

# Facebook to Buy Photo-Sharing Service Instagram for \$1 Billion

By JENNA WORTHAM | April 9, 2012, 1:12 PM

**9:07 p.m. | Updated**

Instagram, an Internet start-up in San Francisco, has no revenue and about a dozen employees. It has not yet celebrated its second birthday. But to Facebook, it is already worth a billion dollars.

Facebook announced on Monday that it would pay that much in cash and stock for Instagram, the latest big winner in an industry that seems to be more awash in money by the day.

Instagram joins other out-of-nowhere Internet hits like Groupon and YouTube. The acquisition, which is Facebook's largest to date, could give it a stronger position on mobile devices.

Instagram is essentially a social network built around photography, offering mobile apps that let people add quirky effects to their smartphone snapshots and share them with friends.

It has dozens of competitors, but Instagram stands out for its fast ascension and almost cultlike following. It has 30 million users who upload more than five million photos a day, even though it was available for only Apple devices until last week, when the company released an Android app.

For Instagram's founders, two Stanford graduates in their 20s who are now worth in the tens, if not hundreds, of millions of dollars, it has been a productive couple of years. The other big winners will be their early investors at venture capital firms.

"It's the Web fairy tale that all start-ups dream of," said Melissa Parrish, an analyst with Forrester Research, who added: "They took a simple behavior — sharing pictures with friends — and made it a utility that people want."

Facebook is getting ready for its own big payday. It is aiming for a public offering as soon as next month that could value the company around \$100 billion. That means it can easily afford Instagram's price, if only to keep a rising star out of the hands of competitors like Google.

Facebook may also need Instagram to help it keep up with the constantly changing whims of the online audience. Facebook was born in the computer-and-browser era and is trying to adapt to a world that is increasingly mobile-centric. Instagram is a purely mobile creation.

Rebecca Lieb, an analyst at the Altimeter Group, said buying Instagram would help Facebook with one of its most urgent needs: making its service more appealing on smartphones.

"It's easier to update Facebook when you're on the go with a snapshot rather than with text," Ms. Lieb said.

Kevin Systrom, who founded Instagram with Mike Krieger and is now its chief executive, has been on the radar of Mark Zuckerberg, Facebook's founder, for some time. Mr. Systrom was a sophomore at Stanford in 2004 when he developed a service called Photobox that let people send large photo files to each other.

The service caught the eye of Mr. Zuckerberg, who offered him a job. But Mr. Systrom decided to finish his studies and went on to found Burbn, which let people post photos and other updates.

Burbn never attracted more than a few hundred users, but they uploaded a lot of photos. So Mr. Systrom and his team stripped it down and released a sleeker version for the iPhone, calling it Instagram. It gained early momentum because it allowed users to also post their pictures to Twitter, piquing the interest of those who saw links to the photos in their feeds.

For most of Instagram's early days, the company consisted of just four employees, including its two co-founders. They worked in what had been the early offices of Twitter in the South Park neighborhood of San Francisco, crammed in with other start-ups.

The walls were painted dark gray and Ikea lamps sat on the ground, lighting an otherwise gloomy ground-floor space that looked almost the same any time of day or night. The team sat in the middle of the room at four desks pushed together to make one large table — though none of the desks lined up quite right. This year, as staff members were added, Instagram moved to a larger office across the street.

In early 2011, Mr. Zuckerberg reached out to Instagram to discuss buying the company, but Mr. Systrom chose to keep it independent and focus on expanding it, two Facebook employees who asked not to be named said last year.

At the time, Instagram had less than seven million users. Now celebrities like Justin Bieber and brands like Gucci post regular updates.

Not everyone was applauding the acquisition. Soon after the news broke, many Instagram fans began voicing their displeasure on the service and on Twitter and Facebook. Some, like Paul Ahlberg, seemed upset that Facebook would have access to their personal information. "I liked Instagram when it was stupid pictures and filters, not a Facebook data collector," he wrote on Twitter.

Others lamented the loss of what they saw as an alternative to Facebook and threatened to delete their accounts. "So Facebook just bought Instagram," a Twitter user named Robert Wagner wrote. "In other news, I just quit using Instagram."

Some fans were concerned about the fate of Instagram, since Facebook has bought several small start-ups to grab their talent and then shut down their original offerings.

But both Mr. Systrom and Mr. Zuckerberg stressed repeatedly in separate blog posts that Facebook planned to keep Instagram up and running as a separate service, at least for the time being.

"It's important to be clear that Instagram is not going away. We'll be working with Facebook to evolve Instagram and build the network," wrote Mr. Systrom in a company blog post. Instagram and Facebook executives declined to comment further on Monday.

Though Facebook has tended to write much smaller checks in the past, Instagram's momentum probably compelled Facebook to make a billion-dollar deal. Last week, Instagram closed a roughly \$50 million financing round with several investors, including Sequoia Capital, an early backer of Google; Thrive Capital, the firm run by the real estate heir Joshua Kushner; and Greylock Partners, an early investor of LinkedIn.

The financing round valued the photo service at about \$500 million, according to one person with knowledge of the matter, who requested anonymity because the discussions were private. With Facebook's purchase, one week later, that investment doubled in value. The short time frame may indicate that the deal came together in a matter of days.

Instagram has talked about bringing in revenue by allowing brands to drop sponsored photos into the stream on user's screens, or being paid by brands when users tap to buy something from them, but it has not yet announced any such plans.

Facebook has also been trying to figure out how to make money as people spend more time on smaller screens.

"We really don't know how Facebook will monetize mobile platforms," Ms. Lieb said. "The first step is to make Facebook friendlier on mobile devices, and this will certainly do that."

*Nick Bilton, Somini Sengupta and Evelyn M. Rusli contributed reporting.*