

UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF NEW YORK

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VIACOM INTERNATIONAL INC.,	)	
COMEDY PARTNERS, COUNTRY	)	
MUSIC TELEVISION, INC.,	)	
PARAMOUNT PICTURES	)	ECF Case
CORPORATION, and BLACK	)	
ENTERTAINMENT TELEVISION	)	
LLC,	)	Case No. 1:07-cv-02103 (LLS)
	)	
Plaintiffs,	)	
	)	
v.	)	<b>DECLARATION OF ROELOF</b>
	)	<b>BOTHA</b>
YOUTUBE, INC., YOUTUBE, LLC, and	)	
GOOGLE INC.,	)	
	)	
Defendants.	)	

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I, Roelof Botha, declare, I am a partner with the venture-capital firm Sequoia Capital in Menlo Park, California. The following facts are true of my own personal knowledge and if called and sworn as a witness I could and would testify competently to them.

1. Sequoia is one of the best known and most successful venture capital firms in the world, with offices today in the United States, China, India, and Israel. Over the course of almost forty years of investing, the firm has provided capital to hundreds of companies, primarily in the technology sector. Some of the well-known companies in which Sequoia has been an early investor include Cisco Systems, Apple Computer, Oracle, Yahoo, and Atari. Sequoia was an early investor in Google Inc. and separately in YouTube, LLC. Sequoia was also a significant

investor in Atom Entertainment, now owned by Viacom, and it invested together with Viacom in an online service called Joost.

2. I was the Sequoia representative principally responsible for the firm's investment in YouTube, LLC. I learned of the YouTube service from a friend in roughly July 2005 and shortly thereafter began uploading personal videos that I had created to the service so that members of my family could view them. I also used the service to view personal videos uploaded by my own friends and family and on occasion by others as well.

3. Based on my initial experiences with the YouTube service and the way that the service described itself to users, it was my understanding that the service was designed and intended for this sort of sharing of "user-generated content." At the time, services that facilitated the sharing of other forms of user-generated content were already well known and successful. For example, services like Flickr, Shutterfly and Webshots and a host of others allowed users to easily share photographs with one another. Services like Blogger allowed ordinary users to express their views in writing on any topic and publish those thoughts to the world. I saw YouTube as a next step in the evolution of user-generated content services, one that would allow ordinary users to express themselves to the world through the medium of video. I felt that the growth potential for such a platform was enormous given the rapid spread of personal video cameras and the growing availability of broadband Internet connectivity to ordinary consumers.

4. Because of my personal experience as a user of the YouTube service and what I saw as its potential, I reached out to the company's founders, Chad

Hurley, Steve Chen and Jawed Karim in August 2005 to investigate whether there was an opportunity for Sequoia to invest in YouTube.

5. In at least two separate meetings in or about August or September 2005, the YouTube founders described their vision of the service to me and certain Sequoia partners. In those meetings, the founders emphasized that their aim was to develop a platform to be used for the sharing of user-generated content online. Attached hereto as Exhibit 1 is a true and correct copy of the presentation that the YouTube founders presented to me and certain partners at Sequoia regarding their vision for the service in September 2005. In describing the company's purpose, the founders stated: "The company's goal is to become the primary outlet of user generated video content on the Internet, and to allow anyone to upload, share, and browse this content." Their presentation to us went on to explain the reasons why they believed a service like YouTube was then poised for significant growth:

"Digital video recording technology is for the first time cheap enough to mass-produce and integrate into existing consumer products, such as digital photo cameras and cell phones, giving anyone the ability to create video content anytime, anywhere. As a result, user-generated video content will explode."

6. At no time during our pre-investment meetings with the YouTube founders did any of the founders express any interest in profiting from the sharing of unauthorized copyrighted material through the service or in having the service grow by virtue of the presence of such content. Indeed, the founders did not merely say that user-generated content was their focus, they offered that focus as the rationale for Sequoia to expect the company to grow, and as a means of differentiating YouTube from other online video services in existence at the time.

7. Following our meetings with the YouTube founders, I prepared an investment memorandum for the Sequoia partnership summarizing what the founders had communicated to us in our meetings and providing a recommendation that Sequoia invest in YouTube. A true and correct copy of the investment memorandum I prepared is attached hereto as Exhibit 2. I led off my memorandum by recounting the company's objective of becoming the "primary outlet of user generated video content on the Internet" and throughout the memorandum I highlighted statements from the founders about how such original user content was the engine that would drive the service.

8. Following my recommendation, Sequoia offered and YouTube accepted an investment in the company in the fourth quarter of 2005. Attached hereto as Exhibit 3 is a true and correct copy of the press release YouTube subsequently issued announcing Sequoia's investment. In that release, on behalf of Sequoia, I reiterated our vision of the YouTube service which mirrored that expressed to me repeatedly by the company's founders:

"We are very excited to be involved with YouTube at a time when consumers are poised to benefit from all the consumer electronics available. The demand for user-generated content continues to grow exponentially."

"We've already seen user-generated content blossom in text through blogging, in photographs through services like Flickr and Shutterfly, and in audio through podcasting. YouTube is pioneering the next wave to become Internet's premier video service."

9. In connection with Sequoia's investment, I became a member of YouTube's board of directors, and held that position until the company was acquired by Google in November 2006. Consistent with Sequoia's philosophy regarding

companies in which it invests, as a board member I discussed with management the company's strategic and policy decisions.

10. After Sequoia's initial investment, YouTube experienced extraordinary and rapid growth. As I had witnessed firsthand, the service made it simple for the average person to upload a video they wanted others to see. The service was just as intuitive and accessible for potential audiences. Within just a few months, as online video consumption soared, YouTube became the online destination of choice for anyone looking to share their videos, and correspondingly, the online destination of choice for those interested in watching those videos.

11. Very early on, professional content creators began to use YouTube as a promotional outlet. I know, for example, that in October 2005, the shoe company Nike uploaded an amateurish-looking, but professionally created video featuring Brazilian soccer star Ronaldinho engaged in a pre-game warm-up routine wearing Nike shoes (a version of the video is accessible at <http://www.youtube.com/watch?v=KNwLn85I75Y>). The video (including various versions of it) has been watched millions of times on the YouTube service. Such promotional use of YouTube is far too substantial and far too varied for anyone even to recognize a small fraction of it, let alone catalog it all.

12. I also have personal experience with the widespread use of the YouTube service by major media companies for promotional purposes. While companies regularly uploaded clips of their content to the service for such purposes, they also often chose simply to leave on the service clips of their content that ordinary users had uploaded. This phenomenon was powerfully illustrated for me

by our experience with the clip known as “Lazy Sunday”, a roughly three minute video that aired on the NBC television show Saturday Night Live in late 2005. That clip went “viral” on YouTube after someone uploaded it to the service – meaning that those who saw it often shared it with multiple others, growing the total audience at an extremely accelerated rate – and generated enormous press attention for the clip, for Saturday Night Live and for YouTube.

13. YouTube did not know who held the copyright in the Lazy Sunday clip, who had uploaded it to YouTube, whether that person had advance approval from the copyright holder to upload it, whether the copyright holder subsequently approved of the presence of the clip on YouTube even if the copyright holder had not done so in advance, or even whether such approval was required. But in light of the attention the clip had garnered, the company’s CEO, Chad Hurley, wrote to NBC Universal asking whether NBC was aware of the clip and whether NBC wanted it to remain on the service or wanted YouTube to immediately remove it. For five weeks, YouTube heard nothing at all from NBC, and with NBC’s knowledge, the Lazy Sunday video remained accessible on the YouTube service, continuing to generate large numbers of user views as well as national press attention.

14. The Nike and Lazy Sunday experiences and many others like them helped shape my thinking about how YouTube should handle the presence on the service of potentially unauthorized copyrighted materials. Throughout my tenure on YouTube’s board, this was one of the principal issues the company grappled with. From the start, YouTube recognized that in an environment in which users could upload content of their choosing to the service, some users would disregard the

company's prohibitions and desires and upload material to the service that they did not have the right to share. The company recognized, however, that it had no practical ability to make determinations regarding whether each of the tens of thousands of clips being uploaded to the service every day had been uploaded or approved by the copyright holder or was otherwise authorized by law. Accordingly, the company discussed and supported a host of innovations and policy measures aimed at reducing the incidence of unauthorized copyrighted material on the service. These included, among many others: (1) the institution of a ten minute time limit for the length of videos that could be uploaded to the service to prevent users from uploading full-length television episodes or films; (2) development of an easy-to-use interface through which content owners could identify what they claimed to be their content on the service and request that YouTube remove it at the touch of a button; and (3) fingerprinting technology that would block any user from uploading to the service a file that had previously been removed from the service based on allegations of copyright infringement. Later, the company selected and implemented a more robust, audio fingerprinting technology to assist content owners in locating videos on the service and allow them to determine whether they wanted those videos to remain.

15. During my association with the company, management and the board worked hard to strike the appropriate balance between preserving the ability of users to express themselves freely through the YouTube service while at the same time enabling content owners to detect and address what they perceived to be the unauthorized use of their material. At no time, however, based on my observations

and participation in the strategic and policy decisions the company made, did the company desire to profit from unauthorized copyrighted material on the service or to have the service used as a platform for the sharing of unauthorized copyrighted content.

16. I felt very strongly as a member of YouTube's board of directors that, legal issues aside, the company should not encourage, and that it should explicitly discourage, the sharing of unauthorized copyrighted material. I believed that the presence of such content on the service undermined YouTube's business objectives by alienating copyright holders, including major media companies, with whom YouTube had reached or wanted to reach advertising and content syndication deals. Moreover, from my perspective as a major investor in the company, I believed that if the company did not demonstrate its respect for copyright law, the service would be unattractive as an acquisition target and/or unable to sell its stock to the public. For these and related reasons, throughout my association with YouTube, the company actively cooperated with copyright holders to reduce the incidence of unauthorized copyrighted material on the service.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 26<sup>th</sup> day of February, 2010 in Menlo Park, CA

  
\_\_\_\_\_  
Roelof Botha



# **Botha Exhibit 1**

## **YouTube**

### **Company Purpose:**

*To become the primary outlet of user-generated video content on the Internet, and to allow anyone to upload, share, and browse this content.*

### **Problem:**

Video content is currently difficult to share:

- Video files are too large to e-mail (E-mails with video attachments bounce).
- Video files are too large to host (viewing just fifty videos at 20 MB each means serving 1 GB of bandwidth – exceeding most website quotas).
- No standardization of video file formats. To view many video file formats means having to install many different video players and video codecs.
- Videos exist as isolated files. There is no interaction between viewers. There is no interrelation between videos.

### **Solution:**

Consumers upload their videos to YouTube. YouTube takes care of serving the content to millions of viewers.

YouTube's video encoding backend converts uploaded videos to Flash Video, which works in any web browser supporting Flash. (Flash penetration is 97.6% of Web users according to Macromedia.com.) Flash Video is a highly compressed streaming format that begins to play instantly. Unlike other delivery methods, it does not require the viewer to download the entire video file before viewing.

YouTube provides a community that connects users to videos, users to users, and videos to videos. Through these integrating features, videos receive more views, and users spend more time on YouTube. Because these features are similar to Flickr, YouTube is often referred to as "the Flickr of Video".

### **Market Size:**

YouTube's growth will come as a result of these recent developments:

- Digital video recording technology is for the first time cheap enough to mass-produce and integrate into existing consumer products, such as digital photo cameras and cell phones, giving anyone the ability to create video content anytime, anywhere. As a result, user-generated video content will explode.

- Broadband Internet in the home has finally reached critical mass, making the Internet a viable alternative delivery mechanism for videos. Viewers are flocking to the Internet because it offers more variety of content and allows people to choose when and how to see it. Traditional media want to enter this space because they want to follow the audience, and because content there is cheaper and easier to distribute. Early examples of video content that has reached more viewers on the Internet than on television: Indian Ocean Tsunami videos, Jon Stewart's Crossfire appearance, Janet Jackson's Superbowl wardrobe malfunction.

Initially, YouTube will target home-grown (user-generated) video content, because in the short term that represent the fastest-growing type of video content, possessing the fastest-growing audience. This phase will enable YouTube to establish itself as the dominant player for Internet video content. Once YouTube's audience reach rivals that of traditional media networks, it will then be positioned to syndicate traditional media content (news, entertainment, MTV, etc) as well.

### **Competition:**

Big players:

- Google Video – going after Hollywood, not personal videos
- 24 hour laundry – going after pure video hosting technology, not community

Small players:

- dailymotion – good technology, no exposure
- vimeo – bad technology, has potential for exposure (owned by CollegeHumor)
- PutFile – focuses on file hosting, lacks community, bad revenue model

### **Product Development:**

Demo basic functionality.

- Community
  - o Connects users to videos. Users find videos through:
    - Search
    - Related videos
    - Related tags
    - Top rated, top viewed, most discussed
    - User videos,
    - User favorites
  - o Connects users to users:
    - Video discussion groups
    - Video comments
    - Private messages
    - Private/public video sharing

- Social networking (Friends)
    - User videos
    - User favorites
  - Connects videos to videos:
    - Related videos
    - Related tags
- Open architecture
  - Developer XML APIs
  - RSS feeds
  - Externally embeddable video player (“YouTube off YouTube.com”). By letting people embed YouTube videos right into their own web sites, YouTube’s audience reaches even beyond YouTube.com
- Target vertical markets with a need for video content:
  - Auction videos for eBay items (perfect for eBay Motors)
  - Real estate videos for houses/apartments for sale/rent (“Do-It-Yourself MTV Cribs”)
  - Become the video platform for special interest websites: Car sites, Sports, Politics, etc
- Features currently in development:
  - Community features: groups, sharing, better ways to find videos
  - Driving external reach: external player, developer APIs

### **Sales & Distribution:**

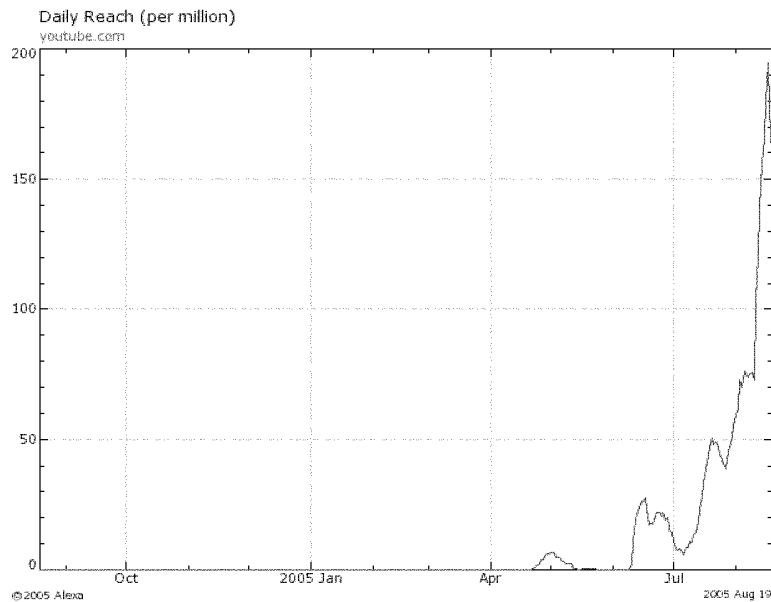
Revenue-generating options:

- Ads:
  - “Google Adwords” approach for YouTube: Allow advertisers to upload ad videos to YouTube. Thumbnails of these ad videos will be shown alongside other videos in video search results, and as “related videos”. As with Google Adwords, ad videos will only be shown when relevant, and will be clearly marked as ad videos.
  - Display interactive ads within the Flash video player, superimposed over the playing video.
  - Play a short video ad at the beginning of the actual video.
  - Display an ad image at the beginning of the actual video.
- Act as a for-pay distribution channel for promotional videos:
  - Events, conferences, concerts
- Charge members for premium features:
  - Ability to download original videos / view high resolution videos

- Video editing features (within the browser, using Flash): video effects, transitions, titles, etc
- Advanced features for the externally embeddable video player
  - Offer specialized features for embedded auction/real estate videos (see **Product Development**)
- Charge viewers for premium content:
  - Allow members to sell their video content to YouTube viewers, with YouTube taking a cut of the proceeds.

**Metrics:**

Launched June 11<sup>th</sup>. Has already overtaken all previously existing competitors and is now the dominant player in this space.



**Team:**

Founders:

- Steve Chen:
  - Recruited by Max Levchin as one of PayPal’s first engineers
  - University of Illinois, Computer Science
- Chad Hurley:
  - PayPal’s first designer, responsible for PayPal site design, logo
- Jawed Karim:
  - Graduate student in Computer Science, Stanford University

- Recruited by Max Levchin as one of PayPal's first engineers
- University of Illinois, Computer Science

## **Botha Exhibit 2**

**To: Investors**  
**Re: YouTube**

**From: RFB**

**September 2, 2005**

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## **Introduction**

YouTube represents an interesting seed-stage investment opportunity. The company's goal is to become the primary outlet of *user-generated video content* on the Internet, and to allow anyone to upload, share, and browse this content.

The three entrepreneurs are scrappy and smart. They have built a very easy-to-use, fast growing service that taps several strong veins: user-generated content, online advertising, wide proliferation of inexpensive digital video capture devices, and continued broadband adoption.

The company has also developed code snippets that allow users to embed YouTube videos directly into other sites. In this way, the company is building a wide content distribution network, in addition to its direct-to-site traffic.

## **Deal**

Our proposal is to invest \$1m in the seed stage, followed by a \$4m Series A once specific milestones are met. Sequoia would own ~30% post Series A, with a pool of ~17%.

## **Competition**

There are several direct and potential competitors to YouTube. These include:

- direct competitors (dailymotion, vimeo)
- community photo sites (flickr, webshots)
- online photo sharing sites (ofoto, shutterly, snapfish)
- large internet players (Google & Yahoo video search)
- entertainment sites (big-boys, ebaumsworld)
- file sharing services (ourmedia.org, putfile)
- IPTV companies (Open Media Network, Brightcove)

YouTube appears to have a clear lead over its two direct start-up competitors. The other categories of potential competitors are not necessarily focused on video content, or are not focused on user-generated content within the context of a community-based site. Nevertheless, the company will need to stay very focused over the next 3-6 months to ensure that it builds a rich set of features and content depth to increase its defensibility.

## **Hiring plan**

We need to help the company quickly hire a CEO and VP BD/Sales. The founding team is enthusiastic about bringing on an experience CEO to help lead the company. However, I'm not sure whether we can land a CEO before the Series A. I would appreciate any ideas on potential candidates for either role. My preference would be to launch a search immediately and to have a CEO in place within 90 days.

Two additional former PayPal engineers are set to join in the next week. Both are exceptional.

The plan is to house the company in our incubation area for the near term. That will help us frequently interact with the team until we can surround the company with an experienced management team.



## Key risks

- Competition/defensibility

As outlined above, YouTube faces significant potential competition. The company needs to remain laser focused on improving the user experience to ensure that it continues its early growth trajectory.

- Revenue model

I believe that YouTube has a clear advertising revenue opportunity. However, we don't yet know what form of advertising would work best. Specifically, can the company develop attractive ad products that are not intrusive to the consumer experience? We can model revenue as follows: # unique videos streamed per day x % of videos monetized x CPM x 365 = estimated annual revenue. Several of the parameters are unknown:

- i. We don't know what CPM rates YouTube could command. Video ad CPMs could range from a low of \$5 to over \$30.
- ii. We don't know what percentage of inventory (videos served) could be monetized
- iii. We are not sure how much YouTube could grow from its current level of 100,000 videos served per day.

Below are different scenarios and their associated revenue potential:

	Videos served/day	CPM	% of videos monetized	Implied annual revenue
<b>Scenario 1</b>	10 million	\$10	15%	\$6m
<b>Scenario 2</b>	20 million	\$15	20%	\$22m
<b>Scenario 3</b>	30 million	\$20	25%	\$55m

We will need to test these assumptions carefully over the next few months to get an accurate handle on the company's revenue potential. We also need to test the success of the company's content distribution network, and whether we can generate advertising revenue from this network. (Google earns ~55% of its revenue from Google-owned sites, and 45% from Network websites.)

Serving 10-30 million videos may appear daunting, as it represents >100x increase over the company's current activity levels. But the company has achieved its current scale in only two months, and only has 15,000 videos today. (For point of comparison, Flickr and Webshots, two comparable photo community sites, serve 200-500x as many pageviews per day as YouTube.)

- Scalability

As the table above indicates, YouTube will need to scale significantly from its current level for the company to achieve meaningful revenue. We need ensure that YouTube can inexpensively scale orders of magnitude from current levels.

- Balancing growth

YouTube has already drawn the attention of larger media companies (e.g., Turner, Transcosmos) that see the potential of distributing YouTube content. As with any marketplace, we need to ensure that we balance demand and supply. It would be inadvisable to grow the viewer base significantly without a substantial increase in the number of videos available on the site. The company cannot afford to disappoint large numbers of customers due to inadequate depth of content.

- o Exit

We cannot point to many high comparable exit valuations.

A few comparable companies include Webshots, flickr, Ofoto, Shutterfly, and Snapfish. While these companies deal only with still images, there are some similarities with YouTube. None of these companies have had exceptional exits. CNET bought Webshots for ~\$70m, Yahoo! bought flickr for <\$50m. Apparently Shutterfly is preparing to file its IPO. Ofoto and Snapfish were acquired by Kodak and HP, respectively, although financial terms were not disclosed.

Another comparable is Blogger, acquired by Google in 2002 for an undisclosed amount.

There are some other examples of businesses that built successful models leveraging user-generated content, including Tripadvisor, acquired by IAC in 2004 years ago for over \$100m (to the best of my knowledge).

### **Recommendation**

I first met with the company three weeks ago, and we are in pole position for the financing. Several VCs have been cold calling the company, and a few media companies have also approached YouTube. I'd like to give the company our decision on Monday.

I recommend that we proceed with the financing as proposed.

YouTube has a great founding team that has hit on several promising themes. The company follows a trend of user-generated content that started with text (blogs), images (flickr, webshots, ofoto), and audio (podcasting). Video is a natural next step, and YouTube is well positioned to capture the lead. The company has not yet enabled advertising revenue streams. But our checks with Yahoo! and Adbrite indicated very strong advertiser demand for online video advertising. We will rapidly need to surround the company with management talent, specifically a CEO.

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## **Investment summary**

Founded by three early PayPal employees. Two engineers, one designer. Seed-stage investment opportunity. Top 10,000 internet site within two months of launch.

- **Business**
  - YouTube's goal is to become the primary outlet for *user-generated video content* on the internet. The company provides a very easy-to-use interface for users to upload, share, and browse their content.
  - Every digital camera now ships with digital video recording capability. But consumers have no easy way to share their personal video content – files are too large, hosting and bandwidth is expensive, and there are no standardized video file formats.
  - Users upload videos to YouTube. The encoding backend converts uploaded videos to Flash Video, which works on ~98% of web browsers. The streaming format means that no file downloading is required.
- **Market**
  - YouTube provides a platform and community for video self-publishing. We've seen similar self-publishing emerge for text (blogs), photos (flickr, webshots, hotornot), and audio (podcasting). This presents interesting advertising revenue opportunities.
  - There are also interesting vertical market opportunities: eBay auction videos (e.g., autos), real estate videos, etc.
- **Financials – TBD**
  - The company currently serves 100,000 videos per day, at an all-in hosting cost of \$4,000 per month.
  - The team has developed a software abstraction layer that enables it to use very inexpensive hardware and bandwidth to deliver videos.
- **Competition**
  - Big players: Google Video Search, Ourmedia.org, Open Media Network
  - Small players: DailyMotion, Vimeo, Putfile
- **Team**
  - Steve Chen. UIUC, CS. Recruited as one of PayPal's earliest engineers
  - Chad Hurley. PayPal's first designer, responsible for site design and logo
  - Jawed Karim. UIUC, CS. Graduate CS student at Stanford. Also one of PayPal's earliest engineers
- **Proposed terms**
  - Two-stage, milestone-based financing: \$1m seed stage, \$4m Series A.
  - SC to own ~30% after Series A.
  - Proposed Series A milestones:
    - Develop comprehensive business plan, including financial plan
    - Develop self-serve advertising product
    - Sign up at least five (5) advertisers who place \$5,000 or greater advertising orders
    - Ensure platform scalability to handle at least one million video views per day
    - Recruit a VP of Business Development

## Competition

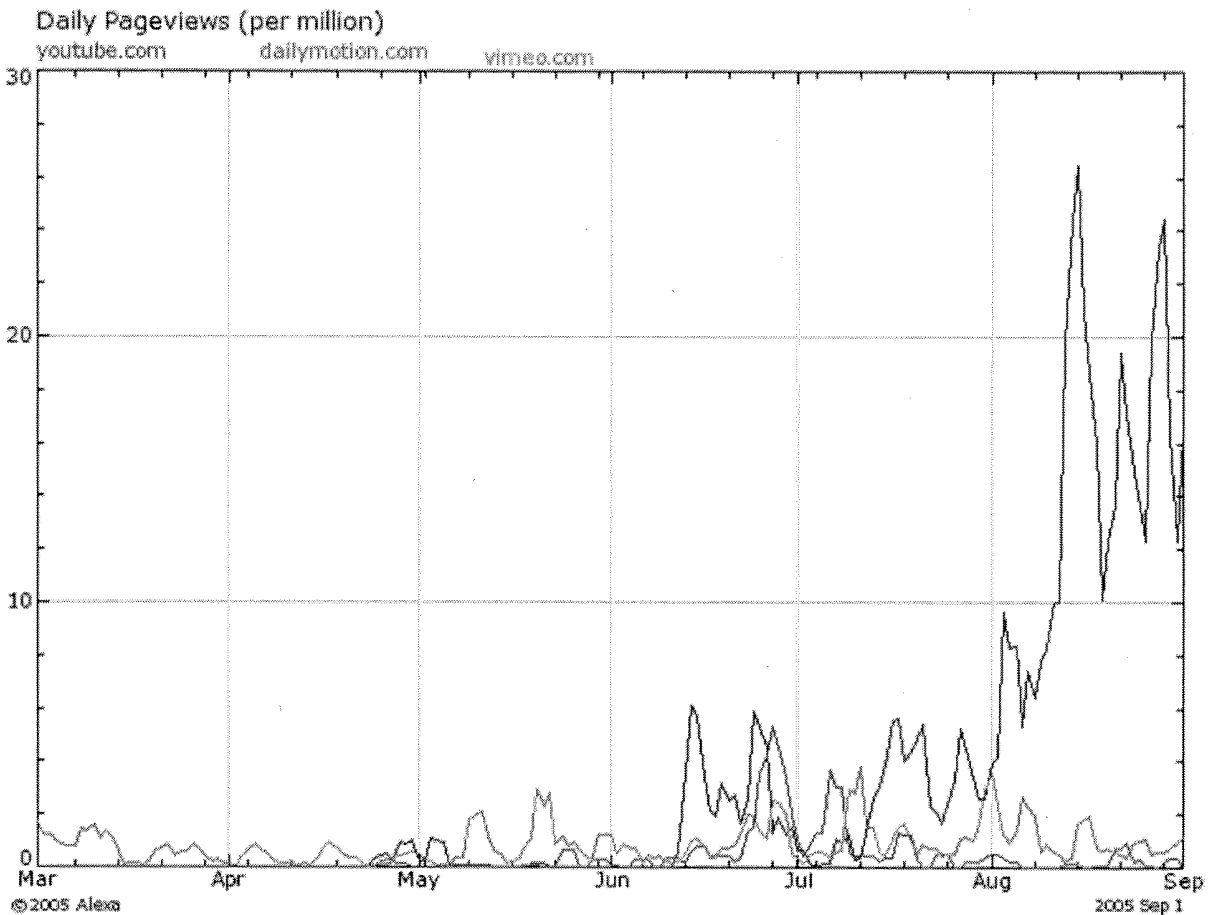
There are several potential and direct competitors to YouTube.

### 1. Direct competition

The two direct start-up competitors are Dailymotion and Vimeo.

- Dailymotion is based in France. It positions itself as a site to 'watch, publish, share.' The site has pretty good UI, but its navigation and layout is not as intuitive as for YouTube. All videos are encoded and rendered in Quicktime. Quicktime has lower penetration than Flash, so users may be faced with needing to download the player to experience the site.
- "Vimeo is for sharing your video clips." Vimeo was started by Connected Ventures in New York. Their mission is to "develop and manage good websites." They also run a popular site called CollegeHumor. They also claim to draw inspiration from flickr, and launched in February 2005. Vimeo also uses Quicktime. Their site layout is not very intuitive, and makes it hard to find content (e.g., there is no search capability).

The graph below shows the comparative daily pageviews for YouTube, Dailymotion and Vimeo. YouTube's traffic has rapidly overtaken that of these two competitors.



## 2. Community photo sites

Community photo sites share many features with YouTube: tagging, social networking, discussion groups, ease-of-use. However, they seem focused on still images rather than video.

YouTube admits that it drew inspiration from the popular site Flickr. Flickr has ~200-300x the number of daily pageviews of YouTube. Yahoo! acquired Flickr earlier this year for an undisclosed sum, believed to be ~\$30m. Reid Hoffman was an investor in Flickr, and assures the YouTube team that they have no plans to launch a video product in the next 1-2 years.

Webshots is another potential competitor. CNET acquired the company in 2004 for ~\$70m at a time that they forecast \$15-17m annual revenue. The founding team all just left the company, and it unclear how much new product innovation there is. Webshots seems very focused on photos for now.

## 3. Online photo sharing sites

The main online photo sharing services, Ofoto, Shutterfly, and Snapfish, are also potential competitors. They do not have community-like features. They also earn revenue primarily from printing. As a result, I think they will remain focused on photos.

## 4. Entertainment sites

There are several popular online entertainment sites that have significant traffic: Big-boys, ebaumsworld, ifilm.

According to YouTube: "Big-boys and ebaumsworld get a lot of traffic but that's to be expected for the type of content they host. You are guaranteed to have something interesting, something shocking to watch when you visit these sites. However, the disadvantage is that they can never transition their sites into an actual product. Due to the content on the site, they're forever stuck in that segment of the market. If I were to categorize the content on YouTube today, I would break it down into two large categories: personal videos and viral videos. The viral videos, due to copyrights and obscene content, I admit, big-boys and ebaumsworld may beat us there. Although, we have seen our share of viral videos on YouTube. The bigger draw for YouTube is all the personal videos, the ones of your pet, your kid, your family, your vacation, so on. Big-boys and ebaumsworld, due to their origins, can never transition their product into something that hosts these other types of files."

Big-boys and ebaumsworld also position themselves as much broader entertainment sites, offering "Jokes, Pictures, Office Humor, Flash Animation, Soundboards, Prank Calls, Audio, Video, Games, Illusions, Magic."

"IFILM is one of the leading video-entertainment destinations on the Web, offering channels of movies, short films, TV clips, video-game trailers, music videos, action sports and its celebrated Viral Videos collection. IFILM.com delivers more than 30 million streams per month, making it one of the top ten streaming media sites in the world." IFILM is a clear potential competitor, although they don't have the same focus on user-generated content, nor YouTube's community features.

## 5. Larger competitors

Google and Yahoo are building video search products. Google requires the user to download a new "Google Video Viewer" while Yahoo plays videos in the native file format. In neither case are they providing the simple consumer upload and share experience, nor the community features.

**6. File storage services**

Putfile and Ourmedia.org are examples of file storage providers that essentially provide a free, web interface to FTP. None of them seem to have a compelling product, and do not focus solely on user-generated video content.

**7. IPTV**

Finally, there are companies such as the Open Media Network and Brighcove that are focused on the delivery of mainstream video over the Internet. I do not believe that this competes directly with YouTube's proposition.

The table below attempts to summarize the competitive matrix:

	<b>YouTube</b>	<b>Direct competition</b>	<b>Community photo sites</b>	<b>Photo sharing services</b>	<b>Entertainment sites</b>	<b>Large Internet players</b>	<b>File storage</b>	<b>IPTV</b>
<b>Ease of submitting video/degree of automation</b>	Easy	Easy	N/A	N/A	Not easy or auto-mated	N/A	Easy	N/A
<b>Focus</b>	Video	Video	Photos	Photos	Varied	Varied	Varied	Video
<b>Community features</b>	Yes	Yes	Yes	No	No	Yahoo working on it	No	No
<b>Rendering format</b>	Flash	Quick-time	N/A	N/A	Quick-time	Varied	Varied	Varied

## The Technology Infrastructure (company supplied)

=====

As mentioned previously, in order to keep costs down, our video distribution technology is built on clusters with multiple machines in each cluster for redundancy and higher throughput. When a video is uploaded to the site, it is sent to a single machine within a single cluster. This is chosen based on space and, in the future, cpu/bandwidth utilization on the machine and cluster. Newly uploaded videos are picked up by two services running on each of the machines, 1) convert and 2) replicate.

The converter will analyze the video and look at things like framerates, aspect ratios (16:9 vs 4:3), audio encoding (sampling rates, audio codec), and the video codec used on the original video. It uses these heuristics to best convert the video to play on YouTube with adjustments to things inserting the black bands on top/bottom of a 16:9 video, altering the sampling rate to best conform to the incoming sound, guess at frames per second of the incoming video, etc. As part of this process, video stills of each video are also generated.

At the end of this process, the video server communicates back to the central database changing the status from "Uploaded" to "Awaiting Replication".

While all this is going on, the replication service is standing by looking for videos that need to be replicated. When a video enters this queue, it's picked up by the replication service and the video is replicated to every machine within the video cluster. After the replication is finished, it talks to the database and marks the video as "Processed".

A newly uploaded video will go from a "Uploaded" -> "Awaiting Replication" -> "Processed" state in about 1-2 minutes.

The best part about this technology is that it really is infinitely scalable. We can add more capacity directly at the video conversion/transport layer at will.

The math for this comes out to:

By bandwidth --

\$239 / 1 machine / 1 month

1 machine has 2000 GB transfer / month

$2000 \text{ GB} * 1000 \text{ MB} / \text{GB} = 2,000,000 \text{ MB transfer} / \text{machine} / \text{month}$

7 MB average size of video

$2,000,000 / 7 = 285,714 \text{ videos served from each machine} / \text{month}$

$\$239.0 / 285,714 = \$0.00083 \text{ cost per video served.}$

By storage --

\$239 / 1 machine / 1 month

1 machine has 2x160 GB HD for 320 GB

$320 \text{ GB} * 1000 \text{ MB} / \text{GB} = 320,000 \text{ MB} / \text{machine}$

7 MB average size of video

$320,000 / 7 = 45,714 \text{ videos} / \text{video cluster}$

$\$239 / 45,714 = \$0.005228 \text{ cost per video stored.}$

$\$0.005228 * 2 \text{ machines} / \text{cluster} = \$0.010456 / \text{video replicated.}$

The video serving technology provides a substantial barrier to entry. The video clustering solution sounds obvious and straight-forward post implementation but it certainly wasn't when we were faced with the question of -- "how do we keep costs down while having access to massive storage/bandwidth?" There's also the encoding technology. We're constantly improving this side of the product by incorporating the latest codecs.

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## **Team bios**

**Chad Hurley** is a co-founder of YouTube. Chad has an experienced background in web development and graphic design. He was the first member of the PayPal design team, where he lead efforts to develop the interface for the original Palm-based program that enabled secure wireless money transfers between handhelds. As the product evolved, he effectively designed auction features which solidified PayPal's long term success and is a credited member of two critical auction patents. Chad looks forward to building an empowering video service for the world.

**Jawed Karim** is a co-founder of YouTube. He was previously a computer science student at the University of Illinois, where he was recruited by Max Levchin to become one of the earliest engineers at PayPal. There he helped the implementation of PayPal's first real-time anti-fraud models for credit card and bank payments, working closely with Roelof Botha. As part of PayPal's Architecture Team (a group of five out of a total of over 100 engineers), he later worked on challenging scalability problems to ensure PayPal's ability to scale to 80 million users and beyond. He is currently a graduate student in computer science at Stanford.

**Steve Chen** is a co-founder of YouTube. As the Chief Technology Officer for YouTube, he is responsible for leading the engineering efforts in distributed video clusters and meeting the high-availability demands of video. Before YouTube, Steve spent 6 years at PayPal on the technology team. At PayPal, he led the engineering teams behind products such as PayPal China, PayPal Developer XML APIs, and PayPal Shopping Cart.

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## **YouTube**

### **Company Purpose:**

*To become the primary outlet of user-generated video content on the Internet, and to allow anyone to upload, share, and browse this content.*

### **Problem:**

Video content is currently difficult to share:

- Video files are too large to e-mail (E-mails with video attachments bounce).
- Video files are too large to host (viewing just fifty videos at 20 MB each means serving 1 GB of bandwidth – exceeding most website quotas).
- No standardization of video file formats. To view many video file formats means having to install many different video players and video codecs.
- Videos exist as isolated files. There is no interaction between viewers. There is no interrelation between videos.

### **Solution:**

Consumers upload their videos to YouTube. YouTube takes care of serving the content to millions of viewers.

YouTube's video encoding backend converts uploaded videos to Flash Video, which works in any web browser supporting Flash. (Flash penetration is 97.6% of Web users according to Macromedia.com.) Flash Video is a highly compressed streaming format that begins to play instantly. Unlike other delivery methods, it does not require the viewer to download the entire video file before viewing.

YouTube provides a community that connects users to videos, users to users, and videos to videos. Through these integrating features, videos receive more views, and users spend more time on YouTube. Because these features are similar to Flickr, YouTube is often referred to as "the Flickr of Video".

### **Market Size:**

YouTube's growth will come as a result of these recent developments:

- Digital video recording technology is for the first time cheap enough to mass-produce and integrate into existing consumer products, such as digital photo cameras and cell phones, giving anyone the ability to create video content anytime, anywhere. As a result, user-generated video content will explode.

- Broadband Internet in the home has finally reached critical mass, making the Internet a viable alternative delivery mechanism for videos. Viewers are flocking to the Internet because it offers more variety of content and allows people to choose when and how to see it. Traditional media want to enter this space because they want to follow the audience, and because content there is cheaper and easier to distribute. Early examples of video content that has reached more viewers on the Internet than on television: Indian Ocean Tsunami videos, Jon Stewart's Crossfire appearance, Janet Jackson's Superbowl wardrobe malfunction.

Initially, YouTube will target home-grown (user-generated) video content, because in the short term that represent the fastest-growing type of video content, possessing the fastest-growing audience. This phase will enable YouTube to establish itself as the dominant player for Internet video content. Once YouTube's audience reach rivals that of traditional media networks, it will then be positioned to syndicate traditional media content (news, entertainment, MTV, etc) as well.

### **Competition:**

#### Big players:

- OurMedia.org – Very technical and complicated for the average user
- Open Media Network – windows/IE only software, no community
- Google Video – going after Hollywood, not personal videos

#### Small players:

- dailymotion – good technology, no exposure
- vimeo – bad technology, has potential for exposure (owned by CollegeHumor)
- PutFile – focuses on file hosting, lacks community, bad revenue model

### **Product Development:**

Demo basic functionality.

- Community
  - o Connects users to videos. Users find videos through:
    - Search
    - Related videos
    - Related tags
    - Top rated, top viewed, most discussed
    - User videos,
    - User favorites
  - o Connects users to users:
    - Video discussion groups
    - Video comments
    - Private messages

- Private/public video sharing
    - Social networking (Friends)
    - User videos
    - User favorites
  - Connects videos to videos:
    - Related videos
    - Related tags
- Open architecture
  - Developer XML APIs
  - RSS feeds
  - Externally embeddable video player (“YouTube off YouTube.com”). By letting people embed YouTube videos right into their own web sites, YouTube’s audience reaches even beyond YouTube.com
- Target vertical markets with a need for video content:
  - Auction videos for eBay items (perfect for eBay Motors)
  - Real estate videos for houses/apartments for sale/rent (“Do-It-Yourself MTV Cribs”)
  - Become the video platform for special interest websites: Car sites, Sports, Politics, etc
- Features currently in development:
  - Community features: groups, sharing, better ways to find videos
  - Driving external reach: external player, developer APIs

**Sales & Distribution:**

Revenue-generating options:

- Ads:
  - “Google Adwords” approach for YouTube: Allow advertisers to upload ad videos to YouTube. Thumbnails of these ad videos will be shown alongside other videos in video search results, and as “related videos”. As with Google Adwords, ad videos will only be shown when relevant, and will be clearly marked as ad videos.
  - Display interactive ads within the Flash video player, superimposed over the playing video.
  - Play a short video ad at the beginning of the actual video.
  - Display an ad image at the beginning of the actual video.
- Act as a for-pay distribution channel for promotional videos:
  - Events, conferences, concerts
- Charge members for premium features:

- Ability to download original videos / view high resolution videos
- Video editing features (within the browser, using Flash): video effects, transitions, titles, etc
- Advanced features for the externally embeddable video player
  - Offer specialized features for embedded auction/real estate videos (see **Product Development**)
- Charge viewers for premium content:
  - Allow members to sell their video content to YouTube viewers, with YouTube taking a cut of the proceeds.

**Metrics:**

Launched June 11<sup>th</sup>. Has already overtaken all previously existing competitors and is now the dominant player in this space.

By bandwidth:

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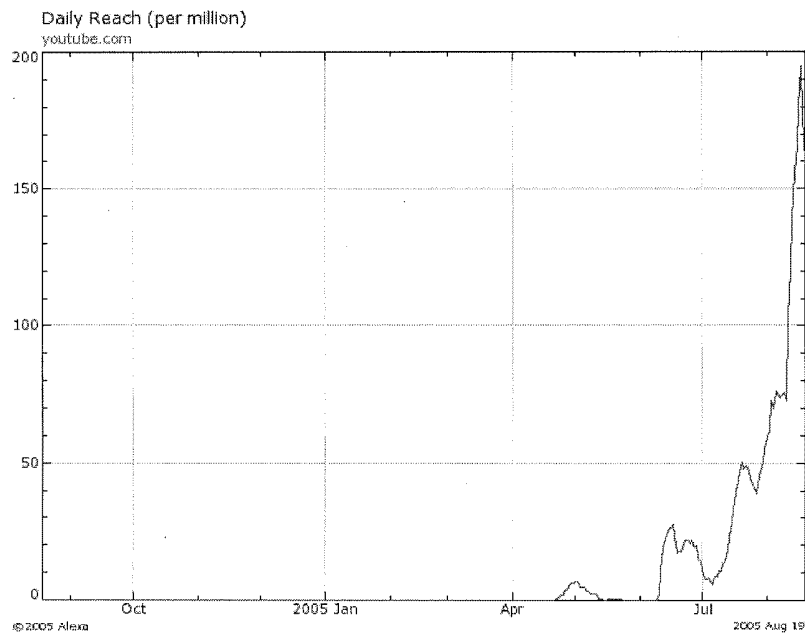
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7 MB average size of video

$320,000 / 7 = 45,714 \text{ videos} / \text{machine}$

2 machines / cluster

$(2 * \$239) / 45,714 = \$0.01 \text{ cost per video stored redundantly on a cluster.}$



### Team:

#### Founders:

- Steve Chen:
  - o Recruited by Max Levchin as one of PayPal's first engineers
  - o University of Illinois, Computer Science
- Chad Hurley:
  - o PayPal's first designer, responsible for PayPal site design and feature development
- Jawed Karim:
  - o Graduate student in Computer Science, Stanford University
  - o Recruited by Max Levchin as one of PayPal's first engineers
  - o University of Illinois, Computer Science



Broadcast Yourself.

## Company Purpose

— [To become the primary outlet of user-generated video content on the Internet, and to allow anyone to upload, share, and browse this content.

# Problem

- Video files are too large to e-mail.
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# Solution

- Consumers upload their videos to YouTube. YouTube takes care of serving the content to millions of viewers.
- YouTube's video encoding back-end converts uploaded videos to Flash Video.
- YouTube provides a community that connects users to videos, users to users, and videos to videos.

# Market Size

— Digital video recording technology is for the first time cheap enough to mass-produce and integrate into existing consumer products.

— Broadband Internet in the home has finally reached critical mass, making the Internet a viable alternative delivery mechanism for videos.

# Competition

— OurMedia.org, Open Media Network, Google Video

— PutFile, DailyMotion, Vimeo



# Product Development

- Community
- Open architecture
- Target vertical markets with a need for video content
- Features currently in development

# Sales & Distribution

- Advertising
- Act as a for-pay distribution channel for promotional videos
- Charge members for premium features
- Charge viewers for premium content

# Team

— [Steve Chen: Recruited by Max Levchin as one of PayPal's first engineers; University of Illinois, Computer Science

— [Chad Hurley: PayPal's first designer, responsible for PayPal logo, main features, and design

— [Jawed Karim: CS Graduate student at Stanford University; Recruited by Max Levchin as one of PayPal's first engineers; University of Illinois, Computer Science

# Metrics

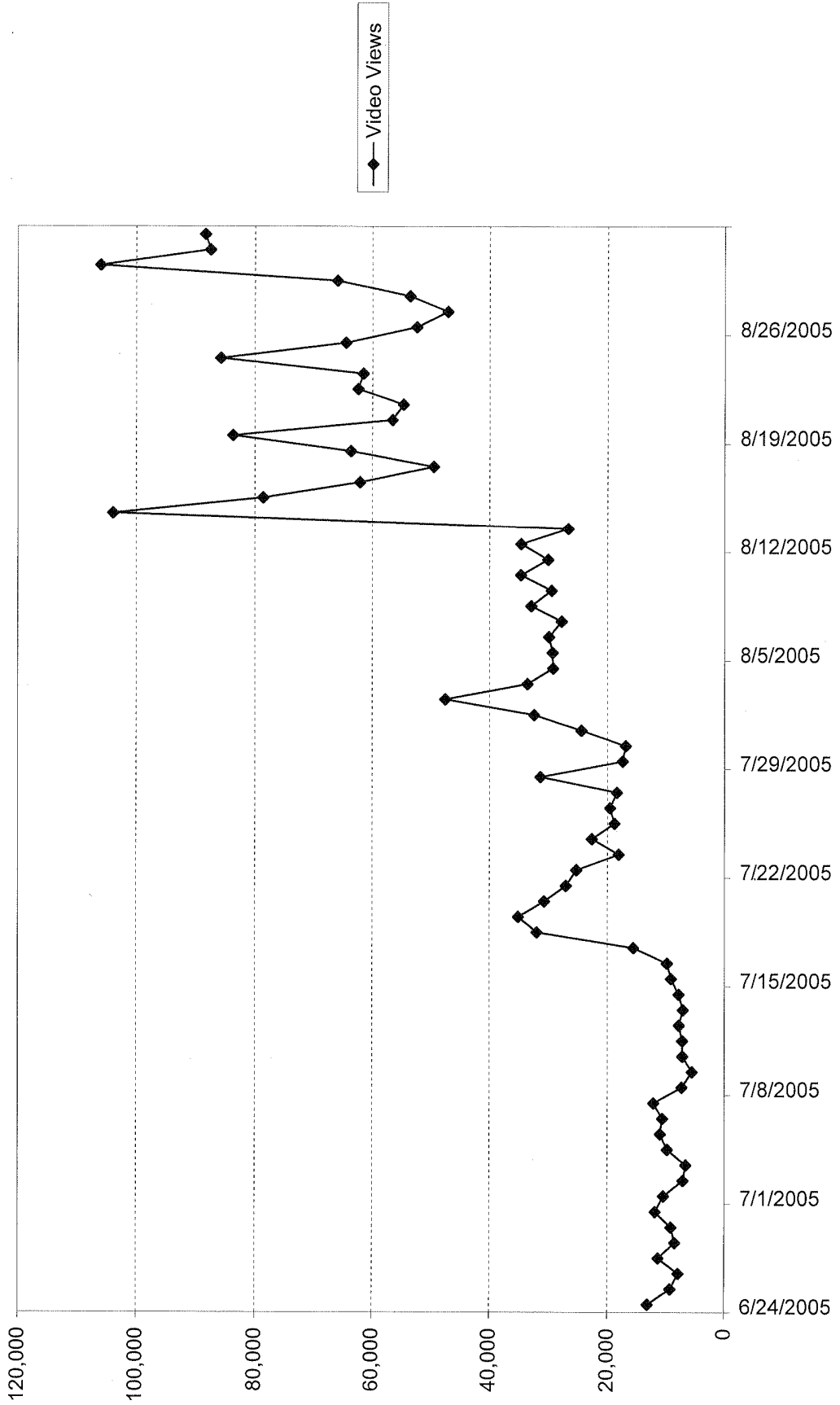
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## Company metrics

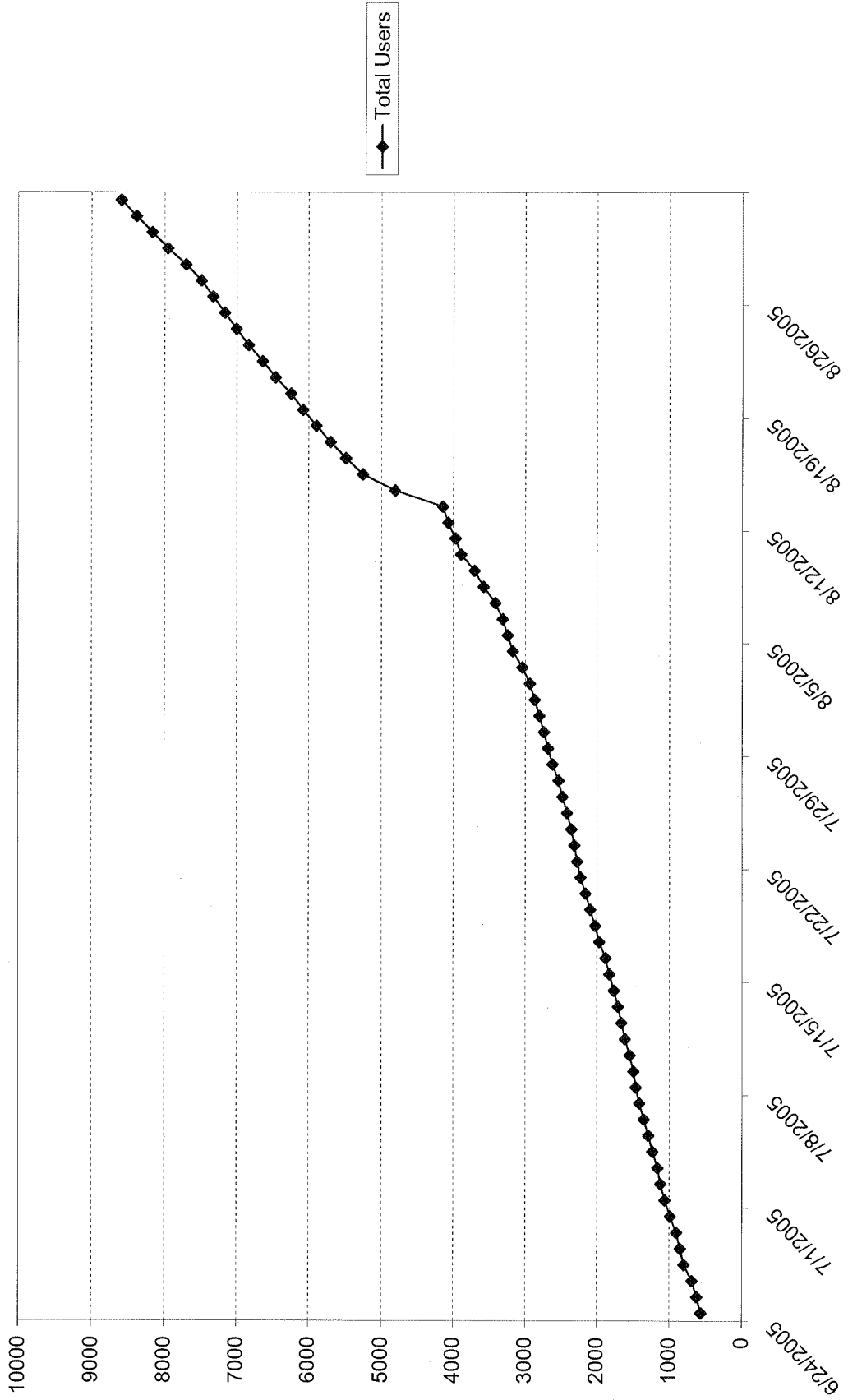
The attached three charts show three key metrics for YouTube since it launched about two months ago: videos served per day, registered users, and cumulative videos submitted.

The graphs show a healthy increase in all the key metrics so far.

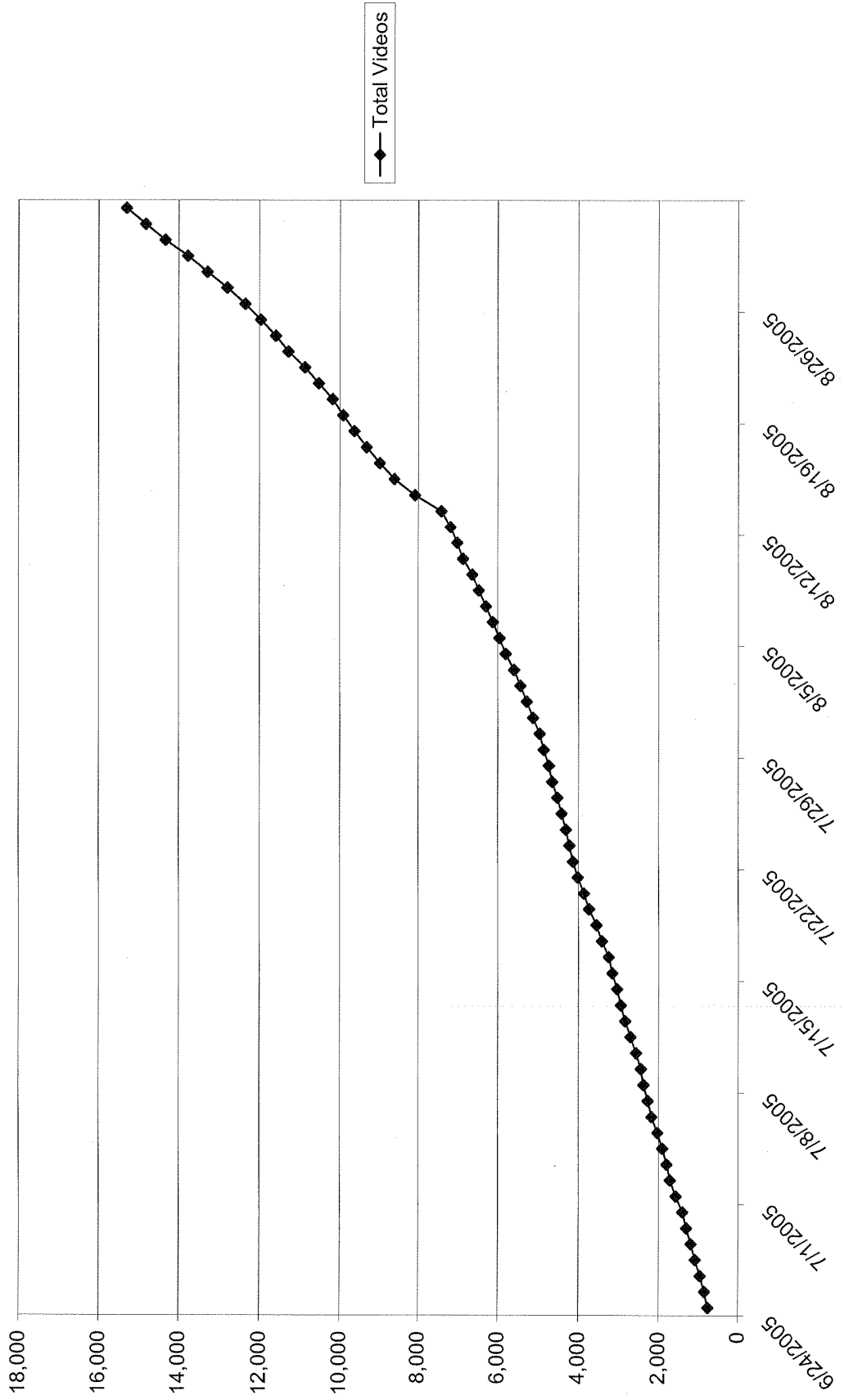
Video Views Per Day



Total Users



Total Videos Submitted (cumulative)



# **Botha Exhibit 3**

**FOR IMMEDIATE RELEASE**

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**YOUTUBE RECEIVES \$3.5M IN FUNDING FROM SEQUOIA CAPITAL**

***Internet Commerce Pioneers from PayPal Reunite to Make Videos Fast, Fun and Easy for Consumers to Create Their Own Personal Video Network***

MENLO PARK, Calif. – November 7, 2005 – YouTube, a consumer media company for people to watch and share original videos through a Web experience, today announced it has completed a \$3.5M round of private equity funding from Sequoia Capital. YouTube, founded by Internet commerce pioneers from PayPal, has developed a new service that allows people to easily upload, tag, and share personal video clips through [www.YouTube.com](http://www.YouTube.com) and across the Internet on other sites, blogs and through e-mail. The service also allows users to create their own personal video network.

This investment will be used to accelerate the company's rapid growth, enhance product development and expand sales and marketing efforts.

“With more and more people carrying around devices that capture video—from digital cameras to cell phones—YouTube is set to become an essential destination for watching and sharing these experiences,” said Chad Hurley, CEO and co-founder of YouTube.

“We are very pleased by the support of Sequoia Capital. Since our public preview, we are already moving 8 terabytes of data per day through the YouTube community – the equivalent of moving one Blockbuster store a day over the Internet.”

Prior to YouTube, it was not easy for people to make video available on the Web. The burden was on the user to support all the media players and the 100s of multimedia



formats. YouTube is using its advanced technology infrastructure so consumers can broadcast their videos globally in a fast, fun and easy way.

“We are very excited to be involved with YouTube at a time when consumers are poised to benefit from all the consumer electronics available. The demand for user-generated content continues to grow exponentially,” said Roelof Botha, Sequoia Capital partner and former CFO of PayPal. “We’ve already seen user-generated content blossom in text through blogging, in photographs through services like Flickr and Shutterfly, and in audio through podcasting. YouTube is pioneering the next wave to become Internet’s premier video service.”

#### **About YouTube**

Founded in February 2005, YouTube is a consumer media company for people to watch and share original videos worldwide through a Web experience. Founded by early commerce pioneers of PayPal, YouTube allows people to easily upload, tag, and share personal video clips through [www.YouTube.com](http://www.YouTube.com) and across the Internet on other sites, blogs and through e-mail, as well as to create their own personal video network. With investment support from Sequoia Capital, YouTube is set to become the Internet’s premier video service.

#### **About Sequoia Capital**

Since 1972, Sequoia Capital has provided startup venture capital for very smart people who want to turn ideas into companies. As the “Entrepreneurs Behind the Entrepreneurs”, Sequoia Capital’s Partners have worked with innovators such as Sandy Lerner and Len Bozack of Cisco Systems, Jerry Yang and David Filo of Yahoo!, Gaurav Garg of Redback Networks, Larry Page and Sergey Brin of Google, Dan Warmenhoven of Network Appliance, T.J. Rodgers of Cypress Semiconductor, Lou Tomasetta of Vitesse Semiconductor, Steve Jobs of Apple Computer and Larry Ellison of Oracle. The companies organized by Sequoia Capital now account for about 10% of the value of NASDAQ. To learn more about Sequoia Capital visit [www.sequoiacap.com](http://www.sequoiacap.com).

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