litigation and government investigations.

(b) Includes net income (loss) related to discontinued operations of $8.2 million in 2010, ($2.9) million in 2009, ($6.0) million in 2008 and $182.1 million in 2007.

(c) On November 2, 2009, the Company converted from AOL Holdings LLC, a limited liability company wholly owned by Time Warner, to AOL Inc., a corporation wholly owned by Time Warner. On December 9, 2009, the date of our spin-off, 105.8 million shares of $0.01 par value AOL common stock were distributed to Time Warner shareholders of record as of 5 p.m. on November 27, 2009. For periods prior to 2009, the same number of shares is being used for basic and diluted income (loss) per common share as no common stock of the Company existed prior to November 2, 2009 and no dilutive securities of the Company were outstanding for any prior period. For the year ended December 31, 2009, in determining the weighted average number of common shares outstanding for basic income (loss) per common share, the Company used 105.8 million shares for the period from January 1, 2009 through December 9, 2009, and the actual number of shares outstanding for the period from December 10, 2009 through December 31, 2009. Diluted income (loss) per common share subsequent to the distribution date of December 9, 2009 reflects the potential dilution of outstanding equity-based compensation awards by application of the treasury stock method.

(in millions)	As of December 31, 2011	2010	2009	2008	2007
Balance Sheet Data:					
Cash and equivalents	$ 407.5	$ 801.8	$ 146.1	$ 134.8	$ 151.9
Goodwill	$ 1,064.0	$ 810.9	$ 2,171.6	$ 2,149.0	$ 3,527.4
Total assets	$ 2,825.0	$ 2,962.3	$ 3,963.1	$ 4,861.3	$ 6,863.1
Long-term obligations under capital leases	$ 66.2	$ 50.9	$ 41.5	$ 33.7	$ 24.7
Total equity	$ 2,172.6	$ 2,286.9	$ 3,062.9	$ 3,737.7	$ 5,269.5

PART II—ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition together with our consolidated financial statements and the notes thereto included elsewhere in this Annual Report as well as the discussion in the "Item 1—Business" section. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in "Item 1A—Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements."

Introduction

Management's discussion and analysis of financial condition and results of operations ("MD&A") is a supplement to the accompanying consolidated financial statements and provides additional information on our business, recent developments, results of operations, liquidity and capital resources and critical accounting policies. MD&A is organized as follows:

- *Overview.* This section provides a general description of our business and outlook for 2012, as well as recent developments we believe are important in understanding our results of operations and financial condition or in understanding anticipated future trends.

- *Results of operations.* This section provides an analysis of our results of operations for the three years in the period ended December 31, 2011.

- *Liquidity and capital resources.* This section provides a discussion of our current financial condition and an analysis of our cash flows for the three years in the period ended December 31, 2011. This section also provides a discussion of our contractual obligations and commitments, off-balance sheet arrangements, indemnification obligations and customer credit risk that existed at December 31, 2011. This section also includes a discussion of the amount of financial capacity available to fund our future commitments and ongoing operating activities.

- *Critical accounting policies.* This section identifies those accounting policies that are considered important to our results of operations and financial condition and require significant judgment and estimates on the part of management.

Overview

Our Business

We are a leading global web services company with a suite of compelling brands and offerings and a substantial worldwide audience. Our business spans online content, products and services that we offer to consumers, publishers and advertisers. We are focused on attracting and engaging consumers and providing valuable online advertising services. We market our offerings to advertisers on both AOL Properties and the Third Party Network under the brand "AOL Advertising." Through the Advertising.com Group, we provide third party publishers with premium products and services intended to make their websites attractive to brand advertisers, such as video and custom content production, in addition to offering ad serving and sales of third party advertising inventory. Our AOL-brand access subscription service, which we offer consumers in the United States for a monthly fee, is a valuable distribution channel for AOL Properties.

PART II—ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Growth of our advertising revenues depends on our ability to attract consumers and increase engagement on AOL Properties by offering compelling content, products and services, as well as on our ability to provide effective advertising solutions and optimize our inventory monetization. In order to attract consumers and generate increased engagement, we have developed and acquired, and intend to continue to develop and acquire, content, products and services designed to meet these goals. These actions include the development and acquisition of a number of platforms that are designed to facilitate the production, aggregation, distribution and consumption of national and local content. Additionally, through our acquisition of The Huffington Post on March 4, 2011 and the creation of HPMG, we have accelerated our strategy to deliver a scaled and differentiated array of premium news, analysis, commentary, entertainment and community engagement.

Historically, our primary subscription service has been our subscription access service. To supplement our subscription access service, we are marketing new products and services that are either third party or AOL-developed products. We earn performance-based fees in relation to marketing third party products and services. To facilitate this, in the first quarter of 2011, we launched the next phase of a single consumer-facing platform that allows us to manage and distribute these additional products to internet consumers. We offer these products to our current and former access subscribers as well as other internet consumers.

During the first quarter of 2012, we expect that our total revenues will continue to decline as compared to the same period in 2011, but at a lower rate of decline than we experienced in the first quarter of 2011. We expect the overall decline to be driven by declines in subscription revenue and search and contextual advertising revenue, primarily due to the decline in our domestic AOL-brand access subscribers. We expect the rate of decline in both subscription revenue and search and contextual advertising revenue to be lower than the rate of decline in the first quarter of 2011 and to be partially offset by growth in global advertising revenue.

Key indicators to understanding our operating results include:

- Growth of advertising revenues;
- Unique visitors to AOL Properties;
- Monthly average churn and average paid tenure of our AOL-brand access subscribers;
- Our investment in the local online market, which we believe is a potential growth area; and
- Our ability to manage our operating cost structure.

Trends, Challenges and Uncertainties Impacting Our Business

The web services industry is highly competitive and rapidly changing. Trends, challenges and uncertainties that may have a significant impact on our business, our opportunities and our ability to execute our strategy include the following:

- Advertising, commerce and information continue to migrate to the internet and away from traditional media outlets. We believe this continuing trend will create strategic growth opportunities for us to attract new consumers and develop new and effective advertising solutions. Additionally, the amount of content that is available online continues to expand. We believe our strategy is aligned with this rapid expansion as we aim to create a global content brand network while providing our consumers with an array of news, analysis, commentary, entertainment and community engagement. We offer a variety of sites that we expect to continue to drive consumer engagement, focusing on target audiences such as women, local and influencers. We continue to expand our distribution of our content, products and services on multiple platforms and digital devices (e.g., PCs, laptops, mobile phones and tablets).

- We believe that there is a significant strategic growth opportunity in providing local content, platforms and services covering geographic locations ranging from neighborhoods to major metropolitan areas. Patch is our community-specific news and information platform dedicated to providing comprehensive and trusted local coverage for individual towns and communities. We have made, and for the foreseeable future will continue to make, investments in Patch and, as of December 31, 2011, we had 863 active Patch towns. We have been focusing on and continue to focus on developing and offering compelling local content and growing user engagement within Patch towns. We have increased our focus on local advertising and commerce opportunities as we enter the next phase of our development of Patch.

- As the behavior of internet consumers continues to change, a migration on the internet towards social networking could adversely affect usage of AOL products and services. This trend may have an adverse effect on our ability to rely on traditional sources of traffic and revenues. We seek to mitigate these potential competitive pressures by leveraging social networks to deliver our content.

- We believe there is growing advertiser demand for innovation in online advertising formats to be more conducive to product branding and to more closely mirror experiences offered by offline formats. To address this opportunity, we are offering more premium advertising formats, including a format that we internally refer to as "Project Devil". Additionally, we acquired Pictela in December 2010 in order to scale our delivery of video, photos and applications, both within the new advertising format and generally across AOL Properties. Our premium formats seek to enhance the consumer experience by improving the aesthetic quality, impact and interactivity of online advertising, while also providing solutions for advertisers looking for innovative ways to showcase their products and services to consumers. The Project Devil advertising format is being offered to advertisers on the vast majority of AOL Properties as well as through the Third Party Network.

- The method of internet access continues to shift away from dial-up access. This trend, along with the free availability of the vast majority of our content, products and services, has contributed to, and we expect it will continue to contribute to, the decline in the number of our current subscribers. As a result of these factors, we expect subscription revenues to continue to decline in the future. We continue to expand our offerings of online products and services to our subscribers and other consumers. We have evolved our subscription offerings to provide value in addition to access, such as computer tools, maintenance and warranty services, online technical support, anti-virus software, identity theft protection, online and social media privacy and reputation monitoring services. We expect that these products will allow us to continue to grow new subscription services and expand our consumer base beyond existing subscribers.

- We have made progress towards achieving our strategy through targeted acquisitions and opportunistic dispositions. We made a number of acquisitions in 2010 and 2011, and we expect the integration of key talent and products resulting from these acquisitions to help us achieve our objective of increasing traffic by enhancing the user experience. To accelerate our strategy, we acquired The Huffington Post which we expect to allow us to deliver a scaled and differentiated array of premium news, analysis, commentary, entertainment and community engagement. As a result of our 2010 and 2011 acquisitions, we are increasing video streams and reach through video platforms and networks offered by 5Min and goviral and improving premium format advertising offerings through Pictela.

- Part of our strategy with respect to targeted acquisitions is to ensure that the key employees are incentivized to remain with AOL following the acquisition. In connection with our 2010 and 2011 acquisitions, we entered into certain incentive cash compensation arrangements with key employees of the acquired companies. We record amounts associated with these arrangements as retention compensation expense over the future service period of the employees of the acquired companies. For the years ended December 31, 2011 and 2010, we recorded retention compensation expense of $35.2 million and $6.2 million, respectively, related to incentive cash compensation arrangements made in connection with our 2010 and 2011 acquisitions. We expect to record retention compensation expense in 2012 associated with these acquisitions of $12.7 million. We expect the cash outlay in 2012 related to these incentive arrangements to be $25.0 million. These amounts are subject to change based on actual forfeitures and the impact of retention arrangements in connection with any new acquisitions completed in the future.

Recent Developments

2012 Acquisition

On February 9, 2012, AOL entered into a share-purchase agreement with Mitsui & Company Ltd. ("Mitsui") to purchase an additional 3% interest in a joint venture between Mitsui and AOL for approximately $1.2 million. The joint venture, which operates a display advertising network business in Japan, was formed in 2006. Prior to the execution of the share purchase agreement, AOL and Mitsui each owned 50% interest in the joint venture, and AOL accounted for its 50% interest using the equity method of accounting. As part of this transaction, AOL obtained control of the board and of the day-to-day operations of the joint venture. AOL will therefore account for the incremental 3% share purchase as a business combination achieved in stages ("step acquisition") in the first quarter of 2012, and will consolidate the joint venture beginning on February 9, 2012.

Under the step acquisition accounting requirements, AOL is required to record both its controlling interest and Mitsui's non-controlling interests at fair value, and recognize the entire goodwill of the acquired business. The step acquisition guidelines also require that AOL recognize any gains or losses on its pre-existing investment. As a result of this step acquisition, AOL expects to record a noncash gain of approximately $10-$15 million in the first quarter of 2012.

Stock Repurchase Program

On August 10, 2011, our Board of Directors approved a stock repurchase program, which authorizes us to repurchase up to $250 million of our outstanding shares of common stock from time to time through August 2012. Repurchases are subject to market conditions, share price and other factors. Repurchases have been and will be made in accordance with applicable securities laws in the open market or in private transactions and may include derivative transactions. As of February 1, 2012, we repurchased a total of 13.0 million shares at a weighted average price of $13.62 per share (approximately $178 million) under this program.

Key Metrics

Audience Metrics

We utilize unique visitor numbers to evaluate the performance of AOL Properties. In addition, we utilize unique visitor numbers to evaluate the reach of our total advertising network, which includes both AOL Properties and the Third Party Network. Unique visitor numbers provide an indication of our consumer reach. Although our consumer reach does not correlate directly to advertising revenue, we believe that our ability to broadly reach diverse demographic and geographic audiences is attractive to brand advertisers seeking to promote their brands to a variety of consumers without having to partner with multiple content providers. AOL's unique visitor numbers also include unique visitors attributable to co-branded websites owned by third parties for which certain criteria have been met, including that the internet traffic has been assigned to us through a traffic assignment letter. For the year ended December 31, 2011, approximately 6% of our unique visitors to AOL Properties were attributable to co-branded websites owned by third parties where the internet traffic was assigned to us. Approximately two-thirds of the traffic assigned to AOL for the year ended December 31, 2011 relates to an agreement with a counterparty which expired on December 31, 2011. We did not have significant monetization of this traffic, and as a result, we do not expect a significant impact on our advertising revenues as a result of the expiration of this agreement.

The source for our unique visitor information is a third party (comScore Media Metrix, or "Media Metrix"). While we are familiar with the general methodologies and processes that Media Metrix uses in estimating unique visitors, we have not performed independent testing or validation of Media Metrix's data collection systems or proprietary statistical models, and therefore we can provide no assurance as to the accuracy of the information that Media Metrix provides.

The following table presents our unique visitor metrics for the periods presented (in millions):

	Years Ended December 31,		
	2011	2010	2009
Domestic average monthly unique visitors to AOL Properties [a]	110	111	NA
Domestic average monthly unique visitors to AOL Advertising Network	184	184	179

(a) Media Metrix announced the availability of an alternate methodology to estimate unique visitors, in order to provide a more accurate count of a website's audience, and has continued to refine this methodology. We adopted this methodology for domestic unique visitors to AOL Properties starting December 2009 and going forward.

Subscriber Metrics

The primary metrics we monitor for our subscription access service are monthly average churn and average paid tenure. Monthly average churn represents on average the percentage of AOL-brand access subscribers that terminate or cancel our services each month, factoring in new and reactivated subscribers. The domestic AOL-brand access subscriber monthly average churn was 2.3%, 2.6% and 3.4% for the years ended December 31, 2011, 2010 and 2009, respectively. Average paid tenure represents the average period of time subscribers have paid for domestic AOL-brand internet access. The average paid tenure of the remaining domestic AOL-brand access subscribers has been increasing, and was approximately 10.6 years, 9.1 years and 8.2 years for the years ended December 31, 2011, 2010 and 2009, respectively.

Results of Operations

Revenues

The following table presents our revenues, by revenue type, for the periods presented (in millions):

	Years Ended December 31,				
	2011	2010	% Change from 2010 to 2011	2009	% Change from 2009 to 2010
Revenues:					
Advertising	$ 1,314.2	$ 1,284.1	2%	$ 1,736.7	(26)%
Subscription	803.2	1,023.6	(22)%	1,388.8	(26)%
Other	84.7	109.0	(22)%	120.3	(9)%
Total revenues	$ 2,202.1	$ 2,416.7	(9)%	$ 3,245.8	(26)%

The following table presents our revenues, by revenue type, as a percentage of total revenues for the periods presented:

	Years Ended December 31,		
	2011	2010	2009
Revenues:			
Advertising	60%	53%	54%
Subscription	36	42	43
Other	4	5	3
Total revenues	100%	100%	100%

Advertising Revenues

Advertising revenues are generated on AOL Properties through display advertising and search and contextual advertising, as described in "Overview—Our Business" herein. Agreements for advertising on AOL Properties typically take the form of impression-based contracts in which we provide impressions in exchange for a fixed fee (generally stated as cost-per-thousand impressions), time-based contracts in which we provide a minimum number of impressions over a specified time period for a fixed fee or performance-based contracts in which performance is measured in terms of either "click-throughs" when a user clicks on a company's advertisement or other user actions such as product/customer registrations, survey participation, sales leads or product purchases. In addition, agreements with advertisers can include other advertising-related elements such as content sponsorships, exclusivities or advertising effectiveness research.

In addition to advertising revenues generated on AOL Properties, we also generate revenues from our advertising offerings on the Third Party Network. We purchase advertising inventory from publishers (both large and small) in the Third Party Network, and sell this inventory by entering into impression-based or performance-based contracts with advertising customers. We use proprietary optimization, targeting and delivery technology to best match advertisers with available advertising inventory.

Advertising revenues on AOL Properties and the Third Party Network for the years ended December 31, 2011, 2010 and 2009 are as follows (in millions):

	Years Ended December 31,				
	2011	2010	% Change from 2010 to 2011	2009	% Change from 2009 to 2010
AOL Properties:					
Display	$ 573.4	$ 512.3	12%	$ 597.5	(14)%
Display—domestic	*530.1*	*464.5*	*14%*	*507.3*	*(8)%*
Display—international	*43.3*	*47.8*	*(9)%*	*90.2*	*(47)%*
Search and Contextual	357.1	428.1	(17)%	609.8	(30)%
Total AOL Properties	930.5	940.4	(1)%	1,207.3	(22)%
Third Party Network	383.7	343.7	12%	529.4	(35)%
Total advertising revenues	$ 1,314.2	$ 1,284.1	2%	$ 1,736.7	(26)%

2011 vs. 2010

Advertising revenues increased $30.1 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010, reflecting an $88.6 million increase in our core product offerings (including the impact of recent acquisitions), partially offset by a $58.5 million decline related to initiatives implemented by AOL in late 2009 and early 2010 in connection with restructuring our business.

Excluding the impact from the AOL-implemented initiatives discussed further below, advertising revenue for the year ended December 31, 2011 as compared to the year ended December 31, 2010 reflects increases in display revenue and Third Party Network revenue, partially offset by declines in search and contextual revenue. Display revenue increased $74.5 million primarily due to increased revenue from premium display advertising, a portion of which is attributable to our acquisitions of TechCrunch, Inc. ("TechCrunch") and The Huffington Post. The increase in display revenue also includes the impact of improved yield management across our properties, an increase in Patch revenues and an increase in performance-based fees related to marketing of third party products and services. The Third Party Network revenue increase of $70.1 million relates primarily to an increase in advertisers and publishers on the network and the acquisitions of goviral and 5Min. Domestic search and contextual revenue declined $40.3 million primarily related to fewer domestic queries, due in large part to a decline in queries from legacy cobranded portals and a 15% year-over-year decrease in domestic AOL-brand access subscribers. International search and contextual revenue declines of $15.7 million were due to fewer queries primarily in the United Kingdom. These declines in search and contextual revenue include an offsetting impact related to growth in search revenue on AOL.com.

Apart from the increase in our core product offerings, advertising revenue reflects declines of $58.5 million related to AOL-implemented initiatives to wind down or shut down certain products and shut down or reduce operations internationally. The impact of these initiatives included declines in Third Party Network revenue of $30.1 million associated with European shutdowns and de-emphasis of the typically low margin search engine campaign management and lead generation affiliate products. In addition, we experienced declines in search and contextual revenue of $15.0 million primarily due to declines of $12.2 million from ICQ which we sold in the third quarter of 2010. Display revenues declined $13.4 million due to the sale of ICQ, Digital Marketing Services, Inc. and Bebo, Inc. ("Bebo") in 2010, and due to our reduced operations in Germany and France.

2010 vs. 2009

Advertising revenues decreased $452.6 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009. Of this decline, $268.2 million was related to AOL-implemented initiatives and the remaining $184.4 million decline was related to our core product offerings.

AOL-implemented initiatives to wind down or shut down certain products and shut down or reduce operations internationally resulted in declines of $268.2 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009. The most significant impact from these initiatives drove declines in Third Party Network revenue of $177.1 million associated with European shutdowns and de-emphasis of the typically low margin search engine campaign management and lead generation affiliate products. In addition, we experienced declines in search and contextual revenue of $54.2 million, primarily due to the de-emphasis of our contextual products, fewer queries in Germany and France where we have reduced operations and declines of $14.3 million from ICQ which we sold in the third quarter of 2010. International display revenues declined by $36.9 million related to our reduced operations in Germany and France and the sale of Bebo and ICQ in 2010.

Apart from the impacts of the AOL-implemented initiatives, advertising revenue reflects further declines in search and contextual, display and Third Party Network revenue. Search and contextual revenue for the year ended December 31, 2010 declined $127.6 million as compared to the year ended December 31, 2009. Of this decline, $93.7 million reflects the impact of fewer domestic search queries on AOL Properties, related primarily to a 23% year-over-year decrease in domestic AOL-brand access subscribers as well as lower traffic on AOL Properties. The search and contextual revenue declines also include international declines of $33.9 million due to fewer queries primarily in the United Kingdom. Domestic display revenue declines of $45.1 million reflect a slight decline in premium inventory sales as well as the impact of less inventory from AOL Properties being monetized through the Third Party Network, resulting primarily from our efforts to improve the user experience. Premium inventory sales declines reflect the impact on sales of a salesforce reorganization in the first quarter of 2010, which resulted in subsequent quarters beginning with a significantly smaller sales pipeline. Domestic display revenue declines were partially offset by approximately $2.0 million related to acquisitions made in 2010. Third Party Network declines of $10.9 million reflect a reduction in sales due to increased competition at Ad.com and a reduction in contextual advertising. These Third Party Network declines were partially offset by an increase of $2.3 million related to acquisitions made in 2010.

Revenues Associated with Google

For all periods presented in this Annual Report, we have had a contractual relationship with Google whereby we generate revenues through paid text-based search and contextual advertising on AOL Properties provided by Google, which represent a significant percentage of the advertising revenues generated by AOL Properties. For the years ended December 31, 2011, 2010 and 2009, the revenues associated with the Google relationship (substantially all of which were search and contextual revenues generated on AOL Properties) were $335.3 million, $398.4 million and $556.7 million, respectively.

Subscription Revenues

Subscription revenues declined 22% for the year ended December 31, 2011 as compared to the year ended December 31, 2010. The decline was due to an approximate 15% decrease in the number of domestic AOL-brand access subscribers between December 31, 2010 and December 31, 2011. Excluding the migration of customers to an access subscription plan in the third quarter of 2011 discussed further below, our domestic AOL-brand access subscribers declined by 20% between December 31, 2010 and December 31, 2011. To a lesser extent, the decline in subscription revenues was due to a $0.45 decline in domestic average monthly revenue per AOL-brand access subscriber ("ARPU") including the nominal impacts of both the migration of customers to an access subscription plan and the simplified pricing structure discussed further below. In 2011, we resolved the final open dispute with the counterparty to whom we sold our German access business in 2007, resulting in a $3.1 million favorable impact, which compared to a $5.4 million favorable impact in prior year.

Subscription revenues declined 26% for the year ended December 31, 2010 as compared to the year ended December 31, 2009. The decline was due to an approximate 23% decrease in the number of domestic AOL-brand access subscribers between December 31, 2009 and December 31, 2010. Also contributing to the decline in subscription revenues was a $0.30 decline in ARPU. Partially offsetting these declines was $5.4 million related to the favorable resolution of a portion of a dispute with the counterparty to whom we sold our German access business in 2007.

The number of domestic AOL-brand access subscribers was 3.3 million, 3.9 million and 5.0 million at December 31, 2011, 2010 and 2009, respectively. ARPU was $17.71, $18.16 and $18.46 for the years ended December 31, 2011, 2010 and 2009, respectively. We include in our subscriber numbers individuals, households and entities that have provided billing information and completed the registration process sufficiently to allow for an initial log-on to the AOL access service. Individuals who have registered for our free offerings, including subscribers who have migrated from paid subscription plans, are not included in the AOL-brand access subscriber numbers presented above. Subscribers to our subscription access service contribute to our ability to generate advertising revenues.

During the third quarter of 2011, certain individuals who were not previously customers of an access subscription plan (and therefore not previously included in our count of AOL-brand access subscribers) were migrated to a higher priced plan that includes a number of additional features including access services. As a result, our domestic AOL-brand access subscribers at December 31, 2011 include approximately 200,000 subscribers related to this migration. Late in the third quarter of 2011, AOL began a process to simplify the number of price plans and service packages available to AOL-brand access subscribers. As a result, we provided additional features and services to approximately 1.4 million subscribers with a simplified pricing structure.

Other Revenues

Other revenues consist primarily of fees associated with our mobile e-mail and instant messaging functionality from mobile carriers, licensing revenues from third-party customers of MapQuest's business-to-business services and licensing revenues from licensing our proprietary ad serving technology to third parties through our subsidiary, ADTECH. In addition, other revenue also includes revenue from ticket sales related to technology events hosted by TechCrunch.

Other revenues decreased 22% for the year ended December 31, 2011, as compared to the year ended December 31, 2010, due primarily to a decrease in revenues from our mobile messaging services of $21.3 million as mobile carriers continue to move away from paying on a per message basis, a decline in third party web hosting revenues of $4.1 million, a decline in licensing revenues from MapQuest's business-to-business services of $2.1 million and a decrease in transition services revenue of $2.0 million. These declines were partially offset by increases in TechCrunch revenue of $3.4 million and an increase in ADTECH and other licensing revenues of $2.4 million.

Other revenues decreased 9% for the year ended December 31, 2010, as compared to the year ended December 31, 2009, due primarily to lower revenues from our mobile messaging services of $17.3 million as mobile carriers began to move away from paying on a per message basis and a decline in licensing revenues from

MapQuest's business-to-business services of $6.9 million. These declines were partially offset by increases in third party web hosting revenues of $8.8 million, increases in ADTECH and other licensing revenues of $2.7 million and increases in transition services revenue of $2.9 million.

Geographical Concentration of Revenues

For the periods presented herein, a significant majority of our revenues have been generated in the United States. Substantially all of the non-United States revenues for these periods were generated by our European operations (primarily in the United Kingdom). We expect the significant majority of our revenues to continue to be generated in the United States for the foreseeable future. See "Note 1" in our accompanying consolidated financial statements for further discussion of our geographical concentrations.

Operating Costs and Expenses

The following table presents our operating costs and expenses for the periods presented (in millions):

	Years Ended December 31,				
	2011	2010	% Change from 2010 to 2011	2009	% Change from 2009 to 2010
Costs of revenues	$ 1,584.4	$ 1,420.6	12%	$ 1,893.2	(25)%
General and administrative	440.0	491.2	(10)%	535.0	(8)%
Amortization of intangible assets	92.0	145.3	(37)%	137.9	5%
Amounts related to securities litigation and government investigations, net of recoveries	—	—	NM	27.9	(100)%
Restructuring costs	38.3	33.8	13%	189.2	(82)%
Goodwill impairment charge	—	1,414.4	(100)%	—	NM
(Gain) loss on disposal of assets and consolidated businesses, net	1.6	(106.0)	NM	—	NM

NM = not meaningful

The following table represents our operating costs and expenses as a percentage of revenues for the periods presented:

	Years Ended December 31,		
	2011	2010	2009
Operating costs and expenses:			
Costs of revenues	72%	59%	58%
General and administrative	20	20	17
Amortization of intangible assets	4	6	4
Amounts related to securities litigation and government investigations, net of recoveries	—	—	1
Restructuring costs	2	1	6
Subtotal of operating costs and expenses before goodwill impairment charge and (gain) loss on disposal of assets and consolidated businesses, net	98%	86%	86%
Goodwill impairment charge	—	59	—
(Gain) loss on disposal of assets and consolidated businesses, net	—	(4)	—
Total operating costs and expenses	98%	141%	86%

Costs of Revenues

The following categories of costs are generally included in costs of revenues: personnel and facilities costs, TAC, network-related costs, non-network depreciation and amortization and other costs of revenues. TAC consists of costs incurred through arrangements in which we acquire third-party online advertising inventory for resale and arrangements whereby partners distribute our free products or services or otherwise direct traffic to AOL Properties. TAC arrangements have a number of different economic structures, the most common of which are: payments based on a cost per thousand impressions or based on a percentage of the ultimate advertising revenues generated from the advertising inventory acquired for resale and payments for direct traffic delivered to AOL Properties priced on a per click basis (e.g., search engine marketing fees). These arrangements are primarily on a variable basis; however, the arrangements can also be on a fixed-fee basis, which often carry reciprocal performance guarantees by the counterparty, or a combination of fixed and variable.

Costs of revenues for the years ended December 31, 2011, 2010 and 2009 are as follows (in millions):

	Years Ended December 31,				
	2011	2010	% Change from 2010 to 2011	2009	% Change from 2009 to 2010
Costs of revenues:					
Personnel costs	$ 646.2	$ 494.6	31%	$ 598.1	(17)%
Facilities costs	57.3	41.5	38%	52.6	(21)%
TAC	305.5	297.7	3%	566.8	(47)%
Network-related costs	186.6	206.7	(10)%	283.2	(27)%
Non-network depreciation and amortization	70.5	83.6	(16)%	108.3	(23)%
Other costs of revenues	318.3	296.5	7%	284.2	4%
Total costs of revenues	$ 1,584.4	$ 1,420.6	12%	$ 1,893.2	(25)%

2011 vs. 2010

Costs of revenues increased due to an increase in personnel and facilities costs related to increases in areas of strategic focus, including the additional headcount and retention compensation from our 2010 and 2011 acquisitions, and hiring of new employees in Patch. The additional headcount drove increases of $156.4 million and the impact of retention compensation expense related to our 2010 and 2011 acquisitions drove increases of $29.4 million. The increases were partially offset by decreases in headcount in non-strategic areas.

TAC increased primarily due to a $32.3 million increase from higher variable revenue share payments to our publishing partners as a result of increased advertising revenues related to our core operations (including a $14.9 million increase in TAC as a result of our acquisitions of 5Min and goviral), partially offset by a $23.8 million decrease in costs associated with the AOL-implemented initiatives previously discussed.

The decrease in network-related costs is primarily due to a decline in domestic AOL-brand access subscribers. Cost of revenues for the year ended December 31, 2011 also included a decline in non-network depreciation and amortization due to a decline in depreciable assets.

Other costs of revenues increased primarily due to increased promotional events and administrative expenses of travel, telecommunications and supplies of $18.5 million, increased consulting costs of $9.4 million, $4.6 million of increased sales and use taxes, increased costs of $3.8 million relating to the launch of new paid services products, and increased ad serving expense of $3.8 million due to increased third party demand. These increases were offset by decreases in billing expense of $11.3 million primarily due to the decline in domestic AOL-brand access subscribers, a decline of $6.2 million due to a prior-year impairment and declines in internal content development costs of $4.3 million.

2010 vs. 2009

Costs of revenues decreased due to decreases in personnel and facilities costs, TAC costs, network-related costs and non-network related costs.

Personnel and facilities costs declined due to reduced headcount as a result of our 2009 restructuring initiatives. The declines related to our restructuring initiatives were partially offset by an increase of $33.2 million related to the impact of hiring new employees in areas of strategic focus and an increase of $23.4 million as we had lower capitalization of personnel costs in 2010 due to fewer product development projects qualifying for capitalization.

TAC decreased due to the decrease in advertising revenues, which drove a decline of $165.4 million primarily due to lower variable revenue share payments to our publishing partners. In addition, there were declines from a significant product distribution agreement, whereby payments previously were based on the number of personal computers shipped and payments are now based on a percentage of the advertising revenue we earn on the associated co-branded website. As a result, TAC associated with this agreement declined by $94.1 million.

Network-related costs declined due to declines in depreciation expense on network equipment due to a higher percentage of in-service assets being fully depreciated and declines in narrowband network and other network-related costs, partially due to terminated and renegotiated maintenance agreements and the decline in domestic AOL-brand access subscribers. Costs of revenues also included a decrease in non-network depreciation and amortization assets.

The decreases discussed above were partially offset by increased content costs of $16.3 million mainly related to Patch.

General and Administrative

General and administrative expenses decreased for the year ended December 31, 2011 as compared to the year ended December 31, 2010 due to a decline in personnel and facilities costs of $58.7 million mainly related to reduced corporate headcount as a result of 2010 strategic initiatives to align costs with our structure, declines in depreciation and amortization expense of $10.7 million, declines in bad debt expense of $3.5 million, and declines in marketing costs of $2.7 million. The decrease in general and administrative expenses for the year ended December 31, 2011 was offset by increases in acquisition-related expenses of $9.9 million primarily due to the acquisitions of The Huffington Post and goviral and an increase of $8.5 million related to a legal settlement in Q4 2011.

General and administrative expenses decreased for the year ended December 31, 2010 as compared to the year ended December 31, 2009. The decrease was due to declines in external legal costs and other legal matters of $25.1 million, a decline related to the resolution of a French value-added tax matter in 2009 of $14.7 million and declines in bad debt expense of $14.5 million due to improved collections on aged balances including the impact of the decline in subscribers. The decrease also included declines in personnel costs of $12.6 million related to reduced headcount, declines in depreciation and amortization expenses of $6.6 million and a $5.2 million decline related to a business tax expense recorded in 2009. Personnel cost declines included a reduction of $43.0 million related to reduced headcount as a result of our 2009 restructuring initiatives, partially offset by an increase in equity-based compensation expense of $17.9 million and an increase in recruiting expenses of $11.2 million including Patch. These decreases were partially offset by an increase in marketing costs of $23.3 million primarily associated with our rebranding efforts and support of our new products and initiatives including Patch, an increase in consulting costs of $8.2 million and an increase in other corporate costs of $6.5 million.

Amortization of Intangible Assets

Amortization of intangible assets results primarily from acquired intangible assets including acquired technology, customer relationships and trade names. Amortization of intangible assets decreased for the year ended December 31, 2011, as compared to the same period in 2010. The decrease was primarily due to a $78.3 million decline resulting from certain intangible assets being fully amortized in 2010 and early 2011, partially offset by an increase of $25.0 million resulting from our 2010 and 2011 acquisitions.

Amortization of intangible assets increased for the year ended December 31, 2010, as compared to the same period in 2009, due to our reevaluation of the useful lives of certain intangible assets in the fourth quarter of 2009 in connection with our restructuring initiatives, which resulted in incremental amortization expense of $31.5 million for the year ended December 31, 2010 and $7.4 million for the year ended December 31, 2009. The increase for the year ended December 31, 2010 was partially offset by a decline of $17.8 million due to certain intangible assets becoming fully amortized in 2009.

Amounts Related to Securities Litigation and Government Investigations, Net of Recoveries

Amounts related to securities litigation and government investigations, net of recoveries consist of legal settlement costs and legal and other professional fees incurred by Time Warner prior to the spin-off related to the defense of various securities lawsuits involving us or our or Time Warner's present or former officers and employees. While these amounts were historically incurred by Time Warner and reflected in Time Warner's financial results, they have been reflected as an expense and a corresponding additional capital contribution by Time Warner in our consolidated financial statements for the year ended December 31, 2009, as this year includes the period when we were a wholly-owned subsidiary of Time Warner and because these amounts involve us. We recognized $27.9 million of expense related to these matters for the year ended December 31, 2009. Following the spin-off, these costs continue to be incurred by Time Warner to the extent that proceeds from a settlement with insurers are available to pay those costs, and thereafter AOL has an obligation to indemnify Time Warner for such costs to the extent they are associated with present or former officers and employees of AOL. We do not view our remaining potential obligation related to this matter to be material.

Restructuring Costs

In connection with our restructuring initiatives, we incurred restructuring costs of $38.3 million for the year ended December 31, 2011 related to organizational changes made in an effort to improve our ability to execute our strategy. These restructuring costs related to the acquisition of The Huffington Post, a reassessment of our operations in India and actions in the United States to align our costs with our strategy, and were primarily related to involuntary terminations of employees ranging from executives to line personnel.

We incurred restructuring costs of $33.8 million and $189.2 million for the years ended December 31, 2010 and 2009, respectively, related to voluntary and involuntary employee terminations, facility closures and contract termination costs. The restructuring activities were completed in an effort to better align our organizational structure and costs with our strategy.

Goodwill Impairment Analyses

Goodwill is tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired.

We experienced a significant decline in our stock price leading up to and subsequent to the announcement on August 9, 2011 of our financial results for the three months ended June 30, 2011. We determined that the magnitude of this stock price decline along with the weakness in the overall equity markets constituted a substantive change in circumstances in August that could potentially reduce the fair value of our single reporting unit below its carrying amount. As such, an interim goodwill impairment test was performed during the third quarter of 2011. We also performed our annual goodwill impairment test during the fourth quarter of 2011. In both of these analyses, we determined that the estimated fair value of our sole reporting unit exceeded its book value and therefore no goodwill impairment charges were recorded in 2011. See "Note 3" for additional information on our goodwill impairment analysis.

We also performed a goodwill impairment analysis as a result of certain triggering events occurring during the second quarter of 2010. As a result, we recorded an impairment charge of $1,414.4 million for the three months ended June 30, 2010. No further impairment charges were recorded during 2010 and no goodwill impairment charges were recorded in 2009.

(Gain) Loss on Disposal of Assets and Consolidated Businesses, Net

The gain on disposal of assets and consolidated businesses, net for the year ended December 31, 2010 of $106.0 million was related to the sale of ICQ in the third quarter of 2010. The year ended December 31, 2011 includes $1.6 million of professional fees incurred related to the regulatory review of the sale of ICQ.

Operating Income (Loss)

Operating income was $45.8 million for the year ended December 31, 2011, as compared to operating loss of $982.6 million for the year ended December 31, 2010. This increase was due primarily to the goodwill impairment charge recorded in the second quarter of 2010, the decreases in amortization of intangible assets and decreases in general and administrative costs, partially offset by the decline in revenues, the increase in costs of revenues and the gain on the sale of ICQ recorded in 2010.

Operating loss was $982.6 million for the year ended December 31, 2010, as compared to operating income of $462.6 million for the year ended December 31, 2009. This decline was due to the goodwill impairment charge recorded in the second quarter of 2010 and the decline in revenues, partially offset by decreases in costs of revenues and in restructuring costs and the gain on the sale of ICQ.

Other Income Statement Amounts

The following table presents our other income statement amounts for the periods presented (in millions):

	Years Ended December 31,				
	2011	2010	% Change from 2010 to 2011	2009	% Change from 2009 to 2010
Other income (loss), net	$ (3.5)	$ 13.4	NM	$ (2.5)	NM
Income tax provision (benefit)	29.2	(178.5)	NM	208.7	NM
Discontinued operations, net of tax	—	8.2	(100) %	(2.9)	NM

Other Income (Loss), Net

Other loss, net was $3.5 million for the year ended December 31, 2011, as compared to other income, net of $13.4 million for the year ended December 31, 2010. This decrease was due primarily to the gains in 2010 from the sales of our investments in Kayak and Brightcove of $17.5 million and $8.0 million, respectively, partially offset by credit facility fees of $6.4 million incurred in 2010 and favorable foreign currency impacts of $2.3 million in 2011.

Other income, net was $13.4 million for the year ended December 31, 2010, as compared to other loss, net of $2.5 million for the year ended December 31, 2009. This increase was primarily due to the gains in 2010 from the sales of our investments in Kayak and Brightcove of $17.5 million and $8.0 million, respectively, and $5.2 million of transaction costs incurred in 2009 related to the spin-off, partially offset by unfavorable foreign currency impacts of $6.6 million and credit facility fees of $6.0 million incurred in 2010.

Income Tax Provision (Benefit)

We recorded income from continuing operations before income taxes of $42.3 million for the year ended December 31, 2011. Our effective tax rate for income from continuing operations was 69.0% for the year ended December 31, 2011 and differed from the statutory U.S. federal income tax rate of 35.0% due to the impact of foreign losses, for which no benefit is received on our U.S. income tax provision, and non-deductible acquisition-related expenses incurred in 2011. These items were partially offset by a tax benefit associated with a worthless stock deduction related to the sale of a subsidiary in the first quarter of 2011, and favorable adjustments related to escrow disbursements for which we have concluded we will be able to recognize a tax benefit. Additionally, the effective rate for the year ended December 31, 2011 increased over the effective rate for the prior year period due to the goodwill impairment charge recorded in the second quarter of 2010, the majority of which was non-deductible for income tax purposes. The significance of this primarily non-deductible charge relative to our operating income in 2010 had the effect of significantly lowering our 2010 effective tax rate. This effect was partially offset by the effect of the Bebo worthless stock deduction in 2010.

Our effective tax rate for income from continuing operations was 18.4% for the year ended December 31, 2010, as compared to an effective tax rate of 45.4% for the year ended December 31, 2009. The effective tax rate for the year ended December 31, 2010 differed from the statutory U.S. federal income tax rate of 35.0% and the effective tax rates for the year ended December 31, 2009 primarily related to the decrease in the effective tax rate related to the nondeductible portion of the goodwill impairment charge, partially offset by the effect of the Bebo worthless stock deduction. In addition, we recognized a benefit of $30.5 million related to state and local taxes, net of the federal income tax effect and a benefit of $8.2 million related to the release of foreign reserves, partially offset by $13.1 million provided to establish valuation allowances, the majority of which are related to foreign net operating losses. As a result of the goodwill impairment charge (the majority of which was non-deductible for income tax purposes), Bebo worthless stock deduction and the discrete items mentioned above, the effective tax rate for the year ended December 31, 2010 is significantly lower than the statutory U.S. federal income tax rate of 35.0%.

For the year ended December 31, 2010, we recorded an income tax benefit on discontinued operations of $27.6 million. This benefit was primarily derived from utilization of $21.9 million of the buy.at capital loss against other capital gains recognized during the year. See "Note 4" for additional information on the sale of buy.at and related capital loss deferred tax assets.

Discontinued Operations, Net of Tax

The financial results for the years ended December 31, 2010 and 2009 include the impact of reflecting the results of operations, financial condition and cash flows of buy.at as discontinued operations. We completed the sale of buy.at on February 26, 2010 and accordingly, the year ended December 31, 2010 included the results of operations of buy.at for the period from January 1, 2010 through February 26, 2010, the pre-tax loss on the sale of buy.at and the income tax benefit associated with the buy.at operations and sale.

Adjusted OIBDA

We use Adjusted OIBDA as a supplemental measure of our performance. We define Adjusted OIBDA as operating income before depreciation and amortization excluding the impact of restructuring costs, non-cash equity-based compensation, gains and losses on all disposals of assets (including those recorded in costs of revenues) and non-cash asset impairments and write-offs. We consider Adjusted OIBDA to be a useful metric for management and investors to evaluate and compare the ongoing operating performance of our business on a consistent basis across reporting periods, as it eliminates the effect of non-cash items such as depreciation of tangible assets, amortization of intangible assets that were primarily recognized in business combinations, asset impairments and write-offs, as well as the effect of restructurings and gains and losses on asset sales, which we do not believe are indicative of our core operating performance. We exclude the impacts of equity-based compensation to allow us to be more closely aligned with the industry and analyst community. A limitation of this measure, however, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our business or the current or future expected cash expenditures for restructuring costs. The Adjusted OIBDA measure also does not include equity-based compensation, which is and will remain a key element of our overall long-term compensation package. Moreover, the Adjusted OIBDA measures do not reflect gains and losses on asset sales or impairment charges and write-offs related to goodwill, intangible assets and fixed assets which impact our operating performance. We evaluate the investments in such tangible and intangible assets through other financial measures, such as capital expenditure budgets, investment spending levels and return on capital.

Adjusted OIBDA is a non-GAAP financial measure and may be different than similarly-titled non-GAAP financial measures used by other companies. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles ("GAAP").

The following table presents our reconciliation of Adjusted OIBDA to operating income (in millions):

	Years Ended December 31,				
	2011	2010	% Change from 2010 to 2011	2009	% Change from 2009 to 2010
Operating income (loss)	$ 45.8	$ (982.6)	NM	$ 462.6	NM
Add: Depreciation	160.9	196.3	(18)%	261.1	(25)%
Add: Amortization of intangible assets	92.0	145.3	(37)%	137.9	5%
Add: Restructuring costs	38.3	33.8	13%	189.2	(82)%
Add: Equity-based compensation	42.5	36.1	18%	12.5	NM
Add: Asset impairments and write-offs	7.6	1,426.5	(99)%	23.1	NM
Add: Losses/(gains) on disposal of consolidated businesses, net	1.6	(106.0)	NM	—	NM
Add: Losses/(gains) on other asset sales	(1.2)	(2.0)	(40)%	(2.5)	(20)%
Adjusted OIBDA	$387.5	$ 747.4	(48)%	$ 1,083.9	(31)%

Adjusted OIBDA declined for the year ended December 31, 2011 as compared to the year ended December 31, 2010 due to the declines in revenues and the increase in costs of revenues partially offset by declines in general and administrative costs discussed above.

Adjusted OIBDA declined for the year ended December 31, 2010 as compared to the year ended December 31, 2009 due to the declines in revenues, partially offset by lower costs of revenues and general and administrative costs, discussed above.

Liquidity and Capital Resources

Current Financial Condition

Historically, the cash we generate has been sufficient to fund our working capital, capital expenditure and financing requirements. Forecasts of future cash flows are dependent on many factors, including future economic conditions and the execution of our strategy. We expect to fund our ongoing working capital, investing and financing requirements, including future repurchases of common stock, through our existing cash balance and cash flows from operations. Increases in cash flows from operations are achieved when growth from our online advertising services more than offsets the decline in domestic AOL-brand access subscribers. In order for us to achieve an increase in earnings from advertising services, we believe it will be important to increase the number and engagement of consumers who visit our properties, to enable us to increase our overall volume of display advertising sold, including through our higher-priced channels, and to maintain or increase pricing for advertising. Advertising revenues, however, are more unpredictable and variable than our subscription revenues, and are more likely to be adversely affected during economic downturns, as spending by advertisers tends to be cyclical in line with general economic conditions.

If we are unable to successfully implement our strategic plan and grow the earnings generated by our online advertising services, we may need to reassess our cost structure and/or seek other financing alternatives to fund our business. We may also consider other financing alternatives, as a result of our recent acquisition activities. If it is necessary to seek other financing alternatives, our ability to obtain future financing will depend on, among other things, our financial condition and results of operations as well as the condition of the capital markets or other credit markets at the time we seek financing. Currently we do not have a credit rating from the credit rating agencies, so our access to the capital markets may be limited. As part of our ongoing assessment of our business and availability of capital and to enhance our liquidity position, we have divested of certain assets and product lines and may consider divesting of additional assets or product lines.

At December 31, 2011, our cash and equivalents totaled $407.5 million, as compared to $801.8 million at December 31, 2010. The overall decline in cash and equivalents was primarily due to the cash paid for our acquisitions of goviral and The Huffington Post and the cash paid for the repurchase of our common stock, partially offset by cash provided by continuing operations in 2011. Approximately 23% of our cash and equivalents as of December 31, 2011 is held internationally and is intended to be utilized to fund our foreign operations. Cash held internationally would have to be repatriated in order to be used to fund our domestic operations. If we were to repatriate funds, we would incur additional tax liabilities.

Summary Cash Flow Information

Our cash flows from operations are driven by net income adjusted for non-cash items such as depreciation, amortization, goodwill impairment, equity-based compensation expense and other activities impacting net income such as the gains and losses on the sale of assets or operating subsidiaries. Cash flows from investing activities consist primarily of the cash used in the acquisitions of various businesses as part of our strategy, proceeds received from the sale of assets or operating subsidiaries and cash used for capital expenditures. Capital expenditures and product development costs are mainly for the purchase of computer hardware, software, network equipment, furniture, fixtures and other office equipment. Cash flows from financing activities relate primarily to principal payments made on capital lease obligations and repurchases of common stock.

Operating Activities

The following table presents cash provided by continuing operations for the periods presented (in millions):

	Years Ended December 31,		
	2011	2010	2009
Net income (loss)	$ 13.1	$ (782.5)	$ 248.5
Less: Discontinued operations, net of tax	—	8.2	(2.9)
Net income (loss) from continuing operations	13.1	(790.7)	251.4
Adjustments for non-cash and non-operating items:			
Depreciation and amortization	252.9	341.6	399.0
Asset impairments and write-offs	7.6	1,426.5	23.1
(Gain) loss on sale of investments and consolidated businesses, net	1.6	(132.5)	0.2
Equity-based compensation	42.5	36.1	12.5
Amounts related to securities litigation and government investigations, net of recoveries	—	—	27.9
Deferred income taxes	23.3	(183.9)	(4.7)
All other, net, including working capital changes	(45.0)	(103.6)	197.3
Cash provided by continuing operations	$ 296.0	$ 593.5	$ 906.7

Cash provided by continuing operations decreased $297.5 million for the year ended December 31, 2011, as compared to the year ended December 31, 2010. Our operating income was $45.8 million for the year ended December 31, 2011, an increase of $1,028.4 million, as compared to the year ended December 31, 2010. Excluding the impact of the $1,414.4 million non-cash goodwill impairment charge in the second quarter of 2010, we generated operating income of $431.8 million during the year ended December 31, 2010. The decline in operating income (excluding the goodwill impairment charge) was the primary driver of the decline in cash provided by continuing operations. Additional declines resulted from higher bonus payments in 2011, as employee bonus payments in 2011 represented a full year bonus, whereas the payments in 2010 were for the second half of 2009 only, and our emphasis on cash collections in 2010 in the countries where we reduced operations or exited. These items were partially offset by lower TAC and restructuring costs paid during the year ended December 31, 2011 as compared to the same period in 2010.

Cash provided by continuing operations decreased $313.2 million for the year ended December 31, 2010, as compared to the year ended December 31, 2009. Our operating loss was $982.6 million for the year ended December 31, 2010, a decrease of $1,445.2 million as compared to the year ended December 31, 2009. Excluding the decline in operating income related to the $1,414.4 million non-cash goodwill impairment charge in 2010, operating income decreased by $30.8 million. This decrease in operating income along with the decrease in cash provided by changes in working capital drove the decline in cash provided by continuing operations. The decrease in cash provided by working capital was due primarily to restructuring costs incurred in 2009 and paid in 2010.

Investing Activities

The following table presents cash provided (used) by investing activities for the periods presented (in millions):

	Years Ended December 31,		
	2011	2010	2009
Investments and acquisitions, net of cash acquired	$ (377.9)	$ (154.0)	$ (18.1)
Proceeds from disposal of assets and consolidated businesses, net	4.7	344.2	2.2
Capital expenditures and product development costs	(82.3)	(95.9)	(135.3)
Investment activities from discontinued operations	—	14.8	(0.5)
Cash provided (used) by investing activities	$ (455.5)	$ 109.1	$ (151.7)

Cash used by investing activities was $455.5 million for the year ended December 31, 2011, as compared to cash provided by investing activities of $109.1 million for the year ended December 31, 2010. The increase in cash used by investing activities was principally due to the acquisitions of The Huffington Post for $291.9 million and goviral for $69.1 million during the year ended December 31, 2011 as well as the net proceeds from the sale of ICQ of $173.1 million and Pacific Corporate Park of $127.9 million during the year ended December 31, 2010.

Cash provided by investing activities was $109.1 million for the year ended December 31, 2010, as compared to cash used by investing activities of $151.7 million for the year ended December 31, 2009. The increase in cash provided by investing activities was due to the net cash proceeds received in the year ended December 31, 2010 from the sale of ICQ and Pacific Corporate Park as well as a decrease in capital expenditures and product development costs, partially offset by an increase in cash used for acquisitions. The increase in cash used for acquisitions is due to the acquisition of 5Min, Thing Labs, Inc., TechCrunch, Pictela, About.me and StudioNow during 2010.

Financing Activities

The following table presents cash used by financing activities for the periods presented (in millions):

	Years Ended December 31,		
	2011	2010	2009
Repurchase of common stock	$ (173.6)	$ —	$ —
Principal payments on capital leases	(49.0)	(37.5)	(31.1)
Net distribution to Time Warner	—	—	(709.3)
Tax withholdings related to net share settlements of restricted stock units	(0.4)	(4.3)	—
Increase in cash collateral securing letters of credit	(11.8)	—	—
Other	—	—	(9.2)
Cash used by financing activities	$ (234.8)	$ (41.8)	$(749.6)

Cash used by financing activities increased $193.0 million for the year ended December 31, 2011, as compared to the year ended December 31, 2010. The cash used by financing activities for the year ended December 31, 2011 includes $173.6 million related to the repurchase of our common stock. See "Note 7" in our accompanying consolidated financial statements for further discussion of our stock repurchase program. In addition, cash used by financing activities relates to our principal payments on capital leases, which were higher in 2011 as we are currently leasing more network equipment than in prior years. Our obligations under capital leases increased by $24.7 million from December 31, 2010 to December 31, 2011, net of principal payments. In addition, included in the cash used by financing activities for the year ended December 31, 2011 was $11.8 million of cash collateral posted to secure letters of credit related to certain of our lease agreements. Previously, our letters of credit were guaranteed by Time Warner. See "Note 1" in our accompanying consolidated financial statements for further discussion of our restricted cash.

Cash used by financing activities was $41.8 million for the year ended December 31, 2010, compared to $749.6 million for the year ended December 31, 2009. This change was due to the $709.3 million of net cash distributed to Time Warner in the year ended December 31, 2009, as we swept the majority of our domestic cash to Time Warner prior to the spin-off.

Free Cash Flow

We use Free Cash Flow as a supplemental measure of our performance. We define Free Cash Flow as cash provided by continuing operations, less capital expenditures, product development costs and principal payments on capital leases. We consider Free Cash Flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the continuing business that, after capital expenditures, capitalized product development costs and principal payments on capital leases, can be used for strategic opportunities, including investing in our business, making strategic acquisitions and strengthening the balance sheet. Analysis of Free Cash Flow also facilitates management's comparisons of our operating results to competitors' operating results. A limitation on the use of this metric is that Free Cash Flow does not represent the total increase or decrease in cash for the period because it excludes the identified non-operating cash flows and the results of discontinued operations.

Free Cash Flow is a non-GAAP financial measure and may be different than similarly-titled non-GAAP financial measures used by other companies. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

The following table presents our reconciliation of Free Cash Flow to cash provided by continuing operations (in millions):

	Years Ended December 31,		
	2011	**2010**	**2009**
Cash provided by continuing operations	$ 296.0	$ 593.5	$ 906.7
Less: Capital expenditures and product development costs	82.3	95.9	135.3
Less: Principal payments on capital leases	49.0	37.5	31.1
Free Cash Flow	$ 164.7	$ 460.1	$ 740.3

Free Cash Flow decreased for the year ended December 31, 2011 as compared to the year ended December 31, 2010. This decrease is due to the decline in cash provided by continuing operations, discussed in "Summary Cash Flow Information—Operating Activities" above and due to the increase in principal payments on capital leases, discussed in "Summary Cash Flow Information—Financing Activities" above, partially offset by reduced capital expenditures and product development costs.

Free Cash Flow decreased for the year ended December 31, 2010 as compared to the year ended December 31, 2009. This decrease is due to the decline in cash provided by continuing operations, discussed in "Summary Cash Flow Information—Operating Activities" above, partially offset by reduced capital expenditures and product development costs.

Contractual Obligations and Commitments

We have obligations under certain contractual arrangements to make future payments for goods and services. These contractual obligations secure the future rights to various assets and services to be used in the normal course of operations. For example, we are contractually committed to make certain minimum lease payments for the use of property under operating lease agreements. In accordance with applicable accounting rules, the future rights and obligations pertaining to firm commitments, such as operating lease obligations and certain purchase obligations under contracts, are not reflected as assets or liabilities in the accompanying consolidated balance sheets.

The following table presents certain payments due under contractual obligations with minimum firm commitments as of December 31, 2011 (in millions):

	Total	2012	2013-2014	2015-2016	Thereafter
Capital lease obligations	$ 119.5	$ 49.6	$ 65.9	$ 4.0	$ —
Net operating lease obligations	310.6	45.9	80.4	63.3	121.0
Purchase obligations	100.7	62.3	36.3	1.4	0.7
Other liabilities	27.0	15.7	11.3	—	—
Total contractual obligations	$ 557.8	$ 173.5	$ 193.9	$ 68.7	$ 121.7

The following is a description of our material contractual obligations at December 31, 2011:

- Capital lease obligations represent the minimum lease payments under non-cancelable capital leases, primarily for network equipment financed under capital leases. See "Note 5" in our accompanying consolidated financial statements for more information.

- Net operating lease obligations represent the minimum lease payments under non-cancelable operating leases, net of contractually committed sublease income, primarily for our real estate and operating equipment in various locations around the world. Included in the above table are approximately $196.8 million of payments associated with the lease of our corporate headquarters in New York. We have leased our corporate headquarters for a non-cancelable initial lease term that ends February 2023, and we have the option to extend the lease for an additional five years. Monthly rental payments to the landlord under this lease escalate by approximately 7% after the end of the fifth year and tenth year of the lease term. In 2010 AOL entered into a new lease of a building in California, and included in the above table are approximately $54.8 million of payments associated with this property. AOL has leased this space for a non-cancelable initial lease term that ends in June 2017 with no renewal options. Rent was abated for the first nine months of the lease term with partial rent abatement for an additional three months. Only operating expenses were paid during the rent abatement period. Also included in the above table are payments for ongoing leases associated with AOL's restructuring activities. AOL has recorded a liability on the balance sheet of $7.1 million related to these payments. See "Note 10" in our accompanying consolidated financial statements for more information.

- Purchase obligations, as used herein, refer to a purchase obligation representing an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. We expect to receive consideration (*i.e.*, products or services) for these purchase obligations. The purchase obligation amounts do not represent the entire anticipated purchases in the future, but represent only those items for which we are contractually obligated. Examples of the types of obligations included within purchase obligations include narrowband network agreements and guaranteed royalty payments. Additionally, we also purchase products and services as needed with no firm commitment. For this reason, the amounts presented in the table above do not provide a reliable indicator of our expected future cash outflows. For purposes of identifying and accumulating purchase obligations, we have included all material contracts with an initial contractual term in excess of one year meeting the definition of a purchase obligation (*e.g.*, legally binding for a fixed or minimum amount or quantity). For those contracts involving a fixed or minimum quantity but with variable pricing terms, we have estimated the contractual obligation based on our best estimate of the pricing that will be in effect at the time the obligation is incurred. Additionally, we have included only the obligations represented by those contracts as they existed at December 31, 2011, and did not assume renewal or replacement of the contracts at the end of their respective terms. See "Note 10" in our accompanying consolidated financial statements.

- Other liabilities consist of deferred compensation arrangements associated with acquisitions made in 2010 and 2011 where our overall obligation to the acquired employees (taken as a whole) is not contingent in nature. See "Note 4" of our accompanying consolidated financial statements.

The liability for uncertain tax positions of $0.6 million is not reflected in the above contractual obligations table as we are not able to reasonably estimate the timing of payments in individual years due to uncertainties in the timing of audit outcomes.

Off-Balance Sheet Arrangements

As of December 31, 2011, we did not have any relationships with unconsolidated special purpose entities or financial partnerships for the purpose of facilitating off-balance sheet arrangements.

Indemnification Obligations

In the ordinary course of business, we incur indemnification obligations of varying scope and terms to third parties, which could include, without limitation, customers, vendors, distributors, licensors, licensees, lessors, purchasers of assets or operating subsidiaries and other parties related to certain matters, including losses arising out of our breach of agreements or representations and warranties made by us, services, software, data or content to be provided by us, taxes, tariffs, our use of services, software, data or content provided by third parties, the export or import of our software or data, compliance with applicable laws and regulations, infringement of third party intellectual property or property rights or, with respect to the divestiture of assets or operating subsidiaries, matters related to our conduct of the business and tax matters prior to the sale. It is not possible to determine the aggregate maximum potential loss under such indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Historically, we have not incurred material costs as a result of claims made in connection with indemnifications provided and, as of December 31, 2011, management concluded that the likelihood of any material amounts being paid by us under such indemnifications is not reasonably possible. As of December 31, 2011, amounts accrued in our financial statements related to indemnification obligations are not material.

Customer Credit Risk

Customer credit risk represents the potential for financial loss if a customer is unwilling or unable to meet its agreed-upon contractual payment obligations. Credit risk originates from sales of advertising and subscription access service and is dispersed among many different counterparties.

We had gross accounts receivable of approximately $319.8 million and maintained an allowance for doubtful accounts of $8.3 million at December 31, 2011. Our exposure to customer credit risk relates primarily to our advertising customers and individual subscribers to our subscription access service, and is dispersed among many different counterparties. No single customer had a receivable balance at December 31, 2011 greater than 10% of total net receivables.

Customer credit risk is monitored on a company-wide basis. We maintain a comprehensive approval process prior to issuing credit to third-party customers. On an ongoing basis, we track customer exposure based on news reports, rating agency information and direct dialogue with customers. Counterparties that are determined to be of a higher risk are evaluated to assess whether the payment terms previously granted to them should be modified. We also continuously monitor payment levels from customers, and a provision for estimated uncollectible amounts is maintained based on historical experience and any specific customer collection issues that have been identified. While such uncollectible amounts have historically been within our expectations and related reserve balances, if there is a significant change in uncollectible amounts in the future or the financial condition of our counterparties across various industries or geographies deteriorates further, additional reserves may be required.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Management considers an accounting policy to be critical if it is important to our financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by our management. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach different conclusions. We consider the policies related to the following matters to be critical accounting policies: (a) gross versus net revenue recognition; (b) impairment of goodwill; and (c) income taxes.

Gross versus Net Revenue Recognition

We generate a significant portion of our advertising revenues from our advertising offerings on the Third Party Network, which consist of sales of display and video advertising. In connection with our advertising offerings on the Third Party Network, we typically act as or use an intermediary or agent in executing transactions with third parties. The significant judgments made in accounting for these arrangements relate to determining whether we should report revenue based on the gross amount billed to the customer or on the net amount received from the customer after commissions and other payments to third parties. To the extent revenues are recorded on a gross basis, any commissions or other payments to third parties are recorded as costs of revenues so that the net amount (gross revenues less expense) is reflected in operating income. Accordingly, the impact on operating income is the same whether we record revenue on a gross or net basis.

The determination of whether revenue should be reported gross or net is based on an assessment of whether we are acting as the principal or an agent in the transaction. If we are acting as a principal in a transaction, we report revenue on a gross basis. If we are acting as an agent in a transaction, we report revenue on a net basis. The determination of whether we are acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of an arrangement. We recognize revenue on a gross basis in situations in which we believe we are the principal in the transactions, considering all of the indicators set forth in the accounting guidance for principal agent considerations. While none of the indicators individually are considered presumptive or determinative, in reaching our conclusions on gross versus net revenue recognition, we place the most weight on the analysis of whether or not we are the primary obligor in the arrangement.

The determination of whether we should report our revenue based on the gross amount billed to our advertising customers, with the amounts paid to the Third Party Network website owner (for the advertising inventory acquired) reported as costs of revenues, requires a significant amount of judgment based on an analysis of several factors. In these arrangements, we are generally responsible for (i) identifying and contracting with third-party advertisers, (ii) establishing the selling prices of the inventory sold, (iii) serving the advertisements at our cost and expense, (iv) performing all billing and collection activities including retaining credit risk and (v) bearing sole liability for fulfillment of the advertising. Accordingly, in these arrangements, we generally believe we are the primary obligor and therefore report revenues earned and costs incurred related to these transactions on a gross basis. During 2011, we earned and reported gross advertising revenues of $383.7 million and incurred costs of revenues of $264.7 million related to providing advertising services on the Third Party Network.

Impairment of Goodwill

Goodwill is tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. These indicators include a sustained, significant decline in our stock price; a decline in our expected future cash flows; significant disposition activity; a significant adverse change in the economic or business environment; and the testing for recoverability of a significant asset group, among others. The occurrence of these indicators could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.

The testing of goodwill for impairment is required to be performed at the level referred to as the reporting unit. A reporting unit is either the "operating segment level" or one level below, which is referred to as a "component." The level at which the impairment test is performed requires judgment as to whether there exist any components below the operating segment that constitute one or more self-sustaining businesses with discrete results reviewed by management. If the operations below the operating segment level are determined to be one or more self-sustaining businesses with discrete results reviewed by management, testing is generally required to be performed at this level; however, if multiple self-sustaining business units exist within an operating segment, an evaluation would be performed to determine if the multiple business units share resources that support the overall goodwill balance and should be combined for purposes of this test. For purposes of our goodwill impairment test, we operate as a single reporting unit, as management does not regularly review discrete financial information below the consolidated unit level.

There is considerable judgment involved in determining the operating segments, which impacts our reporting unit conclusion. We have concluded that we have one operating segment based on the fact that our Chief Executive Officer, who is also our chief operating decision maker, evaluates performance and makes operating decisions based on consolidated financial data. Additionally, there are no managers who are held accountable by our chief operating decision maker, or anyone else, for an operating measure of profit or loss for any operating unit below the consolidated unit level. Based on the facts above, we also concluded for purposes of our impairment analysis that AOL consists of a single reporting unit. This conclusion is also based on the shared infrastructure and interdependency of our revenue streams. Different judgments relating to the determination of reporting units could significantly affect the testing of goodwill for impairment and the amount of any impairment recognized.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of our reporting unit to its carrying amount, including goodwill. If the estimated fair value of our reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of our reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. To measure the amount of impairment loss, if any, we determine the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination. Specifically, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

We experienced a significant decline in our stock price leading up to and subsequent to the announcement on August 9, 2011 of our financial results for the three months ended June 30, 2011. We determined that the magnitude of this stock price decline along with the weakness in the overall equity markets constituted a substantive change in circumstances in August that could potentially reduce the fair value of our single reporting unit below its carrying amount. Accordingly, we tested goodwill for impairment as of August 31, 2011 (the "interim testing date"). We also performed our annual impairment test as of December 1, 2011.

In performing each of these impairment tests, the estimated fair value of our reporting unit was determined utilizing a market-based approach, with the quoted market price of our stock in an active market as the primary input. To determine the estimated fair value of our reporting unit as of August 31, 2011, we calculated our market capitalization based on our stock price and adjusted it by a control premium of 50%, which resulted in an estimated fair value of $2,455.8 million. From August 31, 2011 to the date of our annual goodwill impairment test, while the Company's stock price declined, our actual operating income slightly exceeded our projections and our long-term projections did not materially change during that period. Given these trends, we determined as of December 1, 2011 that it was appropriate to adjust our market capitalization with a control premium of 70%, which resulted in an estimated fair value for our reporting unit of $2,318.1 million as of December 1, 2011. The premium used to arrive at a controlling interest equity value in each of these cases was determined based in part on values observed in recent market transactions, and based in part on the value of other assets that a marketplace participant could benefit from in acquiring a controlling interest in our reporting unit.

Determining the fair value of our reporting unit requires the exercise of significant judgment, primarily related to the premium used to arrive at a controlling interest equity value used in the market-based approach. The control premium is determined based in part on recent market transactions and also takes into account recent trends in market capitalization as of the date of the impairment test, and therefore the control premium determined herein does not necessarily correlate to a control premium determined in the past or future goodwill impairment analyses. Significant changes in the estimates and assumptions used in deriving our control premium could materially affect the determination of fair value for our reporting unit, which could impact the magnitude of an impairment loss (if any) recognized or trigger future impairment. Due to the significant judgments used in deriving the control premium, the fair value of our single reporting unit determined in connection with the goodwill impairment test may not necessarily be indicative of the actual value that would be recognized in any future transaction.

The reasonableness of the market-based approach was assessed by reference to a discounted cash flow ("DCF") measure as another fair value indicator. Determining fair value using the DCF approach requires the exercise of significant judgment, including judgments about appropriate discount rates, terminal growth rates and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis are based on our most recent budgets, forecasts and business plans as well as various growth rate assumptions for years beyond the current business plan period. Discount rate assumptions are based on an assessment of the risk inherent in the future revenue streams and cash flows of the reporting unit. Based on the decline in our stock price from the 2010 impairment analysis to the December 2011 impairment analysis, we concluded that it was appropriate to increase the discount rates used from 2010 to December 2011. We also concluded that it was appropriate to factor into the analysis certain other assets that would be of value to a marketplace participant, including certain intellectual property and tax benefits. In both the interim and annual impairment analyses in 2011, the estimated fair value determined using the DCF approach was consistent with, but also slightly in excess of, the estimated fair value determined using the market-based approach. The results of the DCF approach provided significant additional support for our conclusion that the control premium used to arrive at a controlling interest equity value was reasonable.

Based on the goodwill impairment analyses performed in the third and fourth quarter of 2011, the estimated fair value of our sole reporting unit exceeded its carrying amount and therefore no impairment charge was recorded for the year ended December 31, 2011. As the market-based approach is based in part on market capitalization, volatility in the stock price could have a significant impact on the estimated fair value of the sole reporting unit. If the estimated fair value of our reporting unit had been hypothetically lower by 5% as of the date of the interim or annual impairment test, the fair value of our reporting unit in both cases would have still exceeded its book value. However, if the estimated fair value of our reporting unit had been hypothetically lower by 10% as of the date of the interim or annual impairment test, the book value of our reporting unit in both cases would have exceeded fair value. If the book value of our reporting unit had been greater than fair value, the second step of the goodwill impairment test would have been required to be performed to determine the implied fair value of goodwill, and would likely have resulted in a significant goodwill impairment charge.

Income Taxes

Subsequent to the spin-off, AOL began to file its own U.S. federal consolidated income tax return (beginning with the short period December 10 – December 31, 2009) and income taxes are presented in the consolidated financial statements using the asset and liability method prescribed by the accounting guidance for income taxes. Prior to the spin-off, income taxes as presented in the consolidated financial statements represented current and deferred income taxes of Time Warner attributed to us in a manner that is systematic, rational and consistent with the asset and liability method prescribed by the accounting guidance for income taxes. AOL's income tax provision prior to the spin-off was prepared under the "separate return method." The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if AOL were a separate taxpayer and a standalone enterprise.

Income taxes (*i.e.*, deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between GAAP and tax reporting. Deferred income taxes reflect expected future tax benefits (i.e., assets) and future tax costs (i.e., liabilities). The tax effect of net operating losses, capital losses and general business credit carryovers result in deferred tax assets. The tax effect of temporary differences between the carrying amount of assets and liabilities for financial statement and the basis amount for income tax purposes, as determined based upon currently-enacted tax laws and rates, result in deferred tax assets and liabilities. Significant judgments are made in computing our income tax provision and deferred income taxes.

Valuation allowances are established when management determines it is "more likely than not" that some portion or all of the deferred tax asset will not be realized. We consider all positive and negative evidence in evaluating our ability to realize our deferred income tax assets, including our operating results, ongoing tax planning, and forecast of future taxable income, on a jurisdiction by jurisdiction basis. Significant judgment is required with respect to the determination of whether or not a valuation allowance is required for certain of our deferred tax assets.

We performed an analysis of the recoverability of our deferred tax assets as of December 31, 2011, which took into consideration our historical operating results, including the effects of goodwill impairment charges recorded in 2010 and 2008, as well as our projections of future operating results and taxable income. Certain deferred tax assets related to capital losses, certain state net operating losses, the majority of the foreign net operating losses and certain other foreign temporary differences did not reach the "more likely than not" realizability criteria and accordingly, were already subject to a valuation allowance. We analyzed the remaining deferred tax assets using all positive and negative evidence to determine whether we met the "more likely than not" criteria. We considered the fact that we have reported a cumulative loss in recent years, which generally provides negative evidence regarding realizability of deferred tax assets. However, such losses resulted from the goodwill impairment charges recorded in 2010 and 2008, a substantial majority of which had no impact on taxable income, as these charges primarily related to non-deductible goodwill. Our conclusion that such remaining deferred tax assets were "more likely than not" realizable relied primarily on the weight of positive evidence related to projecting future taxable income based on management's financial projections and based on our historical results of operations (excluding impairment charges related to non-deductible goodwill). We currently expect positive growth in our projected taxable income over our long-term planning horizon as we focus our resources on AOL's core competitive strengths in web and local content production, advertising and paid services while expanding the distribution of our content, product and service offerings on multiple platforms and digital devices, including on portable wireless devices such as smartphones and tablets. As a result of this analysis, we concluded that our deferred tax assets, other than those for which a valuation allowance was recorded, continued to be more likely than not to be realized. However, in the circumstance that the financial projections are not achieved, our ability to realize these deferred tax assets may be significantly impacted.

From time to time, we engage in transactions in which the tax consequences may be subject to uncertainty. Examples of such transactions include business acquisitions and dispositions, including dispositions designed to be tax-free, issues related to consideration paid or received and certain financing transactions. Significant judgment is required in assessing and estimating the tax consequences of these transactions. We prepare and file tax returns based on interpretation of tax laws and regulations. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining our tax provision for financial reporting purposes, we establish a reserve for uncertain tax positions unless such positions are determined to be "more likely than not" of being sustained upon examination, based on their technical merits. That is, for financial reporting purposes, we only recognize tax benefits taken on the tax return that we believe are "more likely than not" of being sustained. We record a liability for the difference between the benefit recognized and measured pursuant to the accounting guidance for income taxes and the tax position taken on our tax return. There is considerable judgment involved in determining whether positions taken on the tax return are "more likely than not" of being sustained. Actual results could differ from the judgments and estimates made, and we may be exposed to losses or gains that could be material. Further, to the extent we prevail in matters for which a liability has been established, or are required to pay amounts in excess of the liability established, our effective income tax rate in a given financial statement period could be materially affected.

Recent Accounting Standards Impacting Future Periods

In September 2011, new guidance was issued related to assessing goodwill impairment. The amendment provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any.

The amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. This new guidance became effective for AOL in January 2012. Given the proximity of our book value and fair value (as discussed in Note 3), we currently do not expect this new guidance to change the way we perform our analysis for goodwill.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential gain or loss arising from changes in market rates and prices, which historically for us, has been associated primarily with changes in foreign currency exchange rates. We transact business in various foreign currencies which exposes us to the risk of fluctuations in foreign currency exchange rates. At December 31, 2011, while the majority of our cash balance was denominated in U.S. dollars, cash denominated in foreign currencies made up approximately 23% of total cash, including 13% in Euros, 3% in British pounds, 3% in Canadian dollars and 2% in Indian rupees.

We used derivative instruments (principally foreign exchange forward contracts), which historically were entered into by Time Warner on our behalf, to manage the risk associated with exchange rate volatility. Prior to the spin-off, all outstanding derivative instruments were settled. Subsequent to the spin-off and through December 31, 2011, we have not entered into any derivative instruments or hedges. While we may enter into derivative instruments or hedges in the future, we do not currently believe our exposure to foreign exchange risk is significant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of AOL Inc.

We have audited the accompanying consolidated balance sheets of AOL Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AOL Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AOL Inc.'s internal control over financial reporting as of December 31, 2011 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 24, 2012

AOL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Years Ended December 31, 2011	2010	2009
Revenues:			
Advertising	$ 1,314.2	$ 1,284.1	$ 1,736.7
Subscription	803.2	1,023.6	1,388.8
Other	84.7	109.0	120.3
Total revenues	2,202.1	2,416.7	3,245.8
Costs of revenues	1,584.4	1,420.6	1,893.2
General and administrative	440.0	491.2	535.0
Amortization of intangible assets	92.0	145.3	137.9
Amounts related to securities litigation and government investigations, net of recoveries	—	—	27.9
Restructuring costs	38.3	33.8	189.2
Goodwill impairment charge	—	1,414.4	—
(Gain) loss on disposal of assets and consolidated businesses, net	1.6	(106.0)	—
Operating income (loss)	45.8	(982.6)	462.6
Other income (loss), net	(3.5)	13.4	(2.5)
Income (loss) from continuing operations before income taxes	42.3	(969.2)	460.1
Income tax provision (benefit)	29.2	(178.5)	208.7
Income (loss) from continuing operations	13.1	(790.7)	251.4
Discontinued operations, net of tax	—	8.2	(2.9)
Net income (loss)	$ 13.1	$ (782.5)	$ 248.5
Less: Net loss attributable to noncontrolling interests	—	—	0.3
Net income (loss) attributable to AOL Inc.	$ 13.1	$ (782.5)	$ 248.8
Amounts attributable to AOL Inc.:			
Income (loss) from continuing operations	$ 13.1	$ (790.7)	$ 251.7
Discontinued operations, net of tax	—	8.2	(2.9)
Net income (loss) attributable to AOL Inc.	$ 13.1	$ (782.5)	$ 248.8
Per share information attributable to AOL Inc. common stockholders:			
Basic income (loss) per common share from continuing operations	$ 0.13	$ (7.42)	$ 2.38
Discontinued operations, net of tax	—	0.08	(0.03)
Basic net income (loss) per common share	$ 0.13	$ (7.34)	$ 2.35
Diluted income (loss) per common share from continuing operations	$ 0.12	$ (7.42)	$ 2.38
Discontinued operations, net of tax	—	0.08	(0.03)
Diluted net income (loss) per common share	$ 0.12	$ (7.34)	$ 2.35
Shares used in computing basic income per common share	104.2	106.6	105.8
Shares used in computing diluted income per common share	106.0	106.6	105.8

See accompanying notes.

AOL INC.

CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and equivalents	$ 407.5	$ 801.8
Accounts receivable, net of allowances of $8.3 and $16.1, respectively	311.5	307.7
Prepaid expenses and other current assets	36.9	46.8
Deferred income taxes	53.7	82.9
Total current assets	809.6	1,239.2
Property and equipment, net	505.2	529.2
Goodwill	1,064.0	810.9
Intangible assets, net	135.2	99.6
Long-term deferred income taxes	259.2	258.4
Other long-term assets	51.8	25.0
Total assets	$ 2,825.0	$ 2,962.3
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 74.9	$ 80.0
Accrued compensation and benefits	152.8	114.5
Accrued expenses and other current liabilities	171.6	236.3
Deferred revenue	70.9	92.6
Current portion of obligations under capital leases	44.6	35.2
Total current liabilities	514.8	558.6
Obligations under capital leases	66.2	50.9
Deferred income taxes	3.5	—
Other long-term liabilities	67.9	65.9
Total liabilities	652.4	675.4
Commitments and contingencies (See Note 10)		
Stockholders' equity:		
Common stock, $0.01 par value, 107.0 million shares issued and 94.3 million shares outstanding as of December 31, 2011 and 106.7 million shares issued and outstanding as of December 31, 2010	1.1	1.1
Additional paid-in capital	3,422.4	3,376.6
Accumulated other comprehensive loss, net	(287.5)	(287.9)
Accumulated deficit	(789.8)	(802.9)
Treasury stock, at cost, 12.7 million shares at December 31, 2011	(173.6)	—
Total stockholders' equity	2,172.6	2,286.9
Total liabilities and stockholders' equity	$ 2,825.0	$ 2,962.3

See accompanying notes.

AOL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended December 31,		
	2011	2010	2009
Operating Activities			
Net income (loss)	$ 13.1	$ (782.5)	$ 248.5
Less: Discontinued operations, net of tax	—	8.2	(2.9)
Net income (loss) from continuing operations	13.1	(790.7)	251.4
Adjustments for non-cash and non-operating items:			
Depreciation and amortization	252.9	341.6	399.0
Asset impairments and write-offs	7.6	1,426.5	23.1
(Gain) loss on sale of investments and consolidated businesses, net	1.6	(132.5)	0.2
Equity-based compensation	42.5	36.1	12.5
Amounts related to securities litigation and government investigations, net of recoveries	—	—	27.9
Other non-cash adjustments	2.4	10.6	7.1
Deferred income taxes	23.3	(183.9)	(4.7)
Changes in operating assets and liabilities, net of acquisitions			
Receivables	12.2	129.6	56.7
Accrued expenses	(29.2)	(168.7)	123.6
Deferred revenue	(24.0)	(21.5)	(28.2)
Other balance sheet changes	(6.4)	(53.6)	38.1
Cash provided by continuing operations	296.0	593.5	906.7
Cash provided (used) by discontinued operations	—	(1.1)	1.4
Cash provided by operating activities	**296.0**	**592.4**	**908.1**
Investing Activities			
Investments and acquisitions, net of cash acquired	(377.9)	(154.0)	(18.1)
Proceeds from disposal of assets and consolidated businesses, net	4.7	344.2	2.2
Capital expenditures and product development costs	(82.3)	(95.9)	(135.3)
Investment activities from discontinued operations	—	14.8	(0.5)
Cash provided (used) by investing activities	**(455.5)**	**109.1**	**(151.7)**
Financing Activities			
Repurchase of common stock	(173.6)	—	—
Principal payments on capital leases	(49.0)	(37.5)	(31.1)
Net distribution to Time Warner	—	—	(709.3)
Tax withholdings related to net share settlements of restricted stock units	(0.4)	(4.3)	—
Increase in cash collateral securing letters of credit	(11.8)	—	—
Other	—	—	(9.2)
Cash used by financing activities	**(234.8)**	**(41.8)**	**(749.6)**
Effect of exchange rate changes on cash and equivalents	—	(4.9)	5.5
Increase (decrease) in cash and equivalents	(394.3)	654.8	12.3
Cash and equivalents at beginning of period	801.8	147.0	134.7
Cash and equivalents at end of period	**407.5**	**801.8**	**147.0**
Less: Cash and equivalents of discontinued operations at end of period	—	—	0.9
Cash and equivalents of continuing operations at end of period	**$ 407.5**	**$ 801.8**	**$ 146.1**
Supplemental disclosures of cash flow information			
Cash paid for interest	$ 6.4	$ 9.8	$ 7.3
Cash paid for income taxes [(a)]	$ 15.0	$ 9.9	$ 216.8

(a) The amount of cash paid for taxes includes $210.8 million for the year ended December 31, 2009 paid to Time Warner, Inc. ("Time Warner") under the tax matters agreement. See "Note 12" for further information on the tax matters agreement.

See accompanying notes.

AOL INC.

CONSOLIDATED STATEMENTS OF EQUITY
(In millions)

	Common Stock Shares	Common Stock Amount	Divisional Equity	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock, at Cost	Non-Controlling Interest	Total Equity
Balance at December 31, 2008	—	$ —	$4,038.6	$ —	$ (302.4)	$ —	$ —	$ 1.5	$ 3,737.7
Net income (loss)	—	—	269.2	—	—	(20.4)	—	(0.3)	248.5
Unrealized gains on derivatives and investments, net of tax	—	—	—	—	(0.7)	—	—	—	(0.7)
Foreign currency translation adjustments	—	—	—	—	28.0	—	—	0.6	28.6
Comprehensive income (loss)	—	—	269.2	—	27.3	(20.4)	—	0.3	276.4
Net transactions with Time Warner	—	—	(915.6)	—	—	—	—	—	(915.6)
Distribution to Time Warner (a)	—	—	(36.2)	—	—	—	—	—	(36.2)
Issuance of common stock (b)	105.8	1.1	—	(1.1)	—	—	—	—	—
Reclassification of divisional equity to additional paid-in capital (b)	—	—	(3,356.0)	3,356.0	—	—	—	—	—
Amounts related to equity-based compensation	—	—	—	0.6	—	—	—	—	0.6
Balance at December 31, 2009	105.8	$ 1.1	$ —	$ 3,355.5	$ (275.1)	$ (20.4)	$ —	$ 1.8	$ 3,062.9
Net loss	—	—	—	—	—	(782.5)	—	—	(782.5)
Foreign currency translation adjustments	—	—	—	—	(12.8)	—	—	—	(12.8)
Comprehensive loss	—	—	—	—	(12.8)	(782.5)	—	—	(795.3)
Deconsolidation of variable interest entity	—	—	—	—	—	—	—	(1.8)	(1.8)
Spin-off deferred tax adjustments (c)	—	—	—	(27.0)	—	—	—	—	(27.0)
Issuance of common stock	0.7	—	—	18.7	—	—	—	—	18.7
Amounts related to equity-based compensation, including tax benefits	0.2	—	—	31.8	—	—	—	—	31.8
Other	—	—	—	(2.4)	—	—	—	—	(2.4)
Balance at December 31, 2010	106.7	$ 1.1	$ —	$ 3,376.6	$ (287.9)	$ (802.9)	$ —	$ —	$ 2,286.9
Net income	—	—	—	—	—	13.1	—	—	13.1
Foreign currency translation adjustments	—	—	—	—	0.4	—	—	—	0.4
Comprehensive income	—	—	—	—	0.4	13.1	—	—	13.5
Amounts related to equity-based compensation, including tax benefits	—	—	—	44.5	—	—	—	—	44.5
Issuance of common stock	0.3	—	—	0.4	—	—	—	—	0.4
Repurchase of common stock	(12.7)	—	—	—	—	—	(173.6)	—	(173.6)
Other	—	—	—	0.9	—	—	—	—	0.9
Balance at December 31, 2011	94.3	$ 1.1	$ —	$ 3,422.4	$ (287.5)	$ (789.8)	$(173.6)	$ —	$ 2,172.6

(a) AOL completed a number of transactions with Time Warner in connection with the spin-off. The reduction to AOL's equity included the reversal of AOL's liability to Time Warner for certain tax positions, which resulted in an increase to equity of $368.1 million and the reversal of AOL's equity-based compensation deferred tax assets, which resulted in a decrease to equity of $436.1 million. These amounts were retained by Time Warner following the spin-off.

(b) Upon the effective date of the spin-off, AOL's divisional equity was reclassified and allocated between common stock and additional paid-in capital based on the number of shares of AOL common stock issued and outstanding.

(c) Under the terms of the Company's tax matters agreement with Time Warner, amounts payable or receivable to Time Warner prior to the spin-off were reflected as adjustments to divisional equity. During the year ended December 31, 2010, the Company adjusted its deferred tax assets and estimated amount payable to Time Warner for income taxes prior to the spin-off and these adjustments resulted in a $27.0 million reduction to additional paid-in capital.

See accompanying notes.

NOTE 1—DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

AOL Inc. ("AOL" or the "Company") is a leading global web services company with a suite of brands and offerings and a substantial audience. AOL's business spans online content, products and services that it offers to consumers, publishers and advertisers. AOL is focused on attracting and engaging consumers and providing valuable online advertising services on both its owned and operated properties and third-party websites. AOL generates advertising revenues from owned and operated content, products and services, which are referred to as "AOL Properties", through the sale of display advertising and search and contextual advertising. AOL Properties also include co-branded websites owned or operated by third parties for which certain criteria have been met, including that the internet traffic has been assigned to AOL. A valuable distribution channel for AOL Properties is through the AOL-brand subscription access service, which is offered to consumers in the United States for a monthly fee. AOL also generates advertising revenues through the sale of advertising on third-party websites, which are referred to as the "Third Party Network."

The Spin-Off

On December 9, 2009, the Company completed its legal and structural separation from Time Warner Inc. ("Time Warner") via a spin-off (the "spin-off"). In the spin-off, Time Warner shareholders of record as of 5 p.m. on November 27, 2009, the record date for the distribution, received one share of AOL common stock for every eleven shares of Time Warner common stock held. On December 10, 2009, AOL began trading on the New York Stock Exchange as an independent, public company.

Basis of Presentation

Basis of Consolidation

The consolidated financial statements include 100% of the assets, liabilities, revenues, expenses and cash flows of AOL, all voting interest entities in which AOL has a controlling voting interest ("subsidiaries"), and those variable interest entities for which AOL is the primary beneficiary in accordance with the consolidation accounting guidance. Through the date of the spin-off, these financial statements present the historical consolidated results of operations, financial position, and cash flows of the AOL business that now comprises the operations of the Company. Intercompany accounts and transactions between consolidated companies have been eliminated in consolidation. Prior to the spin-off, AOL was a subsidiary of Time Warner. The financial information prior to the spin-off may not necessarily reflect AOL's financial position, results of operations and cash flows in the future or what AOL's financial position, results of operations and cash flows would have been had AOL been an independent, publicly-traded company. As of December 31, 2011 we did not have any consolidated variable interest entities. For the years ended December 31, 2011 and 2010, we accounted for our interests in variable interest entities as equity method investments, which we included in other income (loss) and other long-term assets in the consolidated statements of operations and balance sheet, respectively.

Through the date of the spin-off, the consolidated financial statements include allocations of certain Time Warner corporate expenses. Management believes the assumptions and methodologies underlying the allocation of general corporate overhead expenses are reasonable. However, such expenses may not be indicative of the actual level of expense that would have been incurred by AOL if it had operated as an independent, publicly-traded company or of the costs expected to be incurred in the future. These allocated expenses relate to various services that were provided to AOL by Time Warner, including cash management and other treasury services, administrative services (such as government relations, tax, employee benefit administration, internal audit, accounting and human resources), equity-based compensation plan administration, aviation services, insurance coverage and the licensing of certain third-party patents. See "Note 12" for further information regarding the allocation of Time Warner corporate expenses and the relationship with Time Warner.

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included in the consolidated balance sheet as a component of accumulated other comprehensive income (loss), net.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and footnotes thereto. Actual results could differ from those estimates. Significant estimates inherent in the preparation of the consolidated financial statements include asset impairments, reserves established for doubtful accounts, equity-based compensation, depreciation and amortization, business combinations, income taxes, litigation matters and contingencies.

Summary of Significant Accounting Policies

Revenues

The Company generates revenue primarily from advertising and from its subscription access service. Revenue is recognized when persuasive evidence of an arrangement exists, performance under the contract has begun, the contract price is fixed or determinable and collectability of the related fee is reasonably assured.

Advertising Revenues

Advertising revenues are generated on AOL Properties through display advertising and search and contextual advertising. Display advertising revenue is generated by the display of graphical advertisements and other performance-based advertising. Search and contextual advertising revenue is generated when a user clicks on a text-based advertisement on the user's screen. These text-based advertisements are either generated from a user-initiated search query or generated based on the content of the webpage the user is viewing. In addition to advertising revenues generated on AOL Properties, the Company also generates revenue from its advertising offerings on its Third Party Network, which consist primarily of sales of display and video advertising on behalf of third parties on a cost-per-impression basis, a fixed-fee basis or on a pay-for-performance basis.

Advertising revenues derived from impression-based contracts, in which AOL provides impressions in exchange for a fixed fee (generally stated as cost-per-thousand impressions), are generally recognized as the impressions are delivered. An "impression" is delivered when an advertisement appears in pages viewed by users. Revenues derived from time-based contracts, in which AOL provides a minimum number of impressions over a specified time period for a fixed fee, are recognized on a straight-line basis over the term of the contract, provided that AOL is meeting and will continue to meet its obligations under the contract (*e.g.*, delivery of impressions over the term of the contract). Advertising revenues derived from contracts where AOL is compensated based on certain performance criteria are recognized as AOL completes the contractually specified performance. Performance can be measured in terms of "click-throughs" when a user clicks on a company's advertisement or other user actions such as product/customer registrations, survey participation, sales leads or product purchases.

Gross versus Net Revenue Recognition

In the normal course of business, the Company sometimes acts as or uses an intermediary or agent in executing transactions with third parties. The determination of whether revenue should be reported gross or net is based on an assessment of whether the Company is acting as the principal or an agent in the transaction. If the Company is acting as a principal in a transaction, the Company reports revenue on a gross basis. If the Company is acting as an agent in a transaction, the Company reports revenue on a net basis. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance for principal agent considerations.

Multiple-Element Transactions

In October 2009, new guidance was issued related to the accounting for multiple-deliverable revenue arrangements. This new guidance amended the existing guidance for allocating consideration in multiple-deliverable arrangements and established a selling price hierarchy for determining the selling price of a deliverable. This new guidance was effective prospectively for revenue arrangements entered into or materially modified beginning on January 1, 2011 and did not have a material impact on our financial statements for 2011.

Management analyzes contracts with multiple elements under the newly issued accounting guidance for multiple element arrangements. The new guidance requires that revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement have value to the customer on a standalone basis, and if the delivery of the undelivered items in the arrangement is considered probable and substantially in the control of the vendor. If these criteria are met, then the arrangement consideration is allocated among the separate units of accounting based on their relative estimated selling prices. In such circumstances, the Company uses a selling price hierarchy to determine the selling price to be used for allocating revenue to the deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and VSOE is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of deliverables would be if they were sold regularly on a stand-alone basis.

If the deliverables cannot be separated into multiple units of accounting, then the arrangement is accounted for as a combined unit of accounting and recognized into revenue based on the lower of (i) performance or (ii) straight-line as calculated in aggregate for the entire deal. Straight-line revenue recognition is determined by taking the total sold value of all deal components and recognizing that value evenly over the entire deal term.

Revenue arrangements impacted by the adoption of the new guidance generally consist of arrangements where the Company is providing online advertising as well as non-advertising elements (i.e., production of a "micro-site"). However, there are not a significant number of these arrangements as the substantial majority of the Company's revenue arrangements solely involve the provision of online advertising which is accounted for based on performance.

Subscription Revenues

The Company earns revenue from its subscription access service in the form of monthly or annual fees paid by subscribers to its dial-up internet access service, and such revenues are recognized on a straight-line basis as the service is provided.

Traffic Acquisition Costs

AOL incurs costs through arrangements in which it acquires online advertising inventory from publishers for resale to advertisers and arrangements whereby partners distribute AOL's free products or services or otherwise direct traffic to AOL Properties. AOL considers these costs to be traffic acquisition costs (TAC). TAC arrangements have a number of different economic structures, the most common of which are: (i) payments based on a cost-per-thousand impressions or based on a percentage of the ultimate advertising revenues generated from the advertising inventory acquired for resale, (ii) payments for direct traffic delivered to AOL Properties priced on a per-click basis (*e.g.*, search engine marketing fees) and (iii) payments to partners in exchange for distributing AOL products to their users (*e.g.*, agreements with computer manufacturers to distribute the AOL toolbar or a co-branded web portal on computers shipped to end users). These arrangements can be on a fixed-fee basis (which often carry reciprocal performance guarantees by the counterparty), on a variable basis or, in some cases, a combination of the two. TAC agreements with fixed payments are typically expensed ratably over the term of the agreement. TAC agreements with variable payments are typically expensed based on the volume of the underlying activity at the specified contractual rates. TAC agreements with a combination of a fixed fee for a minimum amount of traffic delivered or other underlying activity and variable payments for delivery or performance in excess of the minimum are typically recognized into expense at the higher of straight-line or actual performance, taking into account counterparty performance to date and the projected counterparty performance over the term of the agreement.

Restructuring Costs

Restructuring costs consist primarily of employee termination benefits and contract termination costs, including lease exit costs. One-time involuntary termination benefits are recognized as a liability at estimated fair value when the plan of termination has been communicated to employees and certain other criteria are met. With respect to certain contractual termination benefits or employee terminations in certain foreign countries operating under ongoing benefit arrangements, a liability for termination benefits is recognized at estimated fair value when it is probable that amounts will be paid to employees and such amounts are reasonably estimable. Contract termination costs are recognized as a liability at fair value when a contract is terminated in accordance with its terms, or when AOL has otherwise executed a written termination of the contract. When AOL ceases using a facility but does not intend to or is unable to terminate the operating lease, AOL records a liability for the present value of the remaining lease payments, net of estimated sublease income that could be reasonably obtained for the property (even if the Company does not intend to sublease the facility for the remaining term of the lease). Costs associated with exit or disposal activities are reflected as restructuring costs in the consolidated statement of operations. See "Note 9" for additional information about the Company's restructuring activities.

Equity-Based Compensation

Prior to the spin-off from Time Warner, AOL participated in Time Warner's equity-based compensation plans and recorded compensation expense based on the equity awards granted to AOL employees. Subsequent to the spin-off, AOL has established an equity-based compensation incentive plan and AOL employees are no longer eligible to participate in Time Warner's equity-based compensation plans. AOL records compensation expense under the AOL plans based on the equity awards granted to employees.

In accounting for equity-based compensation awards, the Company follows the accounting guidance for equity-based compensation, which requires that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost associated with stock options is estimated using the Black-Scholes option-pricing model. The cost of equity instruments granted to employees is recognized in the consolidated statement of operations on a straight-line basis (net of estimated forfeitures) over the period during which an employee is required to provide service in exchange for the award. Excess tax benefits realized from the exercise of stock options are reported as a financing cash inflow rather than as a reduction of taxes paid in cash flows from operations. See "Note 8" for additional information on equity-based compensation.

Asset Impairments

Goodwill

Goodwill is tested annually for impairment during the fourth quarter or earlier in the year upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. The testing of goodwill for impairment is required to be performed at the level referred to as the reporting unit. A reporting unit is either the "operating segment level" or one level below, which is referred to as a "component." For purposes of AOL's goodwill impairment test, AOL operates as a single reporting unit.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of a reporting unit to its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of its reporting unit using a market-based approach based on the Company's market capitalization. If the estimated fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of the reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Long-lived Assets

Long-lived assets, including finite-lived intangible assets (*e.g.*, acquired technology and customer relationships), do not require that an annual impairment test be performed; instead, long-lived assets are tested for impairment upon the occurrence of an indicator of impairment. Once an indicator of impairment has occurred, the impairment test is based on whether the intent is to hold the asset for continued use or to hold the asset for sale. If the intent is to hold the asset for continued use, the impairment test first requires a comparison of estimated undiscounted future cash flows generated by the asset group against the carrying value of the asset group. The Company groups long-lived assets for purposes of recognition and measurement of an impairment loss at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the carrying value of the asset group exceeds the estimated undiscounted future cash flows, the asset group would be deemed to be potentially impaired. Impairment, if any, would then be measured as the difference between the estimated fair value of the asset and its carrying value. Fair value is generally determined by discounting the future cash flows associated with that asset group. If the intent is to hold the asset group for sale and certain other criteria are met (**i.e.**, the asset group can be disposed of currently, appropriate levels of authority have approved the sale and there is an active program to locate a buyer), the impairment test involves comparing the asset group's carrying value to its estimated fair value less estimated costs of disposal. To the extent the carrying value is greater than the asset group's estimated fair value less estimated costs of disposal, an impairment loss is recognized for the difference.

AOL recorded non-cash asset impairments and write-offs related to long-lived assets held and used and held for sale of $7.6 million, $12.1 million and $23.1 million in 2011, 2010 and 2009, respectively, included in costs of revenues in the consolidated statement of operations. The charge recorded in 2011 related primarily to asset write-offs in connection with facility consolidation. The charge recorded in 2010 included a $6.2 million impairment charge related to the sale of Pacific Corporate Park. The charge recorded in 2009 related primarily to an intangible asset write-off in connection with the Company's anticipated disposition of a subsidiary, as well as the write-off of certain trade name intangible assets that were abandoned in 2009.

Income Taxes

Subsequent to the spin-off, AOL began filing its own U.S. federal consolidated income tax return (beginning with the short period December 10—December 31, 2009) and income taxes are presented in the consolidated financial statements using the asset and liability method prescribed by the accounting guidance for income taxes. AOL's income tax provision prior to the spin-off was prepared under the "separate return method." The separate return method applies the accounting guidance for income taxes to the financial statements as if AOL were a separate taxpayer and a standalone enterprise.

Income taxes (**i.e.**, deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between GAAP and the tax reporting basis. Deferred income taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when the taxes are actually paid or recovered. The tax effect of net operating loss, capital loss and general business credit carryovers result in deferred tax assets. Valuation allowances are established when management determines it is "more likely than not" that some portion or all of the deferred tax asset will not be realized. The Company considers all positive and negative evidence in evaluating its ability to realize its deferred income tax assets, including its historical operating results, ongoing tax planning, and forecast of future taxable income, on a jurisdiction by jurisdiction basis.

With respect to uncertain tax positions, AOL recognizes in the consolidated financial statements those tax positions determined to be "more likely than not" of being sustained upon examination, based on the technical merits of the positions. AOL records a liability for the difference between the benefit recognized and measured pursuant to the accounting guidance for income taxes and the tax position taken on its tax return. The Company adjusts its estimated liabilities for uncertain tax positions periodically because of ongoing examinations by, and settlements with, the various taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax provision for any given year includes adjustments to prior year income tax accruals that are considered appropriate and any related estimated interest. The Company's policy is to recognize, when applicable, interest and penalties on uncertain tax positions as part of income tax expense. Effective with the spin-off, the Company and Time Warner entered into the Second Tax Matters Agreement, which generally provides that Time Warner shall indemnify AOL for consolidated income taxes relating to any period prior to the spin-off. Accordingly, $368.1 million of liabilities for uncertain tax positions were reversed on the separation date, with an offsetting increase to equity. Liabilities for uncertain tax positions are included in other long-term liabilities in the consolidated balance sheet. For further information, see "Note 6" and "Note 12".

Certain Risks and Concentrations

The Company's financial instruments include primarily cash and equivalents, accounts receivable, accounts payable, accrued expenses and other current liabilities. Due to the short-term nature of these assets and liabilities, their carrying amounts approximate their fair value. Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and accounts receivable.

The Company maintains its cash balances in the form of money market accounts and overnight deposits. The Company maintains cash deposits with banks that at times exceed applicable insurance limits. The Company reduces its exposure to credit risk by maintaining such deposits with high quality financial institutions that management believes are creditworthy.

The Company's exposure to customer credit risk relates primarily to advertising customers and individual subscribers to AOL's subscription access service, and is dispersed among many different counterparties, with no single customer having a receivable balance in excess of 10% of total net receivables at December 31, 2011 or 2010.

For each of the periods presented herein, the Company has had a contractual relationship with Google whereby Google provides paid text-based search advertising and contextual advertising on AOL Properties. For the years ended December 31, 2011, 2010 and 2009, the revenues associated with the Google relationship (substantially all of which were search and contextual revenues generated on AOL Properties), were $335.3 million, $398.4 million and $556.7 million, respectively.

Net property and equipment located outside the United States, which represent less than 4% of total assets, are not material. Revenues in different geographical areas are as follows (in millions):

	Years Ended December 31, [a]		
	2011	2010	2009
United States	$ 2,001.4	$ 2,193.3	$ 2,863.6
United Kingdom	98.8	102.4	157.9
Germany	40.0	43.3	59.2
France	9.1	17.3	70.3
Canada	37.7	36.5	35.7
Other international	15.1	23.9	59.1
Total international	200.7	223.4	382.2
Total	$ 2,202.1	$ 2,416.7	$ 3,245.8

(a) Revenues are attributed to countries based on the location of customers.

Cash and Equivalents

Cash equivalents primarily consist of highly liquid short-term investments with an original maturity of three months or less, which include money market accounts, Treasury bills, time deposits and overnight deposits that are readily convertible into cash. Cash equivalents are carried at cost plus accrued interest, which approximates fair value.

Restricted Cash

In the first quarter of 2011, the Company was required to post cash collateral for letters of credit related to certain of the Company's lease agreements. Previously, the Company's letters of credit were guaranteed by Time Warner, Inc. The collateral amounts are legally restricted as to withdrawal and use for a period in excess of twelve months. Accordingly, the collateral balances have been classified as restricted cash within other long-term assets and are omitted from cash and equivalents on the consolidated balance sheets. Also included in restricted cash are security deposits held by the Company from lessees that are restricted as to use. The Company had $12.6 million of restricted cash included in other long-term assets on the consolidated balance sheet as of December 31, 2011.

Allowance for Doubtful Accounts

AOL's receivables consist primarily of two components, receivables from individual subscribers to AOL's subscription access service and receivables from advertising customers. Management performs separate evaluations of these components to determine if the balances will ultimately be fully collected considering management's views on trends in the overall aging of receivables as well as past collection experience. In addition, for certain advertising receivables, management prepares an analysis of specific risks on a customer-by-customer basis. Using this information, management reserves an amount that is expected to be uncollectible. Receivables are written off when amounts are deemed to be uncollectible and internal collection efforts are closed. At December 31, 2011 and 2010, the total allowance for doubtful accounts was $8.3 million and $16.1 million, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation, which includes amortization of capitalized software costs and amortization of assets under capital leases, is provided on a straight-line basis over the estimated useful lives of the assets. AOL evaluates the depreciation periods of property and equipment to determine whether events or circumstances warrant revised estimates of useful lives. Depreciation expense, recorded in costs of revenues and selling, general and administrative expense, totaled $160.9 million, $196.3 million and $261.1 million for the years ended December 31, 2011, 2010 and 2009, respectively. Costs related to leasehold improvements are capitalized and amortized over the shorter of the economic useful life of the improvements or the remaining lease term.

Property and equipment, including assets under capital lease, consist of ($ in millions):

	December 31,		Estimated Useful Lives
	2011	2010	
Land [(a)]	$ 40.5	$ 40.5	—
Buildings and building improvements	276.8	275.5	15 to 40 years
Capitalized internal-use software costs	452.8	561.9	1 to 5 years
Leasehold improvements	97.8	109.1	5 to 15 years
Furniture, fixtures and other equipment	655.7	778.7	2 to 5 years
	1,523.6	1,765.7	
Less accumulated depreciation	(1,018.4)	(1,236.5)	
Total	$ 505.2	$ 529.2	

(a) Land is not depreciated.

Capitalized Software

AOL capitalizes certain costs incurred for the development of internal-use software. These costs, which include the costs associated with coding, software configuration, upgrades and enhancements and are related to both AOL's internal systems (such as billing and accounting) and AOL's user-facing internet offerings, are included in property and equipment, net in the consolidated balance sheet. For the years ended December 31, 2011, 2010, and 2009, AOL capitalized $21.1 million, $22.7 million and $48.7 million, respectively, related to the development of internal-use software.

Research and Development

Research and development costs related to the Company's software development efforts, which are expensed as incurred, are included in costs of revenues and totaled $56.9 million, $63.2 million and $63.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. These costs consist primarily of personnel and related costs that are incurred related to the development of software and user-facing internet offerings that do not qualify for capitalization.

Leases

The Company leases operating equipment and office space in various locations worldwide. Lease obligations are classified as operating leases or capital leases, as appropriate. Leased property that meets the capital lease criteria is capitalized and the present value of the future minimum lease payments is recorded as an asset under capital lease with a related capital lease obligation in the consolidated balance sheets.

Rent expense under operating leases is recognized on a straight-line basis over the lease term taking into consideration scheduled rent increases and any lease incentives.

Intangible Assets

AOL has a significant number of intangible assets, including acquired technology, trademarks and customer relationships. AOL does not recognize the fair value of internally generated intangible assets. Intangible assets acquired in business combinations are recorded at fair value on the Company's consolidated balance sheets and are amortized over estimated useful lives on a straight-line basis. Intangible assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Advertising Costs

The Company expenses advertising costs as they are incurred. Advertising expense was $76.9 million, $79.3 million and $59.1 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Loss Contingencies

In the normal course of business, the Company is involved in legal proceedings, tax audits (other than income taxes) and other matters that give rise to potential loss contingencies. The Company accrues a liability for such matters when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In situations where the Company can determine a best estimate within the range of potential loss, the Company records the best estimate of the potential loss as a liability. In situations where the Company has determined a range of loss, but no amount within the range is a better estimate than any other amount within the range, the Company records the minimum amount of the range of loss as a liability.

Discontinued Operations

In determining whether a group of assets disposed (or to be disposed) of should be presented as a discontinued operation, the Company makes a determination of whether the group of assets being disposed of comprises a component of the entity; that is, whether it has historical operations and cash flows that can be clearly distinguished (both operationally and for financial reporting purposes). The Company also determines whether the cash flows associated with the group of assets have been significantly (or will be significantly) eliminated from the ongoing operations of the Company as a result of the disposal transaction and whether the Company has no significant continuing involvement in the operations of the group of assets after the disposal transaction. If these determinations can be made affirmatively, the results of operations of the group of assets being disposed of (as well as any gain or loss on the disposal transaction) are aggregated for separate presentation apart from continuing operating results of the Company in the consolidated financial statements. See "Note 4" for additional information.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is included within stockholders' equity in the consolidated balance sheets and consists of net income (loss) and other gains and losses affecting equity that, under GAAP, are excluded from net income (loss). For AOL, such items consist primarily of foreign currency translation gains (losses). The following table sets forth other comprehensive income (loss), net of tax, accumulated in stockholders' equity (in millions):

	Foreign currency translation gains (losses)	Net derivative financial instrument gains (losses)	Net accumulated other comprehensive income (loss)
Balance at December 31, 2008	$ (303.1)	$ 0.7	$ (302.4)
2009 activity	28.0	(0.7)	27.3
Balance at December 31, 2009	(275.1)	—	(275.1)
2010 activity	(12.8)	—	(12.8)
Balance at December 31, 2010	(287.9)	—	(287.9)
2011 activity	0.4	—	0.4
Balance at December 31, 2011	$ (287.5)	$ —	$ (287.5)

Recent Accounting Standards

Multiple-Deliverable Revenue Arrangements

In October 2009, new guidance was issued related to the accounting for multiple-deliverable revenue arrangements. This new guidance amends the existing guidance for allocating consideration in multiple-deliverable arrangements and establishes a selling price hierarchy for determining the selling price of a deliverable. This new guidance was effective prospectively for revenue arrangements entered into or materially modified beginning on January 1, 2011.

The Company reviewed its revenue arrangements and determined the types of arrangements that could be impacted by this new guidance. The Company concluded that performance-method arrangements, which are the substantial majority of its arrangements, do not have multiple deliverables as the Company is providing a single online advertising deliverable. The revenue arrangements impacted by the guidance generally consist of arrangements where the Company is providing online advertising as well as non-advertising elements (i.e., production of a "micro-site"). However, the Company currently does not enter into a significant number of these arrangements. The adoption did not have material impact on the Company's financial statements for the year ended December 31, 2011.

NOTE 2—INCOME (LOSS) PER COMMON SHARE

Basic income per common share is calculated by dividing net income by the weighted average number of shares of common stock issued and outstanding during the reporting period. Diluted income per common share is calculated to give effect to all potentially dilutive common shares that were outstanding during the reporting period. The dilutive effect of outstanding equity-based compensation awards is reflected in diluted income per common share by application of the treasury stock method, only in periods in which such effect would have been dilutive for the period.

For the year ended December 31, 2011, the Company had 104.2 million weighted-average shares outstanding which were used to calculate basic income (loss) per common share. The Company had 9.0 million of weighted-average potentially dilutive common shares that were not included in the computation of diluted income (loss) per common share for the year ended December 31, 2011, because to do so would have been anti-dilutive for the period.

For the year ended December 31, 2010, the Company had 106.6 million weighted-average shares outstanding which were used to calculate basic income (loss) per common share. The Company had 5.8 million of weighted-average potentially dilutive common shares that were not included in the computation of diluted income (loss) per common share for the year ended December 31, 2010, because to do so would have been anti-dilutive for the period.

For the year ended December 31, 2009, in determining the weighted average number of common shares outstanding for basic income (loss) per common share, the Company assumed 105.8 million shares were outstanding for the period from January 1, 2009 through December 9, 2009. Certain stock options and restricted stock units granted to employees in 2009 have a dilutive effect on income (loss) per share; however, the dilutive effect is not significant to the total weighted-average shares outstanding for 2009 since dilutive shares were only outstanding from December 10, 2009 through December 31, 2009. Accordingly, for the year ended December 31, 2009, AOL's weighted average number of common shares outstanding for diluted income (loss) per common share was 105.8 million.

	Years Ended December 31,		
	2011	2010	2009
Net income (loss) attributable to AOL Inc. common stockholders	$ 13.1	$(782.5)	$248.8
Shares used in computing basic income per common share	104.2	106.6	105.8
Dilutive effect of equity-based awards	1.8	—	—
Shares used in computing diluted income per common share	106.0	106.6	105.8
Basic net income (loss) per common share	$ 0.13	$ (7.34)	$ 2.35
Diluted net income (loss) per common share	$ 0.12	$ (7.34)	$ 2.35

NOTE 3—GOODWILL AND INTANGIBLE ASSETS

A summary of changes in the Company's goodwill during the years ended December 31, 2011 and 2010 is as follows (in millions):

	Gross Goodwill	Impairments	Net Goodwill
December 31, 2009	$ 36,382.3	$ (34,210.7)	$ 2,171.6
Acquisitions	132.0	—	132.0
Dispositions	(50.3)	—	(50.3)
Impairments	—	(1,414.4)	(1,414.4)
Deferred tax adjustments	(10.4)	—	(10.4)
Translation adjustments	(17.6)	—	(17.6)
December 31, 2010	36,436.0	(35,625.1)	810.9
Acquisitions	254.2	—	254.2
Deferred tax adjustments	(1.1)	—	(1.1)
December 31, 2011	$ 36,689.1	$ (35,625.1)	$ 1,064.0

Impairment Testing of Goodwill

Goodwill is tested annually for impairment during the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired.

Third Quarter 2011 Goodwill Impairment Analysis

The Company experienced a significant decline in its stock price leading up to and subsequent to the announcement on August 9, 2011 of its financial results for the three months ended June 30, 2011. The Company determined that the magnitude of this stock price decline along with the weakness in the overall equity markets constituted a substantive change in circumstances in August that could potentially reduce the fair value of the Company's single reporting unit below its carrying amount. Accordingly, the Company tested goodwill for impairment as of August 31, 2011 (the "interim testing date"). No events or circumstances were identified during the first and second quarters of 2011 that indicated goodwill is more likely than not impaired, and accordingly, no goodwill impairment analysis was performed during the first or second quarters of 2011.

In performing the first step of the goodwill impairment test, the Company used a market-based approach. The primary input in this approach was a quoted market price in an active market. To determine the estimated fair value of the Company's sole reporting unit, the Company calculated its market capitalization based on its stock price and adjusted it by a control premium of 50%, which resulted in an estimated fair value of $2,455.8 million. The premium used to arrive at a controlling interest equity value was determined based in part on values observed in recent market transactions, and based in part on other assets that a marketplace participant could benefit from in acquiring a controlling interest in the Company's reporting unit. These other assets include the values of certain intellectual property and tax benefits that a marketplace participant could potentially monetize in obtaining a controlling interest in our reporting unit, which overall causes the determination of the estimated fair value of the Company's sole reporting unit to fall within level three of the GAAP fair value hierarchy.

The reasonableness of the determined fair value was assessed by reference to a discounted cash flow ("DCF") measure as another fair value indicator. The cash flows employed in the DCF analysis are based on the Company's most recent budgets, forecasts and business plans as well as various growth rate assumptions for years beyond the current business plan period. Discount rate assumptions are based on an assessment of the risk inherent in the future revenue streams and cash flows of the reporting unit. The company also concluded that it was appropriate to factor into the analysis certain other assets that would be of value to a marketplace participant, including certain intellectual property and tax benefits. The estimated fair value determined using the DCF approach was consistent with, but also slightly in excess of, the estimated fair value determined using the market-based approach. The results of the DCF approach provided significant additional support for management's conclusion that the control premium used to arrive at a controlling interest equity value was reasonable.

Based on the interim impairment analysis as of the interim testing date, the estimated fair value of the Company's sole reporting unit exceeded its book value and therefore the second step of the goodwill impairment test did not need to be performed. As such, no impairment charge was recorded for the three months ended September 30, 2011. Subsequent to the interim testing date, the Company's stock price experienced additional declines during September; however, the Company concluded that such declines were temporary due to the recovery of its stock price during the month of October as well as the results of its discounted cash flow approach.

Fourth Quarter 2011 Annual Goodwill Impairment Analysis

The Company performed its annual goodwill impairment test as of December 1, 2011. As discussed above, the Company determined that the estimated fair value of its sole reporting unit as of the interim testing date was $2,455.8 million. From the interim testing date to the date of the annual goodwill impairment test, while the

Company's stock price declined, actual operating income slightly exceeded its projections, and the Company's long-term projections did not materially change during that period. Given these trends, management determined that it was appropriate to adjust the Company's market capitalization with a control premium of 70%, which resulted in an estimated fair value for the Company's sole reporting unit of $2,318.1 million as of December 1, 2011. The premium used to arrive at a controlling interest equity value was determined based in part on values observed in recent market transactions, and based in part on other assets that a marketplace participant could benefit from in acquiring a controlling interest in our reporting unit, which overall causes the determination of the estimated fair value of the Company's sole reporting unit to fall within level three of the GAAP fair value hierarchy.

The reasonableness of the determined fair value was assessed by reference to another fair value indicator, a discounted cash flow approach. The cash flows employed in the DCF analysis are based on the Company's most recent budgets, forecasts and business plans as well as various growth rate assumptions for years beyond the current business plan period. Discount rate assumptions are based on an assessment of the risk inherent in the future revenue streams and cash flows of the reporting unit. Based on the decline in the Company's stock price from the 2010 impairment analysis to the December 2011 impairment analysis, management concluded that it was appropriate to increase the discount rates used from 2010 to December 2011. The company also concluded that it was appropriate to factor into the analysis certain other assets that would be of value to a marketplace participant, including certain intellectual property and tax benefits. The estimated fair value determined using the DCF approach was consistent with, but also slightly in excess of, the estimated fair value determined using the market-based approach. The results of the DCF approach provided significant additional support for management's conclusion that the control premium used to arrive at a controlling interest equity value was reasonable.

Based on the Company's annual impairment analysis as of December 1, 2011, the estimated fair value of the Company's sole reporting unit exceeded its book value and therefore the second step of the goodwill impairment test did not need to be performed. As such, no impairment charge was recorded during the fourth quarter of 2011.

Sensitivity Analysis—2011 Goodwill Impairment Tests

As the market-based approach is based in part on market capitalization, volatility in the stock price could have a significant impact on the estimated fair value of the sole reporting unit. If the estimated fair value of the Company's reporting unit had been hypothetically lower by 5% as of the date of the interim or annual impairment test, the fair value of the Company's reporting unit in both cases would have still exceeded its book value. However, if the estimated fair value of the Company's reporting unit had been hypothetically lower by 10% as of the date of the interim or annual impairment test, the book value of the Company's reporting unit in both cases would have exceeded fair value. If the book value of the Company's reporting unit had been greater than fair value, the second step of the goodwill impairment test would have been required to be performed to determine the implied fair value of goodwill, and would likely have resulted in a significant goodwill impairment charge.

2010 and 2009 Goodwill Impairment Analyses

The Company performed a goodwill impairment analysis based on certain triggering events occurring during the second quarter of 2010. As a result, the Company recorded an impairment charge of $1,414.4 million for the three months ended June 30, 2010. In connection with the annual goodwill impairment analysis performed during the fourth quarter of 2010, the Company determined that the fair value of its sole reporting unit exceeded its book value. As a result, the second step of the goodwill impairment test did not need to be performed; and therefore no additional charge was incurred during 2010.

In connection with the annual impairment analysis performed during the fourth quarter of 2009, the results of the Step 1 process indicated that the fair value of AOL exceeded its carrying value. As a result, the second step of the goodwill impairment test did not need to be performed, and therefore no impairment charge was recorded for 2009.

Intangible Assets

The Company's intangible assets and related accumulated amortization at December 31, 2011 and 2010 consisted of the following (in millions):

	December 31, 2011			December 31, 2010		
	Gross	Accumulated Amortization (a)	Net	Gross	Accumulated Amortization (a)	Net
Acquired technology	$ 833.1	$ (813.3)	$ 19.8	$ 836.4	$ (783.4)	$ 53.0
Customer relationships	239.3	(185.9)	53.4	184.1	(150.7)	33.4
Trade names	120.1	(63.2)	56.9	62.9	(53.9)	9.0
Other intangible assets	66.0	(60.9)	5.1	59.2	(55.0)	4.2
Total	$ 1,258.5	$ (1,123.3)	$ 135.2	$ 1,142.6	$ (1,043.0)	$ 99.6

(a) Amortization of intangible assets is provided on a straight-line basis over their respective useful lives, which generally range from two to ten years. The Company evaluates the useful lives of its finite-lived intangible assets each reporting period to determine whether events or circumstances warrant revised estimates of useful lives.

The Company recorded amortization expense of $92.0 million, $145.3 million and $137.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. Based on the amount of intangible assets as of December 31, 2011, the estimated amortization expense for each of the succeeding five years ending December 31 is as follows (in millions):

2012	$ 35.5
2013	30.6
2014	24.5
2015	14.0
2016	6.1
Total	$110.7

The amounts above may vary as acquisitions and dispositions occur in the future.

NOTE 4—BUSINESS ACQUISITIONS, DISPOSITIONS AND OTHER SIGNIFICANT TRANSACTIONS

The businesses acquired by the Company during the periods presented herein were all in their early stages of development. This fact, along with market conditions at the time of acquisition, contributed to purchase prices that resulted in the allocation of a significant portion of such purchase prices to goodwill.

2012 Acquisition

On February 9, 2012, AOL entered into a share-purchase agreement with Mitsui & Co., Ltd. ("Mitsui") to purchase an additional 3% interest in a joint venture between Mitsui and AOL for approximately $1.2 million. The joint venture, which operates a display advertising network business in Japan, was formed in 2006. Prior to the execution of the share purchase agreement, AOL and Mitsui each owned 50% interest in the joint venture, and AOL accounted for its 50% interest using the equity method of accounting. As part of this transaction, AOL obtained control of the board and of the day-to-day operations of the joint venture. AOL will therefore account for the incremental 3% share purchase as a business combination achieved in stages in the first quarter of 2012, and will consolidate the joint venture beginning on February 9, 2012.

2011 Acquisitions

goviral

On January 31, 2011, the Company completed the acquisition of goviral ApS ("goviral", formerly goviral A/S), a company that distributes branded online video for media agencies, creative agencies and content producers, for a purchase price of $69.1 million, net of cash acquired.

AOL recorded $58.3 million of goodwill (which is not deductible for tax purposes) and $18.4 million of intangible assets related to this acquisition. The intangible assets associated with this acquisition consist primarily of customer relationships and acquired technology to be amortized on a straight-line basis over a weighted average period of approximately four years.

In addition to the purchase price paid for this business, the Company agreed to pay up to $22.6 million to certain employees of goviral over the expected future service period of two years contingent on their future service to AOL. The payments of up to $22.6 million are being recognized as compensation expense on an accelerated basis over the expected service period of two years from the acquisition date. For tax purposes, a significant majority of the incentive compensation being treated as additional basis in goviral and a tax deduction will only be obtained upon disposition of goviral.

The Huffington Post

On March 4, 2011, the Company acquired The Huffington Post.com, Inc. ("The Huffington Post") for a purchase price of $295.5 million, net of cash acquired. The Huffington Post is an innovative internet source of online news, analysis, commentary, entertainment and community engagement. In addition to the market conditions at the time of acquisition and the early stage of development of The Huffington Post, the Company's expectation that the acquisition would enhance the Company's ability to serve audiences across several platforms contributed to the allocation of a significant portion of the purchase price to goodwill.

In addition to the purchase price of $295.5 million disclosed above, the Company incurred $8.7 million of restructuring charges associated with payments made for stock options that vested on or shortly after the closing date as a result of the termination of certain The Huffington Post employees. In connection with the acquisition, the Company assumed The Huffington Post Long-Term Incentive Plan (the "Huffington Post Plan"). The fair value of unvested Huffington Post Plan options held by The Huffington Post employees that were converted into unvested AOL stock options was $12.1 million. Of the fair value of The Huffington Post options that were converted, $3.6 million was included in the purchase price, $8.1 million is being recognized as equity-based compensation expense over the remaining award vesting periods (subject to adjustments for actual forfeitures), which for most employees is 24 months from the acquisition date, and the remaining $0.4 million was recorded as a restructuring charge.

AOL preliminarily recorded $192.4 million of goodwill (which is not deductible for tax purposes) and $108.2 million of intangible assets associated with this acquisition. The intangible assets associated with this acquisition consist primarily of trade names to be amortized on a straight-line basis over a period of ten years and customer relationships to be amortized over a period of four years. The assets and liabilities recorded for the acquisition of The Huffington Post were based on preliminary valuations and the estimates and assumptions are subject to changes as the Company obtains additional information during the measurement period. The preliminary areas that are not finalized relate to analysis of the fair value of certain liabilities and any corresponding effects on the recorded amount of goodwill. As such, the measurement of identifiable assets acquired and liabilities assumed has not been finalized.

2010 Acquisitions

StudioNow

On January 22, 2010, the Company completed the acquisition of StudioNow, Inc. ("StudioNow"), a provider of a proprietary digital platform that allows clients to create, produce, manage and distribute professional quality videos at scale, for a purchase price of $32.1 million. Of the total consideration, $14.1 million was paid through the issuance of 594,749 shares of AOL common stock valued as of the closing date. Of the remaining $18.0 million, $14.0 million was paid in cash at the closing date and $4.0 million reflects the present value of the cash consideration due two years after the closing date.

This business was acquired to attract and engage more internet users and drive high volumes of video content production through StudioNow's platform, which, along with market conditions at the time of acquisition, contributed to a purchase price that resulted in the allocation of a significant portion of the purchase price to goodwill. AOL recognized $26.7 million of goodwill (which is not deductible for tax purposes) and $4.3 million of intangible assets related to this acquisition. The intangible assets related to this acquisition consist of technology acquired, customer relationships, trade names and other assets to be amortized on a straight-line basis over a period of three years.

5Min

On September 28, 2010, the Company completed the acquisition of 5 Minutes Ltd. ("5Min"), a company that provides a syndication platform for web-based videos, for a purchase price of $64.7 million, net of cash acquired. The acquisition offers AOL and partners significant web distribution, which, along with market conditions at the time of acquisition, contributed to a purchase price that resulted in the allocation of a significant portion of the purchase price to goodwill. The Company recorded $49.6 million of goodwill (which is not deductible for tax purposes) and $20.0 million of intangible assets related to this acquisition. The intangible assets associated with this acquisition consist of technology, advertiser relationships and a trade name to be amortized on a straight-line basis over a weighted average period of approximately five years.

Other 2010 Acquisitions

- On September 28, 2010, the Company completed the acquisition of Thing Labs, Inc. ("Thing Labs"), a company that produces software to simplify the creation and sharing of web content. This acquisition will allow the Company to continue its initiative to provide consumers with the best venues to discover and share content.

- On September 29, 2010, the Company completed the acquisition of TechCrunch, Inc. ("TechCrunch"), a company that owns and operates a network of websites dedicated to technology news, information and analysis. This business was acquired to enhance AOL's offerings of high-quality, technology-oriented content.

- On December 15, 2010, the Company completed the acquisition of Pictela, Inc. ("Pictela"), a provider of rich media advertising formats used by agencies and publishers. This business was acquired to further the Company's ability to provide high quality advertising content.

- On December 20, 2010, the Company completed the acquisition of About.me, Inc. ("About.me"), a company that provides a web service product that empowers people to create a single personal profile page that presents their online identities together in one place, simplifying the social experience across the web. This business was acquired to enhance the Company's ability to provide relevant and meaningful content to consumers.

The aggregate purchase price of these acquisitions was $63.8 million, net of cash acquired. AOL recorded $55.7 million of goodwill (which is not deductible for tax purposes) and $10.1 million of intangible assets related to these acquisitions.

The intangible assets associated with these acquisitions consist of acquired technology, trademarks, non-compete agreements and customer relationships to be amortized on a straight-line basis over a weighted average period of approximately three years.

Additional Information on Acquisitions

For the years ended December 31, 2011 and 2010, the Company incurred $9.9 million and $3.3 million, respectively, of merger and acquisition related expenses primarily related to the acquisitions discussed above. These transaction costs were recorded within general and administrative costs in the consolidated financial statements.

The amounts assigned to intangible assets were based on the Company's best estimate of the fair value of such assets. The Company used an independent valuation specialist to assist in determining the fair value of the identified intangible assets. The fair value of the significant identified intangible assets was estimated by performing a discounted cash flow analysis using the "income" approach, which represents a level 3 fair value measurement. The income approach includes a forecast of direct revenues and costs associated with the respective intangible assets and charges for economic returns on tangible and intangible assets utilized in cash flow generation. Net cash flows attributable to the identified intangible assets are discounted to their present value at a rate commensurate with the perceived risk. The projected cash flow assumptions considered contractual relationships, customer attrition, eventual development of new technologies and market competition.

The useful lives of trade names were estimated based on the Company's evaluation of the useful lives of comparable intangible assets purchased under similar circumstances. The useful lives of customer relationships were estimated based upon the length of the contracts currently in place, probability-based estimates of contract renewals in the future and natural growth and diversification of the customer base.

In connection with incentive cash compensation arrangements made in connection with acquisitions made in 2011 and 2010, the Company recorded $35.2 million and $6.2 million in retention compensation expense for the years ended December 31, 2011 and 2010, respectively.

Unaudited pro forma results of operations assuming these acquisitions had taken place at the beginning of each period are not provided because the historical operating results of the acquired companies were not significant and pro forma results would not be significantly different from reported results for the periods presented.

Summary of Discontinued Operations

There were no discontinued operations in 2011. Discontinued operations for the years ended December 31, 2010 and 2009 reflect the financial condition, results of operations and cash flows of buy.at. The consolidated statement of operations for the year ended December 31, 2010 includes the results of operations of buy.at for the period from January 1, 2010 through the sale date of February 26, 2010, the pre-tax loss on the sale of buy.at and the income tax benefit associated with the capital loss generated by the buy.at sale. Financial data for discontinued operations for the years ended December 31, 2010 and 2009 is as follows (in millions):

	Years Ended December 31,	
	2010	2009
Total revenues	$ 2.0	$ 11.6
Pre-tax loss (before loss on sale of business)	(0.5)	(4.9)
Pre-tax loss on sale of business	(18.9)	—
Income tax benefit	27.6	2.0
Net income (loss) attributable to AOL Inc.	$ 8.2	$ (2.9)

NOTE 5—LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Capital Leases

Capital lease obligations consist of ($ in millions):

	Weighted Average Interest Rate at December 31, 2011	Maturities	Outstanding Amount December 31, 2011	Outstanding Amount December 31, 2010
Capital lease obligations	5.64%	2012-2015	$ 110.8	$ 86.1
Amount due within one year			(44.6)	(35.2)
Total long-term capital lease obligations			$ 66.2	$ 50.9

Assets recorded under capital lease obligations totaled $182.2 million and $163.7 million at December 31, 2011 and 2010, respectively. Related accumulated amortization totaled $77.4 million and $84.5 million at December 31, 2011 and 2010, respectively.

Future minimum capital lease payments at December 31, 2011 are as follows (in millions):

2012	$ 49.6
2013	39.6
2014	26.3
2015	4.0
Total	119.5
Amount representing interest	(8.7)
Present value of minimum lease payments	110.8
Current portion	(44.6)
Total long-term portion	$ 66.2

Interest Expense

Interest expense amounted to $6.5 million, $11.2 million and $5.2 million for the years ended December 31, 2011, 2010 and 2009, respectively, and is included in "Other income (loss), net" on the consolidated statements of operations. Interest expense for 2010 includes $6.9 million related to credit facility fees paid to Time Warner. The weighted-average interest rate on AOL's capital lease obligations was 5.64% and 5.81% at December 31, 2011 and 2010, respectively. The weighted-average rate on capital lease obligations due within one year was 5.68% at December 31, 2011.

NOTE 6—INCOME TAXES

The components of income (loss) from continuing operations before income taxes were as follows (in millions):

	Years Ended December 31,		
	2011	2010	2009
Domestic	$132.4	$(805.8)	$ 583.6
Foreign	(90.1)	(163.4)	(123.5)
Total	$ 42.3	$(969.2)	$ 460.1

The components of the provision for income tax expense (benefit) provided on income from continuing operations were as follows (in millions):

	Years Ended December 31,		
	2011	2010	2009
U.S. federal:			
Current	$ 0.4	$ 2.0	$ 172.3
Deferred	20.2	(167.7)	(1.5)
Foreign:			
Current	(0.4)	(6.2)	1.1
Deferred	(2.1)	(3.2)	(0.8)
State and local:			
Current	5.9	9.6	40.0
Deferred	5.2	(13.0)	(2.4)
Total	$ 29.2	$ (178.5)	$ 208.7

The items accounting for the difference between income tax expense (benefit) computed at the federal statutory rate of 35% and the provision for income taxes were as follows:

	Years Ended December 31,		
	2011	2010	2009
U.S. federal statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of U.S. federal tax benefits [a]	15.3	3.7	3.6
Non-deductible goodwill	—	(50.8)	—
Change in valuation allowance for deferred tax assets	16.9	(1.4)	1.9
Unrecognized tax benefits	0.8	0.5	3.8
Worthless stock deduction	(15.9)	31.0	—
Shortfall on employee equity awards	6.7	—	—
Escrow adjustments	(17.2)	—	—
Non-deductible acquisition related costs	28.0	(0.2)	—
Other	(0.6)	0.6	1.1
Total	69.0%	18.4%	45.4%

(a) Due to the size of the foreign losses relative to pre-tax income, the effective tax rate for state and local taxes, net of U.S. federal benefit, increased in 2011.

Income taxes related to the years ended December 31, 2011 and 2010 and the short period from December 10, 2009 through December 31, 2009 are calculated based on AOL's separate income tax status. For the periods prior to the spin-off, AOL's income taxes are computed and reported under the "separate return method." The separate return method applies the accounting guidance for income taxes to the financial statements as if AOL were a separate taxpayer and a standalone enterprise for the entire period. Prior to the spin-off, AOL was included in Time Warner's consolidated U.S. federal income tax return filings.

The significant components of AOL's deferred tax assets and liabilities were as follows (in millions):

	December 31,	
	2011	2010
Deferred tax assets:		
Reserves and allowances	$ 12.5	$ 22.9
Equity-based compensation	21.2	19.0
Tax loss and credit carryforwards	1,479.8	1,448.4
Intangible assets and goodwill	98.7	147.1
Other	60.3	64.8
Subtotal	1,672.5	1,702.2
Less: Valuation allowance	(1,160.2)	(1,169.6)
Total deferred tax assets	512.3	532.6
Deferred tax liabilities:		
Capitalized software	(13.6)	(19.3)
Unrealized foreign exchange tax gain	(123.8)	(110.6)
Property and equipment	(57.3)	(46.0)
Other	(8.4)	(15.4)
Total deferred tax liabilities [a]	(203.1)	(191.3)
Net deferred tax assets	$ 309.2	$ 341.3

(a) As of December 31, 2011, $0.2 million of deferred tax liabilities were included in accrued expenses and other current liabilities on the consolidated balance sheet.

AOL had net operating losses from various foreign jurisdictions of $4,187.8 million and $4,094.0 million as of December 31, 2011 and 2010, respectively. Many of these foreign losses are attributable to specific operations and may not be utilized to offset taxable income of other operations of AOL. The expiration period of the foreign net operating losses ranges from 2013 to indefinite. The valuation allowance outstanding at December 31, 2011 and 2010 is primarily attributable to the foreign net operating loss carryforwards.

AOL had $566.9 million and $456.9 million of U.S. federal net operating loss carryforwards as of December 31, 2011 and 2010, respectively. Certain of these federal net operating loss carryforwards are subject to statutory annual use limitations. AOL had approximately $1,018.0 million and $1,057.4 million of net operating loss carryforwards in various state and local jurisdictions as of December 31, 2011 and 2010, respectively. Certain of these state tax losses are subject to a valuation allowance because they are attributable to specific operations and may not be utilized against taxable income of other operations of AOL. These federal, state and local net operating loss carryforwards will expire between 2012 and 2031.

AOL has a capital loss carryforward of $111.3 million as of December 31, 2011, of which the majority will expire at the end of 2015. Significant uncertainty exists regarding the future realization of the $44.2 million deferred tax asset related to this capital loss carryforward and as a result, AOL has recorded a full valuation allowance on this deferred tax asset.

During the year ended December 31, 2011, AOL decreased its valuation allowance by $9.4 million primarily related to foreign deferred tax assets.

As of December 31, 2011, the total valuation allowance of $1,160.2 million included $1,095.1 million of deferred tax assets on net operating loss carryforwards and $44.2 million of deferred tax assets on capital loss carryforwards. The total valuation allowance was established based on management's determination that the deferred tax assets are not more likely than not to be realized. Management believes that the remaining deferred tax assets are more likely than not to be realized based upon consideration of all positive and negative evidence, including AOL's operating results and forecast of future taxable income, on a jurisdiction by jurisdiction basis.

U.S. federal income taxes are provided on the portion of AOL's income from certain foreign subsidiaries that is expected to be remitted to the United States. We have recorded deferred income taxes and foreign withholding taxes on unremitted earnings from foreign subsidiaries in the amount of $7.4 million and $8.9 million, as of December 31, 2011 and 2010, respectively. For AOL's other foreign subsidiaries, we have not provided for U.S. income and foreign withholding taxes on approximately $22.7 million of certain foreign subsidiaries' undistributed earnings, because such earnings have been retained and are intended to be indefinitely reinvested outside of the United States. It is not practical to estimate the amount of taxes that would be payable upon remittance of these earnings because such tax, if any, is dependent on circumstances existing if and when remittance occurs.

Accounting for Uncertainty in Income Taxes

Changes in unrecognized tax benefits, excluding the related accrual for interest, from January 1 to December 31 are set forth below (in millions):

	Years Ended December 31,		
	2011	2010	2009
Beginning balance	$ 150.6	$ 154.7	$ 657.6
Additions for current year tax positions	1.3	6.1	11.1
Reductions for prior year tax positions	(0.2)	(3.0)	—
Unrecognized tax benefits retained by Time Warner following spin-off	—	—	(512.5)
Reductions as a result of expiration of statute of limitations	—	(7.2)	(1.5)
Total	$ 151.7	$ 150.6	$ 154.7

AOL entered into a Second Tax Matters Agreement with Time Warner, effective December 9, 2009, that governs the respective post spin-off rights, responsibilities and obligations of Time Warner and AOL with respect to tax matters for the pre spin-off tax periods. As a member of Time Warner's consolidated U.S. federal income tax group, AOL has (and continues to have following the spin-off) joint and several liability with Time Warner to the IRS for the consolidated U.S. federal income taxes of the Time Warner group relating to the taxable periods in which AOL was part of the group. Under the Second Tax Matters Agreement, however, Time Warner agreed to assume this liability and any similar liability for U.S. federal, state or local income taxes, including liability for uncertain income tax positions taken by Time Warner with respect to AOL, that are determined on a consolidated, combined, unitary or similar basis for each taxable period in which AOL was included in such consolidated, combined, unitary or similar group with Time Warner. As a result, at the date of the spin-off, AOL reversed the recorded liability (including accrued interest) to Time Warner related to these uncertain tax positions, with an offsetting $368.1 million adjustment to equity. AOL remains responsible for any foreign income taxes and any other income taxes (primarily state taxes) that are not determined on a consolidated, combined, unitary or similar basis with Time Warner.

The Company accrues interest and penalties where there is an underpayment of taxes, based on management's best estimate of the amount ultimately to be paid, in the same period that 1) the interest would begin accruing or 2) the penalties would first be assessed. Our policy on the classification of interest and penalties is to record both as part of income tax expense. Interest expense recorded through the income tax provision (benefit) related to uncertain tax positions was $0.1 million, $0.4 million, and $14.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011 and 2010, the amount of accrued interest in the consolidated balance sheet associated with uncertain tax positions was $0.6 million and $0.7 million, respectively. As of December 31, 2011 and 2010, no penalties were accrued.

The statute of limitations of certain foreign jurisdictions in which AOL filed separately from Time Warner have not expired and therefore, the periods from 2003 through the current period remain open to examination by the taxing authorities. For the periods following the spin-off, the examination periods in all significant jurisdictions remain open and subject to examination by the taxing authorities.

The Company's liabilities for unrecognized tax benefits, which include interest, were $0.6 million and $2.3 million as of December 31, 2011 and 2010, respectively. The remainder, if recognized, would affect deferred taxes. As of December 31, 2011, the amount of unrecognized tax benefits, net of the federal tax benefit of state tax deductions, which, if recognized, would affect our effective tax rate is $143.1 million. A number of years may elapse before an uncertain tax position is finally resolved. It is difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position. We reevaluate and adjust our reserves for income taxes, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position would usually require the use of cash and result in the reduction of the related liability. The resolution of a matter would be recognized as an adjustment to the provision for income taxes and the effective tax rate in the period of resolution. We do not expect our unrecognized tax benefits to significantly change in the next twelve months.

NOTE 7—STOCKHOLDERS' EQUITY

AOL is authorized to issue up to 660.0 million shares of all classes of stock, consisting of 60.0 million shares of preferred stock, par value $0.01 per share ("Preferred Stock"), and 600.0 million shares of common stock, par value $0.01 per share. Rights and privileges associated with shares of Preferred Stock are subject to authorization by the Company's Board of Directors and may differ from those of any and all other series at any time outstanding. All shares of common stock will be identical and will entitle the holders thereof to the same rights and privileges.

As of December 31, 2011, 107,037,724 shares of common stock were issued and 94,278,437 shares of common stock were outstanding. No dividends were declared or paid for the years ended December 31, 2011, 2010 and 2009.

On August 10, 2011, the Company's Board of Directors approved a stock repurchase program, which authorizes the Company to repurchase up to $250 million of its outstanding shares of common stock from time to time through August 2012. Repurchases are subject to market conditions, share price and other factors. Repurchases have been and will be made in accordance with applicable securities laws in the open market or in private transactions and may include derivative transactions, or pursuant to any trading plan adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. As of December 31, 2011, the Company repurchased 12.7 million shares at a weighted average price of $13.59 per share as part of this program. Total consideration paid for the repurchase of common stock was $173.6 million for the year ended December 31, 2011. As of February 1, 2012, the Company repurchased a total of 13.0 million shares at a weighted average price of $13.62 per share under this program. Shares repurchased under the program are recorded as treasury stock on the Company's consolidated balance sheet. The repurchase program may be suspended or discontinued at any time. The shares repurchased during the year ended December 31, 2011 were not the result of an accelerated share repurchase agreement and did not result in any derivative transactions. Management has not made a decision on whether shares purchased under this program will be retired or reissued.

On January 22, 2010, the Company issued 594,749 shares of AOL common stock as partial consideration for the acquisition of StudioNow. During 2010, the Company also issued 194,857 shares of AOL common stock to Polar Capital Group, LLC ("Polar Capital"), in satisfaction of its contractual obligation to return its CEO's initial investment of approximately $4.5 million in Patch Media Corporation ("Patch"), which arose from the acquisition of Patch on June 10, 2009.

Under the terms of the Company's tax matters agreement with Time Warner, amounts payable or receivable to Time Warner prior to the spin-off were reflected as adjustments to divisional equity. During the first quarter of 2010, the Company adjusted its deferred tax assets and estimated amount payable to Time Warner for income taxes prior to the spin-off and these adjustments resulted in a $27.0 million reduction to additional paid-in capital.

NOTE 8—EQUITY-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

Prior to the spin-off, AOL employees participated in certain Time Warner domestic and international defined contribution plans, including savings and profit sharing plans. AOL's contributions to Time Warner's savings plans were primarily based on a percentage of the employees' elected contributions and were subject to plan provisions. Subsequent to the spin-off, AOL employees are no longer participating in and AOL is no longer contributing to these plans.

Subsequent to the spin-off, AOL employees participate in domestic and international defined contribution plans, primarily consisting of AOL's domestic savings plan. AOL's contributions to these plans are based on a percentage of the employees' elected contributions and are subject to plan provisions.

Expenses related to AOL's contribution to the AOL and Time Warner plans amounted to $13.2 million, $11.5 million and $17.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Equity-Based Compensation

AOL Equity Plan

Pursuant to the Company's Amended and Restated 2010 Stock Incentive Plan ("2010 SIP") stock options are granted to employees, advisors and non-employee directors of AOL with exercise prices equal to the quoted market value of the common stock at the date of grant. Generally, the stock options vest ratably over a four year vesting period and expire ten years from the date of grant. Certain stock option awards provide for accelerated vesting upon an election to retire after reaching a specified age and years of service, as well as certain additional circumstances for non-employee directors.

Also pursuant to the 2010 SIP, AOL may also grant shares of common stock or restricted stock units ("RSUs") to its employees, advisors and non-employee directors, which generally vest ratably over a four year period from the date of grant. Holders of restricted stock and RSU awards are generally entitled to receive regular cash dividends or dividend equivalents, respectively, at the discretion of the Board of Directors, if paid by the Company during the period of time that the restricted stock or RSU awards are unvested.

The Company is authorized to grant equity awards to employees, advisors and non-employee directors covering an aggregate of 16.6 million shares of AOL common stock under the 2010 SIP, of which up to 7.8 million awards may be issued in the form of full-value awards, such as restricted stock or RSUs. Amounts available for issuance pursuant to grants under the 2010 SIP will change over time based on such activities as the conversion of equity awards into common stock, the forfeiture of equity awards and the cancellation of equity awards, among other activities.

Upon the (i) exercise of a stock option award, (ii) vesting of a RSU or (iii) grant of restricted stock, shares of AOL common stock are issued from authorized but unissued shares or from treasury stock.

Time Warner Equity Plans

Until consummation of the separation from Time Warner, AOL employees participated in Time Warner's equity plans. Time Warner had two active equity plans under which it was authorized to grant equity awards of Time Warner common stock to AOL employees. Options had been granted to employees of AOL with exercise prices equal to the fair market value of the underlying common stock at the date of grant. Generally, the stock options vested ratably over a four-year vesting period and expired 10 years from the date of grant. Certain stock option awards provided for accelerated vesting upon an election to retire pursuant to the Time Warner defined benefit retirement plans or after reaching a specified age and years of service.

Pursuant to these equity plans, Time Warner also granted shares of common stock or RSUs to employees of AOL. These awards generally vested between three to five years from the date of grant. Certain RSU awards provided for accelerated vesting upon an election to retire pursuant to Time Warner's defined benefit retirement plans or after reaching a specified age and years of service. Holders of restricted stock and RSU awards were generally entitled to receive regular cash dividends or dividend equivalents, respectively, paid by Time Warner during the period of time that the restricted stock or RSU awards were unvested.

In connection with the legal and structural separation of the Company from Time Warner, AOL employees ceased participating in the Time Warner equity plans once the spin-off was completed. Employees holding Time Warner equity awards at the time of the separation were treated as if their employment with Time Warner was terminated without cause. For most AOL employees, this treatment resulted in the forfeiture of unvested stock options, shortened exercise periods for vested stock options and pro rata vesting of the next installment of (and forfeiture of the remainder of) restricted stock and restricted stock unit grants.

Acquisition of The Huffington Post

In connection with the acquisition of The Huffington Post in March 2011, the Company assumed the Huffington Post Plan and, as discussed above, agreed to consideration valued at $12.1 million related to the fair value of unvested stock options held by The Huffington Post employees that were generally converted into unvested AOL stock options. Specifically, as of closing: (1) the Company converted 706,881 outstanding shares that were subject to The Huffington Post stock options into 664,075 Company stock options; (2) the remainder of the shares subject to outstanding The Huffington Post stock options were cashed out pursuant to the merger agreement (all of the cashed-out shares were canceled and will not be returned to the share pool as Company shares under the Huffington Post Plan); and (3) a small number of shares subject to The Huffington Post stock options held by previously terminated employees had been either exercised or forfeited (the forfeited shares were returned to the share pool, and converted into Company shares under the Huffington Post Plan). Of the fair value of The Huffington Post options that were converted, $8.1 million is being recognized as equity-based compensation expense over the remaining award vesting periods (subject to adjustments for actual forfeitures), which for most employees is 24 months from the acquisition date. See "Note 4" for additional information on the acquisition of The Huffington Post and related stock conversion.

Equity-Based Compensation Expense

Compensation expense recognized by AOL related to its equity-based compensation plan and for its participation in Time Warner's equity-based compensation plans, prior to the spin-off, is as follows (in millions):

	Years Ended December 31,		
	2011	2010	2009
Stock options	$ 21.0	$ 17.0	$ 4.3
RSUs and performance stock units (PSUs) [a]	21.5	19.1	8.2
Total equity-based compensation expense [b]	$ 42.5	$ 36.1	$ 12.5
Tax benefit recognized	$ 16.7	$ 14.4	$ 5.0

(a) AOL has not granted PSUs to employees. Prior to the spin-off, Time Warner granted RSUs and PSUs to AOL employees.

(b) Equity-based compensation expense in 2009 included a reduction to expense caused by a change in the estimated forfeiture rate for Time Warner equity awards held by AOL employees, as fewer Time Warner equity awards were expected to vest as a result of the spin-off. Also included in the total equity-based compensation expense for the year ended December 31, 2009 is $0.6 million attributable to AOL's equity awards.

AOL Stock Options

The assumptions presented in the table below represent the weighted-average value of the applicable assumption used to value AOL stock options at their grant date:

	Year Ended December 31,	
	2011	2010
Expected volatility	38.8%	39.9%
Expected term to exercise from grant date	5.52 years	5.38 years
Risk-free rate	2.1%	2.5%
Expected dividend yield	0.0%	0.0%

Because AOL's common stock has a limited trading history, the volatility assumption was determined for 2011 and 2010 awards based on a blend of AOL's implied volatility and the historical and implied volatilities of a comparable peer group of publicly traded companies. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on the historical exercise experience of AOL employees that held similar options to acquire Time Warner common stock. The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. As the Company does not currently intend to pay dividends, the expected dividend yield is zero for all AOL equity awards granted.

The following table summarizes information about AOL stock options that were outstanding at December 31, 2011:

Options	Number of Options (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2008	—			
Converted [(a)]	0.5	$ 11.90		
Granted	3.2	$ 23.28		
Outstanding at December 31, 2009	3.7	$ 21.85	9.9 years	$ 1,549
Exercised	—			
Granted	2.9	$ 23.85		
Forfeited	(0.4)	$ 23.33		
Outstanding at December 31, 2010	6.2	$ 22.69	9.1 years	$ 7,871
Converted [(b)]	0.7	$ 2.92		
Exercised	(0.1)	$ 2.93		$ 1,912
Granted	3.2	$ 20.41		
Forfeited	(1.3)	$ 19.85		
Expired	(0.1)	$ 23.34		
Outstanding at December 31, 2011	8.6	$ 20.75	8.1 years	$ 6,548
Exercisable at December 31, 2009	—			
Exercisable at December 31, 2010	1.7	$ 20.25	8.8 years	$ 5,940
Exercisable at December 31, 2011	3.7	$ 21.50	7.2 years	$ 2,727

(a) Represents the Time Warner stock options held by AOL's Chairman and Chief Executive Officer that were converted into AOL stock options.
(b) Represents Huffington Post options converted at the time of acquisition.

As of December 31, 2011, 4.7 million shares of AOL common stock were available for future grants of stock options. As of December 31, 2011, there was $36.8 million of unrecognized compensation cost related to outstanding employee stock options expected to vest. The Company expects to recognize this amount over a weighted-average period of 2.5 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation expense related to these awards will be different from the Company's expectations.

The weighted-average grant date fair value of an AOL stock option granted during the years ended December 31, 2011, 2010 and 2009 was $7.77, $9.41 and $9.94, respectively.

AOL Restricted Stock Units

The following table summarizes information about unvested AOL RSUs at December 31, 2011:

	Number of RSUs (in millions)	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2008	—	
Converted [(a)]	0.3	$ 23.29
Granted	2.9	$ 23.28
Unvested at December 31, 2009	3.2	$ 23.29
Vested	(0.4)	$ 23.38
Granted	1.2	$ 23.92
Forfeited	(0.7)	$ 23.45
Unvested at December 31, 2010	3.3	$ 23.54
Vested	(1.2)	$ 23.49
Granted	1.8	$ 19.81
Forfeited	(1.1)	$ 22.74
Unvested at December 31, 2011	2.8	$ 21.47

(a) Represents the Time Warner RSUs held by AOL's Chairman and Chief Executive Officer that were converted into AOL RSUs. The weighted-average grant date fair value amount above for these converted awards represents the fair value on the conversion date.

At December 31, 2011, the intrinsic value of unvested AOL RSUs was $41.6 million. As of December 31, 2011, there was $46.6 million of unrecognized compensation cost related to outstanding RSUs expected to vest. The Company expects to recognize this amount over a weighted-average period of 2.7 years. To the extent the actual forfeiture rate is different from what the Company has estimated, equity-based compensation expense related to these awards will be different from the Company's expectations. Total fair value of shares vested during the year ended December 31, 2011 was $27.4 million.

Time Warner Stock Options

The assumptions presented in the table below represent the weighted-average value of the applicable assumption used to value Time Warner stock options at their grant date.

	Year Ended December 31, 2009
Expected volatility	38.1%
Expected term to exercise from grant date	4.71 years
Risk-free rate	1.9%
Expected dividend yield	3.8%

The grant date fair value of all Time Warner equity-based awards has been adjusted to reflect the effect of Time Warner's 1-for-3 reverse stock split which became effective on March 27, 2009. The weighted-average fair value of a Time Warner stock option granted to AOL employees was $4.57 for the year ended December 31, 2009. The total intrinsic value of Time Warner options exercised by AOL employees was $3.3 million for the year ended December 31, 2009. Time Warner received cash from the exercise of Time Warner stock options by

AOL employees totaling $13.0 million for the year ended December 31, 2009. The tax benefits realized by AOL from Time Warner stock options exercised in the year ended December 31, 2009 was approximately $1.2 million.

Time Warner Restricted Stock and Restricted Stock Units

The fair value of Time Warner restricted stock and RSUs granted to AOL employees that vested during the year ended December 31, 2009 was $12.1 million.

For the year ended December 31, 2009, 0.5 million Time Warner RSUs were granted to AOL employees at a weighted-average grant date fair value per RSU of $18.14. Time Warner RSUs held by most employees at the date of spin-off were either vested or forfeited as a result of the spin-off. Following the spin-off, there are no outstanding unvested Time Warner RSUs held by AOL employees.

NOTE 9—RESTRUCTURING COSTS

2011 Restructuring Costs

In connection with the Company's restructuring initiatives, the Company incurred $38.3 million in restructuring costs for the year ended December 31, 2011 related to organizational changes made in an effort to improve its ability to execute its strategy. These restructuring costs related to the Company's acquisition of The Huffington Post, a reassessment of its operations in India and actions in the United States to align the Company's costs with its strategy, and were primarily related to involuntary terminations of employees ranging from executives to line personnel.

2010 Restructuring Costs

For the year ended December 31, 2010, the Company incurred $33.8 million in restructuring costs to better align its organizational structure and costs with its strategy. These restructuring costs included $29.2 million related to employee terminations, facility closures and contract termination costs in 2010 and $4.6 million in restructuring costs associated with actions taken in 2009 and prior years (which includes adjustments to previous estimates). Employee termination costs were attributable to terminations of employees ranging from senior executives to line personnel.

2009 Restructuring Costs

For the year ended December 31, 2009, the Company undertook various restructuring activities in an effort to better align its organizational structure and costs with its strategy. As a result, the Company incurred $189.2 million in restructuring costs, which included $183.9 million in restructuring costs related to employee terminations, facility closures and other exit activities in 2009, and $5.3 million in restructuring costs associated with actions taken in 2008 and prior years (which includes adjustments to previous estimates). Employee termination costs were attributable to terminations of employees ranging from senior executives to line personnel.

A summary of AOL's restructuring activity for the years ended December 31, 2011, 2010 and 2009 is as follows (in millions):

	Employee Terminations	Other Exit Costs	Total
Liability at December 31, 2008	$ 10.4	$ 20.5	$ 30.9
2009 restructuring expense	161.5	27.7	189.2
Foreign currency translation and other adjustments	(10.8)	0.7	(10.1)
Cash paid	(53.0)	(20.6)	(73.6)
Liability at December 31, 2009	108.1	28.3	136.4
2010 restructuring expense	18.8	15.0	33.8
Foreign currency translation and other adjustments	(6.1)	1.2	(4.9)
Cash paid	(102.8)	(26.3)	(129.1)
Liability at December 31, 2010	$ 18.0	$ 18.2	$ 36.2
2011 Restructuring expense	37.2	1.1	38.3
Foreign currency translation and other adjustments	(1.1)	(0.5)	(1.6)
Cash paid	(48.5)	(11.7)	(60.2)
Liability at December 31, 2011	$ 5.6	$ 7.1	$ 12.7

At December 31, 2011, of the remaining liability of $12.7 million, $11.6 million was classified as a current liability within accrued expenses and other current liabilities, with the remaining $1.1 million classified as a long-term liability in the consolidated balance sheet. Amounts classified as long-term are expected to be paid through 2014.

NOTE 10—COMMITMENTS AND CONTINGENCIES

Commitments

AOL's total rent expense from continuing operations amounted to $39.6 million, $34.8 million and $49.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. The Company has long-term non-cancelable lease commitments for office space and operating equipment in various locations around the world, a number of which have renewal options at market rates to be determined prior to the renewal option being exercised. In addition, certain leases have rent escalation clauses with either fixed scheduled rent increases or rent increases based on the Consumer Price Index. The minimum rental commitments under non-cancelable long-term operating leases during the next five years are as follows (in millions):

	Gross operating lease commitments	Sublease income	Net operating lease commitments
2012	$ 52.7	$ 6.8	$ 45.9
2013	47.0	6.6	40.4
2014	44.1	4.1	40.0
2015	39.3	4.1	35.2
2016	32.3	4.2	28.1
Thereafter	123.1	2.1	121.0
Total [(a)]	$ 338.5	$ 27.9	$ 310.6

(a) Included in the above table are approximately $196.8 million of payments associated with the lease of the Company's corporate headquarters in New York. AOL has leased its corporate headquarters for a non-cancelable initial lease term that ends in February 2023, with the option to extend the lease for an additional five years. Monthly rental payments to the landlord under this lease escalate by 7% after the end of the fifth year and tenth year of the lease term. In 2010 AOL entered into a new lease of a building in California and included in the above table are approximately $54.8 million of payments associated with this property. AOL has leased this space for a non-cancelable initial lease term that ends in June 2017 with no renewal options. Rent was abated for the first nine months of the lease term, with partial rent abatement for an additional three months. Only operating expenses were paid during the rent abatement period. Also included in the above table are payments for ongoing leases associated with AOL's restructuring activities. AOL has recorded a liability on the balance sheet of $7.1 million related to these payments.

AOL has commitments under certain network licensing, royalty, deferred compensation and other agreements aggregating approximately $127.7 million at December 31, 2011, which are payable principally over a three-year period, as follows (in millions):

2012	$ 78.0
2013-2014	47.6
2015-2016	1.4
Thereafter	0.7
Total	$ 127.7

The Company also has certain contractual arrangements that would require it to make payments or provide funding if certain circumstances occur ("contingent commitments"). At December 31, 2011, these arrangements related primarily to letters of credit and totaled $12.0 million. The Company does not expect that these contingent commitments will result in any material amounts being paid by the Company in the foreseeable future.

Included in the commitment amounts discussed above are certain commitments to Time Warner, see "Note 12" for additional information.

Contingencies

On April 30, 2008, Bascom Global Internet Services, Inc. filed claims against AOL Inc. in the Eastern District Court of New York alleging that AOL's WebUnlock Parental Controls technology infringes Bascom's U.S. Patent No. 5,987,606. Bascom sought $67,000,000 in damages. During the fourth quarter of 2011, Bascom and AOL entered into a settlement agreement and settled the claims for $8,500,000.

In addition to the matter described above, AOL is a party to a variety of claims, suits and proceedings that arise in the normal course of business, including actions with respect to intellectual property claims, tax matters, labor and unemployment claims, commercial claims, claims related to the Company's business model for content creation and other matters. With respect to tax matters, AOL has received tax assessments in certain states related to sales and use taxes on its business operations. AOL has appealed these tax assessments and plans to vigorously contest these matters. In addition, AOL has received assessments in certain foreign countries related to income tax and transfer pricing, and plans to vigorously contest these matters as well. In certain instances, the Company was required to pay a portion of the tax assessment in order to proceed with the dispute of the assessment. While the results of such normal course claims, suits and proceedings cannot be predicted with certainty, management does not believe that, based on current knowledge and the likely timing of resolution of the various matters, any additional reasonably possible potential losses above the amount accrued for such matters would be material to the Company's financial statements. Regardless of the outcome, legal proceedings can have an adverse effect on us because of defense costs, diversion of management resources and other factors.

NOTE 11—ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of (in millions):

	December 31, 2011	December 31, 2010
TAC	$ 43.6	$ 55.4
Costs of revenues (excluding TAC)	43.6	42.1
Taxes	23.5	24.7
General and administrative costs	20.7	20.1
Restructuring liabilities	11.6	29.2
Rent and facilities expense	8.6	5.5
Network and related costs	8.0	6.9
Member support services	4.0	4.8
Other accrued expenses	8.0	47.6
Total accrued expenses and other liabilities	$ 171.6	$ 236.3

NOTE 12—RELATED PARTY TRANSACTIONS

Acquisition of Patch Media Corporation

On June 10, 2009, AOL purchased Patch, a news, information and community platform business dedicated to providing comprehensive local information and services for individual towns and communities, for approximately $7.0 million in cash. Approximately $700,000 of the consideration was held in an indemnity escrow account until the first anniversary of the closing.

At the time of closing, Timothy M. Armstrong, AOL's Chairman and Chief Executive Officer, held, indirectly, through Polar Capital (a private investment company which he founded), economic interests in Patch that entitled him to receive approximately 75% of the transaction consideration. Mr. Armstrong's original investment in Patch, made in December 2007 through Polar Capital, was approximately $4.5 million. In connection with the transaction, Mr. Armstrong, through Polar Capital, waived his right to receive any transaction consideration in excess of his original $4.5 million investment, opting to accept only the return of his initial investment in AOL common stock. In addition, Mr. Armstrong elected to return the $4.5 million (approximately $450,000 of which was held in the indemnity escrow account for a year) that he was entitled to receive in connection with the transaction to AOL, to be held by AOL until after the Company's separation from Time Warner in exchange for the subsequent issuance of AOL common stock. In exchange for the $4.5 million he was entitled to receive, during 2010, AOL issued to Polar Capital 194,857 shares of AOL common stock.

Transactions with Time Warner

Through the date of the spin-off, AOL had certain related party relationships with Time Warner and its subsidiaries. In connection with the separation, AOL entered into the Separation Agreement and several other related agreements which govern the ongoing relationship between the two companies. The Company does not consider Time Warner to be a related party subsequent to the spin-off. The most significant related party relationships and subsequent relationships with Time Warner are discussed further below.

Administrative Services

Through the date of the spin-off, Time Warner performed certain administrative functions on behalf of AOL. Costs of these services that were allocated or charged to AOL were based on either the actual costs incurred or Time Warner's estimate of expenses relative to the services provided to other subsidiaries of Time Warner. AOL believes that these allocations were made on a reasonable basis, and that receiving these services from Time Warner created cost efficiencies. During the year ended December 31, 2009, AOL incurred $20.9 million of expenses related to charges for services performed by Time Warner. These expenses were recorded as operating expenses by AOL as incurred.

Tax Matters Agreements

In connection with Google's investment in the Company in 2006, AOL entered into a tax matters agreement with Time Warner governing AOL's inclusion in Time Warner consolidated tax returns. Under the terms of the tax matters agreement, Time Warner prepared a pro forma AOL income tax return, and AOL agreed to make tax payments to Time Warner generally on the basis of this pro forma consolidated AOL income tax return. Amounts payable or receivable under the tax matters agreement were generally reported as adjustments to divisional equity.

Effective with the spin-off, the Company entered into a Second Tax Matters Agreement with Time Warner that governs the respective rights, responsibilities and obligations of Time Warner and AOL after the spin-off with respect to all tax matters. See "Note 6" for additional information on the Second Tax Matters Agreement.

Other

In the normal course of business, AOL historically entered into commercial transactions with other subsidiaries of Time Warner. AOL recognized $3.7 million in revenue and $22.0 million in operating expenses from transactions with other Time Warner subsidiaries for the year ended December 31, 2009.

NOTE 13—SEGMENT INFORMATION

An operating segment is defined as a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses and that has discrete financial information that is regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company's chief operating decision maker, its Chief Executive Officer, evaluates performance and makes operating decisions about allocating resources based on financial data presented on a consolidated basis. There are no managers who are held accountable by AOL's chief operating decision maker, or anyone else, for an operating measure of profit or loss for any operating unit below the consolidated unit level. Accordingly, management has determined that the Company has one segment.

NOTE 14—SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
2011				
Revenues:				
Advertising	$ 313.7	$ 319.0	$ 317.7	$ 363.8
Subscription	215.4	201.3	191.9	194.6
Other	22.3	21.9	22.1	18.4
Total revenues	551.4	542.2	531.7	576.8
Costs of revenues	388.9	403.4	397.9	394.2
Operating income (loss) [(a)]	(11.8)	(5.8)	8.6	54.8
Net income (loss) attributable to AOL Inc.	$ 4.7	$ (11.8)	$ (2.6)	$ 22.8
Basic net income (loss) per common share	$ 0.04	$ (0.11)	$ (0.02)	$ 0.23
Diluted net income (loss) per common share	$ 0.04	$ (0.11)	$ (0.02)	$ 0.23

	March 31,	June 30,	September 30,	December 31,
2010				
Revenues:				
Advertising	$ 354.3	$ 304.7	$ 293.5	$ 331.6
Subscription	282.7	260.2	244.8	235.9
Other	27.3	27.3	25.9	28.5
Total revenues	664.3	592.2	564.2	596.0
Costs of revenues	364.7	335.0	342.8	378.1
Operating income (loss) [(b)]	80.7	(1,331.8)	201.1	67.4
Net income (loss) attributable to AOL Inc.	$ 34.7	$(1,055.0)	$ 171.6	$ 66.2
Basic net income (loss) per common share	$ 0.33	$ (9.89)	$ 1.61	$ 0.62
Diluted net income (loss) per common share	$ 0.32	$ (9.89)	$ 1.60	$ 0.61

(a) Operating income (loss) for the quarter ended March 31, 2011 includes restructuring costs of $27.8 million mainly as a result of our acquisition of The Huffington Post and costs incurred as a result of the reassessment of our operations in India.

(b) Operating income (loss) for the quarter ended June 30, 2010 includes a $1,414.4 million non-cash impairment charge to reduce the carrying value of goodwill. Operating income (loss) includes the effects of restructuring charges related primarily to voluntary and involuntary employee terminations and facility closures of $23.4 million and $11.1 million for the quarters ended March 31, 2010 and June 30, 2010, respectively.

AOL Inc.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2009, 2010 and 2011
(In millions)

Allowance for Doubtful Accounts	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Balance at End of Year
2009	$ 39.8	$ 20.7	$ (28.9)	$ 31.6
2010	$ 31.6	$ 6.2	$ (21.7)	$ 16.1
2011	$ 16.1	$ 2.7	$ (10.5)	$ 8.3

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in our financial reports is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms, and that such information is accumulated and communicated to senior management, as appropriate, to allow timely decisions regarding required disclosure. Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2011, at a reasonable assurance level.

Changes to Internal Control Over Financial Reporting

We have evaluated the changes in our internal control over financial reporting that occurred during the three months ended December 31, 2011 and concluded that there have not been any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Internal control over financial reporting includes control self-assessments, which are audited by the internal audit function. Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives. It is a process that involves human diligence and compliance and is therefore subject to lapses in judgment and breakdowns resulting from human error. It also can be circumvented by collusion or improper override. Because of its limitations, there is a risk that internal control over financial reporting may not prevent or detect on a timely basis errors or fraud that could cause a material misstatement of the financial statements. Additionally, changes in conditions may impact the effectiveness of controls subsequent to the date of the evaluation of the effectiveness of internal control over financial reporting.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011, using the criteria established in *Internal Control—Integrated Framework* issued by COSO. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2011, as stated in their report included in Item 9A.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of AOL Inc.

We have audited AOL Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AOL Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AOL Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AOL Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2011 of AOL Inc. and our report dated February 24, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 24, 2012

ITEM 9B. OTHER INFORMATION

None.

AOL Inc.
PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

In addition to the information set forth under the caption "Executive Officers of the Registrant" in Part I, Item 1 of this Annual Report, the information required by this Item is incorporated by reference to our Proxy Statement to be filed in connection with the 2012 Annual Meeting of Stockholders.

We have adopted a Code of Ethics for Our Senior Executive and Senior Financial Officers. A copy of the Code is publicly available on our website at *http://corp.aol.com/*. Amendments to the Code or any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules will also be disclosed on our website.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is hereby incorporated by reference to our Proxy Statement to be filed in connection with the 2012 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this item is hereby incorporated by reference to our Proxy Statement to be filed in connection with the 2012 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this item is hereby incorporated by reference to our Proxy Statement to be filed in connection with the 2012 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this item is hereby incorporated by reference to our Proxy Statement to be filed in connection with the 2012 Annual Meeting of Stockholders.

AOL Inc.
PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The Financial Statements listed in the Index to Consolidated Financial Statements and Supplementary Data, filed as part of this Annual Report.

(a)(2) Financial Statement Schedule

The Financial Statement Schedule listed in the Index to Consolidated Financial Statements and Supplementary Data, filed as part of this Annual Report.

All other schedules are omitted as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

(a)(3) Exhibits

See Item 15(b) below.

(b) Exhibits

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

See the Exhibit Index immediately following the signature page of this Annual Report.

AOL INC.
SIGNATURES

Pursuant to the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2012.

AOL INC.

By /s/ ARTHUR MINSON

Name: Arthur Minson
Title: Executive Vice President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Timothy M. Armstrong and Arthur Minson, jointly and severally, his or her attorney-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ TIMOTHY M. ARMSTRONG **Timothy M. Armstrong**	Chairman and Chief Executive Officer *(Principal Executive Officer)*	February 24, 2012
/s/ ARTHUR MINSON **Arthur Minson**	Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*	February 24, 2012
/s/ MATTHEW KELPY **Matthew Kelpy**	Controller and Chief Accounting Officer *(Principal Accounting Officer)*	February 24, 2012
/s/ KAREN E. DYKSTRA **Karen E. Dykstra**	Director	February 24, 2012
/s/ ALBERTO IBARGÜEN **Alberto Ibargüen**	Director	February 24, 2012
/s/ SUSAN M. LYNE **Susan M. Lyne**	Director	February 24, 2012

AOL INC.
SIGNATURES

Signature	Title	Date
/s/ PATRICIA E. MITCHELL **Patricia E. Mitchell**	Director	February 24, 2012
/s/ FREDRIC G. REYNOLDS **Fredric G. Reynolds**	Director	February 24, 2012
/s/ JAMES R. STENGEL **James R. Stengel**	Director	February 24, 2012

AOL INC.
EXHIBIT INDEX

Exhibit Number	Description
2.1	Separation and Distribution Agreement between AOL Inc. and Time Warner Inc., dated November 16, 2009 (incorporated herein by reference to Exhibit 2.1 to the Registrant's Amendment No. 5 to Form 10 dated November 16, 2009).
2.2	Securities Purchase Agreement between AOL Inc. and Digital Sky Technologies Limited dated April 28, 2010 (incorporated herein by reference to Exhibit 2.1 to the Registrant's Form 10-Q dated August 4, 2010).
2.3	Agreement and Plan of Merger By and Among AOL Inc., Headline Acquisition Corporation, TheHuffingtonPost.com, Inc. and Shareholder Representative Services LLC, as the Security Holders' Agent dated as of February 6, 2011 (incorporated herein by reference to Exhibit 2.1 to Registrant's Form 10-Q dated May 4, 2011).
2.4	Side Letter between TheHuffingtonPost.com, Inc. and AOL Inc. dated March 4, 2011 (incorporated herein by reference to Exhibit 2.2 to Registrant's Form 10-Q dated May 4, 2011).
3.1	Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of the State of Delaware on December 9, 2009 (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated December 11, 2009).
3.2	Amended and Restated By-laws of the Registrant (incorporated herein by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K dated December 11, 2009).
4.1	Specimen Common Stock Certificate of Registration (incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated December 11, 2009).
10.1	Transition Services Agreement between AOL Inc. and Time Warner Inc., dated November 16, 2009 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Amendment No. 5 to Form 10 dated November 16, 2009).
10.2	Second Tax Matters Agreement between AOL Inc. and Time Warner Inc., dated November 16, 2009 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Amendment No. 5 to Form 10 dated November 16, 2009).
10.3	Employee Matters Agreement by and among AOL Inc., AOL LLC and Time Warner Inc., dated November 16, 2009 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Amendment No. 5 to Form 10 dated November 16, 2009).
10.4	Employee Matters Assignment and Assumption Agreement by and among AOL Inc., AOL LLC and Time Warner Inc., dated December 3, 2009 (incorporated herein by reference to Exhibit 10.7 to the Registrant's Form 10-K dated March 2, 2010).
10.5	Form of Non-Qualified Stock Option Agreement (incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K dated December 22, 2009).**
10.6	Form of Non-Qualified Stock Option Agreement (Version 2), effective December 9, 2010 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Form 10-K dated February 25, 2011).**
10.7	Form of Restricted Stock Units Agreement (incorporated herein by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K dated December 22, 2009).**
10.8	Form of Restricted Stock Units Agreement (Version 2), effective December 9, 2010 (incorporated herein by reference to Exhibit 10.11 to the Registrant's Form 10-K dated February 25, 2011).**

AOL INC.
EXHIBIT INDEX

Exhibit Number	Description
10.9	Amended and Restated AOL Inc. 2010 Stock Incentive Plan (incorporated herein by reference to Annex A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 16, 2010 (File No. 001-34419)).**
10.10	Amended and Restated Annual Incentive Plan for Executive Officers (incorporated herein by reference to Annex B of the (Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 16, 2010 (File No. 001-34419)).**
10.11	TheHuffingtonPost.com, Inc. Long-Term Incentive Plan, as amended as of February 28, 2011 (incorporated herein by reference to the Registrant's Form S-8 dated March 7, 2011).**
10.12	Form of 2011 Annual Bonus Plan (incorporated herein by reference to Exhibit 10.2 to Registrant's Form 10-Q dated August 9, 2011).**
10.13	2011 Directors' Deferred Compensation Plan (incorporated hereby by reference to Exhibit 10.1 to the Registrant's Periodic Report on Form 8-K dated May 27, 2011).**
10.14	Form of Non-Qualified Stock Option Agreement between AOL Inc. and Timothy Armstrong, dated December 9, 2009 (incorporated herein by reference to Exhibit 10.36 to the Registrant's Form 10-K dated March 2, 2010).**
10.15	Form of Non-Qualified Stock Option Agreement between AOL Inc. and Timothy Armstrong, dated December 31, 2009 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated December 22, 2009).**
10.16	Form of Non-Qualified Stock Option Agreement between AOL Inc. and Timothy Armstrong, dated January 4, 2010 (incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated December 22, 2009).**
10.17	Form of Restricted Stock Units Agreement between AOL Inc. and Timothy Armstrong, dated January 4, 2010 (incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated December 22, 2009).**
10.18	Employment Agreement among AOL LLC, Time Warner Inc. and Timothy Armstrong, dated March 12, 2009 and effective as of April 7, 2009 (incorporated herein by reference to Exhibit 10.6 to Amendment No. 1 to Form 10 dated September 16, 2009).**
10.19	First Amendment to the Employment Agreement between AOL Inc. and Timothy M. Armstrong, dated December 15, 2009 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated December 22, 2009).**
10.20	Employment Agreement between AOL LLC and Arthur Minson, dated August 24, 2009 and effective as of September 8, 2009 (incorporated herein by reference to Exhibit 10.7 to Amendment No. 1 to Form 10 dated September 16, 2009).**
10.21	Executive Employment Agreement between AOL Inc. and Alexander Gounares, dated May 10, 2010 (incorporated herein by reference to Exhibit 10.22 to the Registrant's Form 10-K dated February 25, 2011).**
10.22	Executive Employment Agreement between AOL Inc. and Julie Jacobs, dated June 11, 2010 (incorporated herein by reference to Exhibit 10.23 to the Registrant's Form 10-K dated February 25, 2011).**

AOL INC.
EXHIBIT INDEX

Exhibit Number	Description
10.23	2009 Retention Program Letter Agreement between AOL LLC and Julie Jacobs, dated April 1, 2009 (incorporated herein by reference to Exhibit 10.24 to the Registrant's Form 10-K dated February 25, 2011).**
10.24	RSU Make-Good Program Memo from AOL Inc. to Julie Jacobs, dated March 30, 2010 (incorporated herein by reference to Exhibit 10.25 to the Registrant's Form 10-K dated February 25, 2011).**
10.25	Amendment to Employment Agreement with Julie Jacobs, dated as of March 30, 2011 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 10-Q dated May 4, 2011).**
10.26	Second Amendment to the Employment Agreement of Julie Jacobs, dated December 13, 2011.**
10.27	Separation Agreement and Release of Claims between AOL Inc. and Tricia Primrose Wallace, dated October 27, 2010 and revised December 21, 2010 (incorporated herein by reference to Exhibit 10.28 to the Registrant's Form 10-K dated February 25, 2011).**
10.28	Amended and Restated Interactive Marketing Agreement between AOL LLC and Google Inc., dated October 1, 2003 (the "IMA") (incorporated herein by reference to Exhibit 10.22 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.29	First Amendment to the IMA, dated December 15, 2003 (incorporated herein by reference to Exhibit 10.23 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.30	Second Amendment to the IMA, dated March 30, 2004 (incorporated herein by reference to Exhibit 10.24 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.31	Addendum One to the Second Amendment to the IMA, dated October 5, 2004 (incorporated herein by reference to Exhibit 10.25 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.32	Third Amendment to the IMA, dated April 7, 2004 (incorporated herein by reference to Exhibit 10.26 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.33	Fourth Amendment to the IMA, dated June 1, 2004 (incorporated herein by reference to Exhibit 10.27 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.34	Fifth Amendment to the IMA, dated June 14, 2004 (incorporated herein by reference to Exhibit 10.28 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.35	Sixth Amendment to the IMA, dated December 17, 2004 (incorporated herein by reference to Exhibit 10.29 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.36	Seventh Amendment to the IMA, dated March 28, 2005 (incorporated herein by reference to Exhibit 10.30 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.37	Eighth Amendment to the IMA, dated April 28, 2005 (incorporated herein by reference to Exhibit 10.31 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.38	Ninth Amendment to the IMA, dated December 15, 2005 (incorporated herein by reference to Exhibit 10.32 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.39	Tenth Amendment to the IMA, dated March 24, 2006 (incorporated herein by reference to Exhibit 10.33 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*

AOL INC.
EXHIBIT INDEX

Exhibit Number	Description
10.40	Eleventh Amendment to the IMA, dated September 28, 2006 (incorporated herein by reference to Exhibit 10.34 to the Registrant's Amendment No. 1 to Form 10 dated September 16, 2009).
10.41	Twelfth Amendment to the IMA, dated December 15, 2006 (incorporated herein by reference to Exhibit 10.35 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.42	Thirteenth Amendment to the IMA, dated January 12, 2007 (incorporated herein by reference to Exhibit 10.36 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.43	Fourteenth Amendment to the IMA, dated February 16, 2007 (incorporated herein by reference to Exhibit 10.37 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.44	Fifteenth Amendment to the IMA, dated March 2, 2007 (incorporated herein by reference to Exhibit 10.38 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.45	Sixteenth Amendment to the IMA, dated September 24, 2007 (incorporated herein by reference to Exhibit 10.39 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.46	Seventeenth Amendment to the IMA, dated February 29, 2008 (incorporated herein by reference to Exhibit 10.40 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.47	Eighteenth Amendment to the IMA, dated March 31, 2008 (incorporated herein by reference to Exhibit 10.41 to the Registrant's Amendment No. 1 to Form 10 dated September 16, 2009).
10.48	Nineteenth Amendment to the IMA, dated April 30, 2008 (incorporated herein by reference to Exhibit 10.42 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.49	Twentieth Amendment to the IMA, dated October 1, 2008 (incorporated herein by reference to Exhibit 10.43 to the Registrant's Amendment No. 1 to Form 10 dated September 16, 2009).
10.50	Twenty-First Amendment to the IMA, dated November 1, 2008 (incorporated herein by reference to Exhibit 10.44 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.51	Twenty-Second Amendment to the IMA, dated March 13, 2009 (incorporated herein by reference to Exhibit 10.45 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.52	Twenty-Third Amendment to the IMA, dated December 4, 2009 (incorporated herein by reference to Exhibit 10.70 to the Registrant's Form 10-K dated March 2, 2010).*
10.53	Consent Letter related to the IMA, dated August 19, 2008 (incorporated herein by reference to Exhibit 10.46 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.54	Twenty-Fourth Amendment to IMA, dated January 29, 2010 and effective February 1, 2010 (incorporated herein by reference to Exhibit 10.8 to the Registrant's Form 10-Q dated April 28, 2010).*
10.55	Twenty-Fifth Amendment to IMA, dated February 26, 2010 and effective March 1, 2010 (incorporated herein by reference to Exhibit 10.9 to the Registrant's Form 10-Q dated April 28, 2010).*
10.56	Twenty-Sixth Amendment to IMA, dated March 31, 2010 and effective April 1, 2010 (incorporated herein by reference to Exhibit 10.10 to the Registrant's Form 10-Q dated April 28, 2010).*
10.57	Twenty-Seventh Amendment to IMA, dated April 29, 2010 and effective May 1, 2010 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 10-Q dated August 4, 2010).*

AOL INC.
EXHIBIT INDEX

Exhibit Number	Description
10.58	Twenty-Eighth Amendment to IMA, dated June 1, 2010 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 10-Q dated August 4, 2010).*
10.59	Twenty-Ninth Amendment to IMA, dated July 30, 2010 and effective July 1, 2010 (incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 10-Q dated November 3, 2010).*
10.60	Thirtieth Amendment to IMA, dated September 1, 2010 (incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 10-Q/A dated May 27, 2011).*
10.61	Thirty-First Amendment to IMA, dated December 22, 2010 and effective December 15, 2010 (incorporated herein by reference to Exhibit 10.74 to the Registrant's Form 10-K dated February 25, 2011).*
10.62	Thirty-Second Amendment to IMA, dated December 21, 2011 and effective December 1, 2011.*
10.63	Network Services Agreement between AOL LLC and MCI Communications Services, Inc., a subsidiary of Verizon Communications Inc., dated January 1, 2004 (the "Verizon NSA") (incorporated herein by reference to Exhibit 10.47 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.64	Amendment No. 1 to the Verizon NSA, dated June 9, 2004 (incorporated herein by reference to Exhibit 10.48 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.65	Amendment No. 2 to the Verizon NSA, dated February 1, 2005 (incorporated herein by reference to Exhibit 10.49 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.66	Amendment No. 3 to the Verizon NSA, dated July 1, 2006 (incorporated herein by reference to Exhibit 10.50 to the Registrant's Amendment No. 4 to Form 10 dated November 12, 2009).*
10.67	Amendment No. 4 to the Verizon NSA, dated April 10, 2007 (incorporated herein by reference to Exhibit 10.51 to the Registrant's Amendment No. 3 to Form 10 dated November 6, 2009).*
10.68	Amendment No. 5 to the Verizon NSA, dated January 1, 2008 (incorporated herein by reference to Exhibit 10.52 to the Registrant's Amendment No. 4 to Form 10 dated November 12, 2009).*
10.69	Amendment No. 6 to the Verizon NSA, dated November 1, 2009 (incorporated herein by reference to Exhibit 10.95 to the Registrant's Amendment No. 4 to Form 10 dated November 12, 2009).*
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.†

AOL INC.
EXHIBIT INDEX

Exhibit Number	Description
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009, (ii) Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010, (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009, (iv) Consolidated Statements of Equity for the years ended December 31, 2011, 2010 and 2009 and (v) Notes to Consolidated Financial Statements. ††

* Portions of this agreement have been omitted pursuant to a request for confidential treatment.

** Management contract or compensatory plan or arrangement.

† This certification will not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

†† In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Exhibit 31.1

CERTIFICATIONS

I, Timothy M. Armstrong, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of AOL Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2012

By: /s/ TIMOTHY M. ARMSTRONG
Name: Timothy M. Armstrong
Title: Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Arthur Minson, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of AOL Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2012

By: /s/ ARTHUR MINSON
Name: Arthur Minson
Title: Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2011 of AOL Inc. ("the Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his respective knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2012

/s/ TIMOTHY M. ARMSTRONG
Timothy M. Armstrong
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: February 24, 2012

/s/ ARTHUR MINSON
Arthur Minson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)