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AOL, Now Focused on Free, Sells Its Paid Music Service

By SAUL HANSELL

After six years of trying to build an online music service, AOL agreed yesterday to sell its AOL Music Now to [Napster](#). Napster will pay \$15 million to add AOL's 350,000 subscribers to its own 566,000.

The price amounts to about \$43 a subscriber, which appears low considering that Napster — which only sells a music service — is valued at \$186 million, or \$328 a subscriber.

One reason may be that AOL's music business has been shrinking quickly. It had 450,000 subscribers in the middle of 2006, when the company stopped marketing the service as part of a shift away from fee-based businesses.

"AOL is treating this like a nonessential business," said Fred Moran, an analyst with the Stanford Group. He said the deal was positive for Napster, which disclosed in September that it had hired investment bankers to evaluate potential acquisition offers. The bankers are still working, said a Napster spokeswoman, Dana M. Harris, who would offer no details.

Napster's shares rose by 30 cents, to \$4.12.

AOL is now focused on free sites supported by advertising, and it continues to operate AOL Music, the second-most-popular music destination on the Internet.

AOL first helped found MusicNet, a consortium that included several record labels and the digital media company [RealNetworks](#). It introduced a music service based on MusicNet in 2003. In October 2005, AOL bought Music Now, a similar service that had been owned by the electronics retailer Circuit City. The price was reported at the time to be \$10 million to \$15 million, although AOL would not confirm it.

AOL's services, much like Napster and Rhapsody, which is now owned by RealNetworks, mainly offer subscriptions for unlimited song downloads, but the songs stop playing if the customer does not pay the monthly bill.

This model has not proved to be as popular as the à la carte model used by [Apple](#)'s iTunes Store. One reason is that music from the subscription services cannot be played on Apple's popular [iPod](#) players. AOL, Rhapsody and Napster all use software from [Microsoft](#) that lets their songs play on a variety of players from Samsung, Creative, iRiver and other manufacturers. But none of these devices have come close to challenging the iPod. Microsoft further confused the market last year when it introduced its Zune player, which was not compatible with any subscription services other than its own.

This month, the Virgin Group said that it would close its Virgin Digital music service.

AOL and Napster both charge new customers \$9.95 a month if they want to listen to music only on a computer and \$14.95 a month if they want to use a portable player as well. Some AOL subscribers have been paying \$8.95 a month, and Napster will continue to honor that price for them. AOL customers will be converted to Napster unless they choose to cancel their subscriptions.

As part of the arrangement, Napster, based in Los Angeles, will promote its service on AOL's music pages, and it will make additional payments to AOL if it reaches certain new subscriber targets.

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