



search



6:58 AM PDT, October 10, 2006

[JOBS](#) [CARS](#) [REAL ESTATE](#) [APARTMENTS](#) [SHOPPING](#) | [WEATHER](#) [TRAFFIC](#)



Business News

Print E-mail story Most e-mailed Change text size

HOME
Site Map

- Business
- Advertising
- Money & Investing
- Technology
- Video Games
- Work & Career
- Business Tools
- Investor Tips & Tools
- Law Resources
- Money Library
- Money Q & A
- Bank Rates
- Press Releases

- NEWS**
- California | Local
 - National
 - World
 - Entertainment News
 - Business
 - Sports
 - Politics
 - Opinion
 - Columnists
 - Print Edition
 - What is RSS?

- Calendarlive
- Travel
- West Magazine
- House & Garden
- Health
- Food
- Car Culture
- Obituaries
- Crossword, Sudoku
- All Sections
- Corrections

- BUY, SELL & MORE**
- Jobs
 - Cars
 - Real Estate
 - Apartments
 - Personals
 - Deals at Local Stores
 - Coupons
 - Newspaper Ads

PLACE AN AD

- MEMBER SERVICES**
- Log Out
 - Help
 - Contact Us
 - L.A. Times Archives
 - Customized News
 - E-mail Newsletters

- HOME DELIVERY**
- Customer Support
 - Subscribe to L.A. Times

LOCAL ADS Buy a link

Google Bets Big on Videos

The \$1.65-billion deal for upstart YouTube allows the search giant to expand in a hot sector.

By Chris Gaither and Dawn C. Chmielewski, Times Staff Writers
October 10, 2006

SAN FRANCISCO — In agreeing to pay \$1.65 billion to acquire YouTube Inc., Google Inc. on Monday raised a new round of questions about the ever-increasing values for Internet properties that might offer a foothold in the frenzied world of digital media.

Launched in a Menlo Park, Calif., garage less than two years ago, YouTube has become the Web's most visited repository of amateur videos that include light saber fights and karaoke sessions. Google's decision to shell out big bucks for the company will keep it out of the clutches of Yahoo Inc., News Corp., Viacom Inc. and other big-media suitors. The steep price harks back to the go-go days of the late 1990s, when Internet values ballooned and eventually popped.

ADVERTISEMENT

"It's scary," said Josh Bernoff, an analyst with Forrester Research. "I don't know if it's about the bubble or not, but it certainly gives you a little pause to see numbers of this magnitude being spread around."

The deal is by far the largest acquisition in Google's eight-year history and marks a strategic departure for the search giant. Google, which prefers to fill gaps in its product line through small acquisitions, spent nearly as much for YouTube as it has on every other company it's ever bought combined.

Major media companies have coveted YouTube's 30 million monthly visitors. The question is whether Google, the world's biggest broker of Internet advertising, can turn that traffic into dollar signs. YouTube has struggled to find a business model to capitalize on the more than 100 million videos it streams each day.

Many analysts said Google's technical might, deep pockets and relationships with hundreds of thousands of advertisers could give YouTube the resources it needs to blossom — much as MySpace.com has done since News Corp. bought the social networking site in July 2005.

"It's a bet, but it's probably a bet worth taking," said UBS Investment Research analyst Ben Schachter.

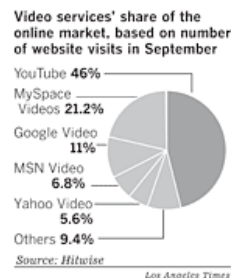
Google closed the all-stock deal after only a week of intense negotiations with YouTube's twentysomething founders Chad Hurley and Steve Chen, who formed the company after they grew frustrated by their inability to share video taken at a dinner party with friends.

Google shares shot up \$8.50, or 2%, to close at \$429 after word leaked out about the pending deal.

For Google, buying YouTube would strengthen its position as the middleman for an entertainment industry eager to make money online. But it also increases Google's exposure to potential lawsuits over copyrighted videos, which are tough to keep off services such as YouTube.

Legal concerns were a likely reason that, before Google announced the acquisition Monday, YouTube unveiled licensing deals with the world's two largest music labels,

Video market GRAPHIC



MORE BUSINESS NEWS

- Google Buys Video-Sharing Site YouTube
- Chicago Ties Link Tribune Directors
- Google Bets Big on Videos
- Airbus CEO Resigns, Successor Named
- Wall Street's Rally Resumes

MOST VIEWED MOST E-MAILED

- Foley Probe to Focus on Who Knew, When
- L.A. Police Say Killing of 3-Year-Old in Gang Attack Was Intentional
- Jackson Shows Up at Practice

RELATED NEWS FROM THE WEB

- Media
- Forrester Research
- Viacom
- Music
- Entertainment
- Advertising

Powered by Topix.net

latimes.com. on the Move

- E-MAIL:** News sent directly to you.
- RSS:** Pick the topics, create your page.
- WIRELESS:** L.A. Times any time, anywhere on your mobile device.
- PODCASTS:** Tune in to L.A. Times podcasts.
- NEWSPOINT:** All the news you choose, delivered to your desktop.

ADVERTISEMENT

Video Game Franchise

Opportunity to start a business in this high growth sector.

www.playntrade.com

Surf Guitar Ringtones

Retro cool surf guitar ringtones from the top LA surf guitar bands..

www.surftoneamerica.com

Universal Music Group and Sony BMG Music Entertainment, as well as with CBS Corp. The deals clear the way for music videos, television news, sports clips and entertainment programs to be distributed free on YouTube in exchange for a share of whatever advertising revenue may follow.

The deal with Universal silenced one of YouTube's most vocal critics, Universal Music Chairman and Chief Executive Doug Morris, who last month described the site as among a group of "copyright infringers" that "owe us tens of millions of dollars." He issued a brief statement Monday saying YouTube "is providing a new and exciting opportunity for music lovers around the world to interact with our content."

The timing of the announcements could hardly have been coincidental, said Lawrence Iser, a copyright lawyer with Kinsella Weitzman Iser Kump & Aldisert in Santa Monica. He concluded that it probably was a precondition of a deal with Google.

"It seems to me that Google said to YouTube, 'You need to make great headway in getting your licensing ship in order,' " Iser said.

Google executives said they would let YouTube operate as a separate entity, overseen by Hurley and Chen from new offices in San Bruno, Calif. YouTube moved Monday from cramped offices above a pizza parlor in San Mateo, Calif.

"Nothing's going to change," an exhausted-sounding Hurley said in an interview with The Times. "That's what excited us about the opportunity to work with Google. We have the ability to now stay independent, to continue with our vision, to concentrate on our community and our partners."

Hurley, 29, said YouTube had recently received \$11.5 million in venture capital funding, but he would not reveal the company's revenue or whether it was profitable. He also declined to say how much he and Chen stood to make on the deal.

Chen, 28, said the acquisition would give YouTube the resources to pursue new ideas and features.

"We put aside a lot of things because of resource constraints," he said. "Google has immense resources to help us in the areas where we need help: search, advertising, bandwidth, the whole list of things that they're the industry experts on."

Mountain View, Calif.-based Google launched a competing service, Google Video, with much fanfare in January. But it could never catch up to YouTube, which broke out of the pack of online video sites by making it easy to upload clips, post them on blogs and communicate with video watchers who had similar tastes.

"YouTube is certainly one of the biggest prizes of the year because it's the perfect combination of video and social community," said Mark Kingdon, chief executive of Organic Inc., an online ad agency owned by Omnicom Group.

The service's simplicity, however, also made it easy for users to upload unauthorized copies of TV shows and other copyrighted material. The site's first smash hit was NBC Universal's "Lazy Sunday," a "Saturday Night Live" rap parody that attracted 6 million views before YouTube removed it at NBC's request.

The flood of pirated videos in YouTube's early days earned it comparisons to Napster, the file-sharing service that allowed widespread music piracy before lawsuits shut it down.

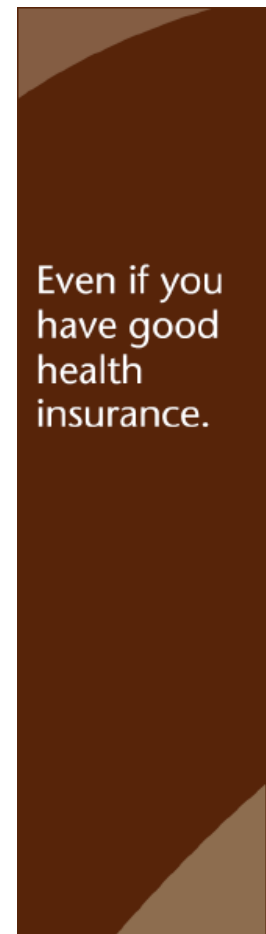
Mark Cuban, a dot-com billionaire who has invested heavily in tech-related entertainment companies, recently said that YouTube would be "sued into oblivion" as soon as it was owned by a company with deep pockets, and that anyone who bought it was "a moron."

YouTube says it complies with copyright laws by immediately removing unauthorized material as soon as it is notified by the copyright owner. It also has courted content owners, striking video distribution deals with NBC.

Dennis Miller, a general partner at venture capital firm Spark Capital in Boston, said he thought the copyright concerns were overblown. Even as corporate lawyers wring their hands about the infringement, he said, "the most clever players in Hollywood" are seeding YouTube with promotional video because there's no other place on the Internet that serves 100 million video streams a day.

"It's not that difficult to create another detergent, but Tide continues to be the dominant seller 73 years later," said Miller, a longtime show business executive. "Because the Internet is so differentiated and so fragmented, when you have that remarkable chemical, magical, viral power that is created by a market leader like YouTube, it's very difficult to imitate."

YouTube's founders had often said they preferred to remain independent with an eye



toward an initial public stock offering. But the copyright issues and YouTube's high bandwidth costs put a damper on those plans. In addition, the licensing deals with music labels and TV networks are likely to prompt other content owners to ask for compensation.

Chen, a Taiwanese-born engineer, and Hurley met while working at online payment service PayPal Inc. In classic Silicon Valley fashion, they set up business in Hurley's garage and began working on what would become YouTube. Chen's cat, P.J., was featured prominently in some of the site's earliest home videos.

Their work attracted the attention of PayPal's former chief financial officer, Roelof Botha, who had joined investment firm Sequoia Capital, known for funding such technology standouts as Google, Apple Computer Inc. and Yahoo. Sequoia gave YouTube \$3.5 million in November 2005, and YouTube was formally launched the next month.

Only a few years ago Google was the Internet's biggest upstart, trying to figure out how to capitalize on the millions of visitors to its site. It answered that question with simple text ads that now generate billions of dollars a year.

But on Monday Google executives found themselves to be the old kids on the block. In a conference call from YouTube's new offices, they said that video distribution was clearly the next stage in the Internet's development and that YouTube was the clear winner in building communities around video.

"This really reminds me of Google just a few short years ago," co-founder Sergey Brin said.

*

chris.gaither@latimes.com

dawn.chmielewski@latimes.com

Gaither reported from San Francisco, Chmielewski from Los Angeles.

*

(INFOBOX BELOW)

Video market

Video services' share of the online market, based on number of website visits in September

YouTube: 46%

MySpace Videos: 21.2%

Google Video: 11%

MSN Video: 6.8%

Yahoo Video: 5.6%

Others: 9.4%

Source: Hitwise

MORE BUSINESS NEWS

- [Google Buys Video-Sharing Site YouTube](#)
- [Chicago Ties Link Tribune Directors](#)
- [Google Bets Big on Videos](#)

 **YOUR SCENE**



Relive the summer's "Surf & Sea". See readers' photos at [Your Scene](#).

[Submit your photo now >>](#)

Ads by Google

[Download Term Sheets](#)

Download terms sheets and other business forms and agreements
www.allbusiness.com

[Greif & Co.](#)

The middle market investment bank for entrepreneurs. (213) 346 9250
greifco.com

[Merger acquisition india](#)

Newsletter, data on VC investments in India, Indian-founded co's in US
www.tsjmedia.com

[Small Cap Stock Pick](#)

Analyst Stock Pick – VSPC – \$45 B Homeland Security Sector
www.smallcapstockwatch.com

[Benchmarking & Valuation](#)

Unique screening and analysing tool on listed companies - Free Trial!
www.infinancials.com

Copyright 2006 Los Angeles Times [Privacy Policy](#) | [Terms of Service](#) | [Advertise](#) | [Home Delivery](#) | [Permissions](#) | [Contact](#)

PARTNERS: [Hoy](#) | [KTLA](#) | [Careerbuilder.com](#) for jobs | [Cars.com](#) for autos | [Apartments.com](#) for rentals | [ShopLocal](#) for shopping | [FSBO](#) (For Sale By Owner)