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Google May Be Vying for Site

Reports say it is wooing YouTube, a start-up that has eclipsed the Internet search giant in the video-sharing arena.

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SAN FRANCISCO — Google Inc. appeared Friday to be the latest suitor vying for the affections of YouTube Inc., a match-up that would unite the search giant's technical and advertising might with the online video pioneer's rapidly growing audience.

Since it debuted last year, YouTube has been a new-media darling, fielding proposals from Viacom Inc. and News Corp. But YouTube Chief Executive Chad Hurley has said repeatedly that he prefers to keep the company independent with an eye toward an initial public offering.

That may prove more difficult than YouTube's skyrocketing popularity would suggest. The company has drawn threats of lawsuits from music labels and TV studios for not adequately block-

ing copyrighted works. Meanwhile, the 60-person start-up is struggling to make enough money to offset its bandwidth costs, which are climbing as YouTube serves 100 million videos a day.

"They are just not able to keep up with what they've created," said Josh Bernoff, an analyst with Forrester Research. "They don't have the necessary staff to be able to move ahead here, especially with the threat of a lawsuit looming over them. They need to find ways to rapidly generate more advertising revenue, which Google is going to be terrific at."

Talks between Google and YouTube were first reported by technology blog TechCrunch, which valued a potential deal at \$1.6 billion.

Any negotiations could still fall

apart. Other suitors also could offer more money.

Google and YouTube declined to comment Friday.

A deal would mark the first time Google, which prefers to fill in the gaps in its product line with small acquisitions, has bought a technology company that makes a competing -- and more successful -- product. It also would be a major acknowledgment by Mountain View, Calif.-based Google that its own video service, launched in January, couldn't keep pace with the San Mateo, Calif.-based upstart, founded by Hurley and Steve Chen.

YouTube received 46% of all visits to online video websites in September, compared with 11% for Google, according to Hitwise, a market research firm.

"Google, no matter how hard it has tried, has been unable to unseat YouTube," said Dmitry Shapiro, CEO of Veoh Networks, a video-sharing service with investments from Michael Eisner. Despite Google's search-engine traffic, he added, "consumers continue to prefer YouTube."

Observers said Google could give YouTube the advertising connections, technology team and legitimacy it needed to dominate the video-sharing business in much the same way that social-networking site MySpace blossomed into an Internet heavyweight since it joined News Corp. last year.

"There are a lot of media companies that kicked themselves for not seizing the opportunity to buy MySpace when it was available," said Lloyd Greif, president and chief executive of Greif & Co., a Los Angeles investment bank. "Nobody's going to make that mistake again."

Google shares gained \$8.69, or 2%, to \$420.50 after word of the talks leaked out.

Josh Felser, president of Grouper Networks, an Internet video-sharing site that was acquired by Sony Pictures Entertainment in August for \$65 million, said that it was widely known in Internet media circles that YouTube was for sale.

"Clearly, they have been put in play," Felser said. "They really have very little revenue. They've got high costs just in bandwidth costs. There's still uncertainty about the rights issues. That won't make for a great IPO that works. They're an acquisition candidate."

YouTube is experimenting with ways to make money, including charging advertisers to feature videos on its home page, and to create branded channels for the content. Also, Warner Music Group Inc. agreed to license its entire catalog of music and videos to YouTube in exchange for a cut of any revenue from advertising or sponsorships sold around its music.

The world's largest music company, Universal Music Group, has been more hostile. At a conference last month Universal CEO Doug Morris painted YouTube and MySpace as "copyright infringers" and issued a thinly veiled threat of a lawsuit.

Universal and other labels have been in licensing talks with YouTube, said music-industry sources privy to the discussions. That could remove at least one threat of lawsuits over copyright issues.

Nevertheless, comparisons to Napster, the file-sharing service that allowed widespread music piracy before lawsuits shut it down, have dogged YouTube since its

early days, when unauthorized clips of TV shows attracted millions of users. The company says it complies with copyright laws by immediately removing unauthorized material as soon as it is notified by the copyright owner.

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

Google, however, has rarely shied away from copyright battles. The company is fighting lawsuits from news-gathering firms over its Google News search engine and from the publishing industry over its scanning of books into Google Print.

"A really powerful company will probably overcome the Napster issue more than a weaker company," said an investment banker who had structured similar deals but requested anonymity because he was not involved in the Google-YouTube talks.

"So having a powerful parent might actually give it more of a chance of becoming the next MySpace."