

News Corp sells MySpace for \$35M mostly in stock (Update)

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Bass guitarist Cameron Schnittger, with the pop rock band Four O'clock Heroes, points to his picture on the bands' MySpace web site page in San Jose, Calif., Wednesday, June 29, 2011. News Corp. has sold struggling social networking site MySpace for \$35 million, mostly in stock, according to a person familiar with the matter. The deal values MySpace at a fraction of what News Corp. paid for the site six years ago. The sale to online advertising network operator Specific Media is expected to close later Wednesday. (AP Photo/Paul Sakuma)

(AP) -- News Corp. has sold struggling social networking site MySpace for \$35 million, mostly in stock, according to a person familiar with the matter. The deal values MySpace at a fraction of what News Corp. paid for the site six years ago, and paves the way for large scale layoffs and an uncertain future.

The sale to online advertising network operator Specific Media is

expected to close later Wednesday, a day before the end of News Corp.'s fiscal year. News Corp. will maintain less than a 5 percent stake in the site, said the person, who was not authorized to speak publicly and spoke on condition of anonymity.

About half of MySpace's 500 workers will be laid off, the person said.

News Corp. bought MySpace for \$580 million in 2005, but users, advertisers and musicians who used to rely on it for promotion have fled the site for other hotter social networks like Facebook and Twitter. Less than half of MySpace's 74 million monthly visitors are now in the United States, where its visitor count dropped by half in May to 35 million, according to tracking firm comScore Inc.

Specific Media confirmed the acquisition but not the terms of the deal Wednesday.

"There are many synergies between our companies as we are both focused on enhancing digital media experiences by fueling connections with relevance and interest," said Specific Media CEO Tim Vanderhook, in a statement. "We look forward to combining our platforms to drive the next generation of digital innovation."

MySpace CEO Mike Jones, the last member of a three-member executive team appointed to fix the site in April 2009, said in a memo to staff Wednesday that he would help with the transition for two months before departing.

MySpace launched in 2003, founded by entrepreneurs Chris DeWolfe and Tom Anderson, who is every MySpace user's first friend. It became a hot Internet destination and a key way for little-known musicians to market themselves and interact with their fans.

But MySpace lost its footing over the years as the fun of customizing one's profile began to bore its users and heavy use of banner advertisements slowed the speed at which pages load. Meanwhile, Facebook, founded in 2004, limited what users and advertisers could do, but kept pages clean, and freshened them with its "news feed" of updates, a feature that MySpace later copied.

People found Facebook easier to use and a great migration from MySpace to Facebook picked up several years ago. When Facebook began allowing apps, including music functions and addictive games like "FarmVille," MySpace was left in the dust for good. According to comScore, Facebook now has more than a billion users worldwide.

"Apps were the breaking point and MySpace could never recover from that," said Charlene Li, a social media analyst and founder of Altimeter Group.

Rohit Kulkarni, an 18-year-old member of the San Jose, Calif. pop punk band Four O'Clock Heroes, said his group once exclusively used MySpace to reach fans with their music, but they haven't checked the site in months. They opened their Facebook band page last year.

"Most of our following was already on Facebook anyways," Kulkarni said. "Nowadays, people use Facebook over MySpace because it's integrated into almost everything, like all your mobile phones. I'm guessing that's why it became more popular."

Even "FarmVille" game-maker Zynga has taken a role promoting music, as shown recently when Lady Gaga unveiled her new album there.

Over the last 11 quarters, News Corp. had cumulatively lost about \$1.4 billion on the business segment that houses MySpace. By getting rid of the site before the close of the fiscal year, News Corp. has rid itself of

about \$250 million in losses this year, estimated Barclays Capital analyst Anthony DiClemente.

At \$35 million, Specific Media gets an Internet property for a price that Li called "ridiculously low" and values each monthly U.S. visitor at about \$1 each. Its new owners should be able to recoup their investment if the company gets each user to click on about 20 ads over their lifetime, she said.

Specific Media, based in Irvine, Calif., brokers the sale of ads to websites and has dabbled in creating original programming and matching it with sponsors. The company was founded in 1999 by brothers Tim, Chris and Russell Vanderhook.

Li said she expects Specific Media will be able to manage the decline in visitors by sending ads it is already managing in its network to the site. She doesn't foresee a wholesale revamp such as the one News Corp. attempted last October.

"I would not expect Specific Media to make that kind of turnaround," she said.

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