



Google sits atop \$7B cash pile

by David Shabelman

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After raising \$4 billion in a 14.2 million-share secondary offering late last week, **Google Inc.** is sitting on a total of roughly \$7 billion in cash. And sit on it is just what Internet search leader might do — for now.

"I don't think they need to buy anything in particular," said Danny Sullivan, editor of SearchEngineWatch.com. "That certainly hasn't been their usual strategy. I think they want the cash as a 'just in case' situation rather than knowing exactly what they want to spend it on."

Nevertheless, Mountain View, Calif.-based Google surfaced Friday, Sept. 16, as a possible player for Internet service provider America Online, following reports that **Microsoft Corp.** was in talks to take a stake in the **Time Warner Inc.** Internet unit.

Taking a stake in AOL could be viewed as a defensive measure to not only protect Google's interests as the current provider of search services to AOL, but also to thwart one of its rivals.

In a research report on Friday, **Merrill Lynch & Co.** analyst Lauren Rich said it was "entirely possible" that Google could consider making a bid for AOL. Google would not only protect the revenue it gets from AOL, but also give it a "significant amount" of content, something it now lacks, he said.

While a Google deal makes sense in that it would protect the search giant's current relationship with AOL, Google has yet to show it has the inclination to become involved in large acquisitions.

"They'll continue to experiment and bring out products at a very rapid pace over the next couple of years," said Youssef Squali, managing director with **Jefferies & Co.** in New York. "On the acquisition front, Google has acquired small companies with interesting technologies in the past and I expect that to continue. There may be larger opportunities internationally where they decide to buy the local expertise, but that remains to be seen."

The company recognizes that competition in the search area will increase in fiscal 2006, Squali added.

Redmond, Wash.-based Microsoft is expected to beef up its MSN search engine, Sunnyvale, Calif.-based Yahoo! will release a new-and-improved version of its search engine and New York-based **IAC/InterActive Corp.** will begin marketing its newly acquired Ask Jeeves Inc. search engine. With Google's stock trading near its record high of \$317.80 reached in July, the company simply took advantage of market conditions conducive to completing a secondary sale, Squali said.

Yet, partly because of its huge war chest, the Google name often seems to come up as a potential acquirer when takeover candidates arise in the Internet sector.

Before San Jose, Calif., online auction company **eBay Inc.** announced Sept. 12 it would spend \$4.1 billion to acquire Skype SA, there were rumors that Google was perhaps interested in the Luxembourg Internet telephony company. Google also was rumored to be considering an

acquisition of Chinese search provider **Baidu.com Inc.** before it went public in August. It does have a small stake in Baidu after investing \$5 million in a financing round for the Beijing-based company last year.

Sullivan, however, said Google already has the technical expertise and money to do in-house much of what it must to keep up with the competition. He pointed to a recent announcement that Google was offering an application that allows users to talk over the Internet for free. Google also recently introduced a function that lets users search for blog content.

"Do they need to buy Skype for \$3 billion? No, they launch Google Talk. Do they need to buy [blogging search firm] Technorati? No, they launch Google Blog Search. Do they need to buy [social networking firm] Friendster for a rumored \$30 million? No, they launch Orkut," he said.

Those new products do require significant investment, which is why Squali says he expects Google's capital expenditures to rise "substantially" in the future.

The expenditures also could include Google building out its own fiber-optic cable network, another topic of recent speculation. By building its own network, Google ultimately would be able to save on the costs it now pays Internet service providers to transmit its search data. Google also could spend part of its fortune building out Wi-Fi hot spots in major U.S. cities, generating revenue by serving as the default home page when users sign into the service.

"All of those things are potentially very expensive and they'll need a lot of money," said Brad Bowers, founding partner with **BlackInc Ventures LLC**, a New York-based business development and advisory firm. "This is clearly the time for them to strike — while everyone is still high on all things Google."