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2 amateur video sites snapped up

News Corp.'s Web unit buys Photobucket and Flektor, a boon for the firm's prized MySpace.

By Joseph Menn, Times Staff Writer
 May 31, 2007

News Corp.'s Internet division plunged further into the fast-growing world of amateur video Wednesday, buying two young companies for a combined \$270 million.

Fox Interactive Media spent about \$250 million for Photobucket Inc., which draws more than 30 million monthly visitors who view and store billions of digital photographs, videos and slideshows.

The Beverly Hills-based News Corp. group also spent more than \$20 million for little-known Flektor Inc., which offers free tools for editing and displaying online videos.

Both companies' services are aimed at people who post Web profiles on social-networking sites including Fox Interactive's prize property, MySpace.

In the short term, Fox expects the purchases to help it capture more Web surfers and keep their attention longer. Like MySpace, both Photobucket and Flektor are set up to make most of their money through advertising.

But Fox also hopes to push the creative products to News Corp.'s broader audience, said Fox Interactive President Peter Levinsohn. That could foster an increase in user-submitted content across the company's collection of Internet properties, including AmericanIdol.com and video-game fan site IGN.com.

In one potential use, Levinsohn said, a high school sports fan could record a local game and post it to FoxSports.com. The idea also could extend to local news footage.

"We now control the single busiest social media site, the single biggest personal media destination and what I think is the coolest set of tools that exist today," Levinsohn said, referring to MySpace, Photobucket and Flektor respectively. "And we will take it to another level."

Gartner Inc. analyst Mike McGuire said the Flektor tools could help fuel political expression. A citizen commentator could take a video clip from a debate and add his or her own thoughts, then post the combination to MySpace or Google Inc.'s YouTube.

McGuire said that News Corp. now appeared to be doing the best job of any old-media company in staying abreast, or even ahead, of what consumers want to do with videos and photos.

"Consumers are now in absolute control of how they want to access media and program media," McGuire said. "Having these properties on top of MySpace, which we can almost view as a platform, is very smart."

For now, Denver-based Photobucket and Culver City-based Flektor will operate independently within Fox Interactive and will continue to function on sites that compete with MySpace, Fox said.

The Photobucket deal eases what had been a stormy relationship. Taking note of how many MySpace users turned to Photobucket to manage their pictures, Fox Interactive for months had considered bidding for the company. At the same time, it galled MySpace executives that Photobucket's value was based largely on the popularity of their service — many MySpace members use Photobucket to display photos and videos on their profile pages.

When its users started posting Photobucket slideshows with backgrounds promoting the movie "Spider-Man 3" in April, MySpace barred some of Photobucket's software, saying it had violated the website's policy against outside advertising.

After Photobucket publicly complained, Fox asked it to sign a nondisclosure

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agreement in the takeover talks, leading some Photobucket executives to suspect that the shut-off was a hardball negotiating tactic.

But Photobucket CEO Alex Welch said Wednesday that he was convinced that the Fox talks were unrelated to what he called "an isolated MySpace incident."

The Flektor acquisition, meanwhile, shows that buyers are snapping up promising companies earlier than ever to avoid paying steep prices. Flektor was started by video-game industry veterans just a year ago and didn't even put out a news release when its tools launched in test version three weeks ago. Still, more than 40,000 people have used them.

Co-founder and CEO Jason Rubin said Flektor videos worked especially well with MySpace because they could be updated live. A cellphone photo could be e-mailed to Flektor from a restaurant, and the user's MySpace page would be updated by the time the meal was over.

The deals were announced the same day that CBS Corp. confirmed its own jump into social networking with the \$280-million purchase of Last.fm, a site organized around sharing musical preferences.

The new-media buyout spree continued later Wednesday, with dominant Net auction firm EBay Inc. announcing the \$75-million acquisition of StumbleUpon Inc., a site with more than 2 million users who recommend Web pages, including those within social networks, for people to visit.

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