Interview with Khalid Shaikh from FlyUpload

Adrian Bye: I'm talking with Khalid from FlyUpload. Khalid, do you want to tell us a little bit about who you are and what you've been doing that's interesting?

Khalid Shaikh: Hi, oh, my name is Khalid Shaikh. Well I graduated in about 2000 from a university called McGill University in Canada with a degree in computer engineering. I've previously done engineering level work at companies like Microsoft, HP and Nvida, but also I've been like creating companies year after year. So like a content business in 2000 called Glide Underground; a very techno company called HP Tunnel somewhere in those years; and then the most interesting in 2004 created a website called YouSendIt which ended up going pretty large…over 44 terabytes of data a day and ended up getting 20 million dollars in funding; and just most recently I've created this website called FlyUpload to capitalize on a very large market.

Adrian Bye: Okay. And YouSendIt and FlyUpload, what kind of traffic do those sites have?

Khalid Shaikh: Well YouSendIt is doing, at its peak it was doing 1.2 million downloads a day, with about 44 terabytes a day; now it does less than about 5 terabytes a day, and right now FlyUpload is doing about 6 terabytes a day of data, with about a couple of 100,000 downloads a day.

Adrian Bye: Okay, very good. Well maybe, is YouSendIt and FlyUpload, are they similar business models?

Khalid Shaikh: I don't think so. I would think that YouSendIt, YouSendIt actually created this space on the Internet. A lot of, Wikipedia calls it one-click spy hosting and Wikipedia references that there are 130 websites in this space, the larger of which are Megaupload and RapidShare which are doing well

above 10 million dollars a year in revenue and profitable with a team of less than ten employees. YouSendIt saw this space commoditizing and being run by very small teams very efficiently and it moved up market to target small and medium business, so it's focusing on creative professionals.

Adrian Bye: Let me ask you did it…

Khalid Shaikh: Yeah?

Adrian Bye: Before we go into much detail on that do you want to just explain how the model works for people who haven't seen it?

Khalid Shaikh: Sure, sure. Sure. So the services that YouSendIt and these one-click hosters offer is that generally they ask you to type in a recipient e-mail address, they ask you to attach a file of any size up to two gigs and hit send. It's about as simple as that. The file is uploaded to our servers and then we send out a link to the recipient.

Adrian Bye: And so the point here is so that if, when you can't e-mail a file that's of a certain size, to get that file to someone and also to have a permanent host for it, that's the problem that you guys solve, is that correct?

Khalid Shaikh: Correct, correct. In uniwidth services, like G-mail or Yahoo which offer infinite e-mail, they actually have attachment limits of 10 to 30 megs.

Adrian Bye: And so now I've seen RapidShare and then you mentioned the other one Megaupload…

Khalid Shaikh: Yeah.

Adrian Bye: …they, I mean RapidShare has an Alexa Rank of 13.

Khalid Shaikh: Correct.

Adrian Bye: That's right up there, how do other people, how do you come in and compete with that?

Khalid Shaikh: Well I'll give it to you this way. Being an entrepreneur, generally when you're going at an investment they go, "Well what are you going to do when Microsoft competes with you; what are you going to do when Google competes with you?" They always take the biggest name and they go, "What are you going to do?" You end up building this fearless approach to attacking business. You know, yes, there are all these people in the market but you know their strengths and weaknesses. You look at RapidShare and Megaupload, RapidShare is not a very legitimate brand, hosted in Germany; Megaupload is not that clean a brand, hosted in, they're in Hong Kong their headquarters, and I've actually met the founders and the team and they're operating out of the Philippines, both of their models are subscription only. If you look at the big two, at least two out of the three .com IPO

players, one's Google, one's Yahoo, 150 billion dollar market cap, 30 billion dollar market cap. All of us here in the US know that advertising-based business models are disrupting that of non advertising-based business models. I believe that if I invest heavily in very low-cost transit bandwidth stuff that I know is…one-third cheaper than what YouTube is paying, because of…I was there when they were created, in all of that, if you invest heavily in low-cost transit bandwidth and invest in the advertising-based revenue model and you build a platform on top of that, I really strongly, confidently believe there's a billion dollar market opportunity there and that's where I'm aiming at. So whatever they're aiming at, they're aiming at…immediate cash flow, they're aiming at converting people to subscription model; I'm really in it for a far longer term and…we'll see how that pans out.

Adrian Bye: So by subscription model what you mean is that RapidShare and Megaupload are, users can pay to become a member and get better service and downloads and stuff like that…

Khalid Shaikh: Correct, and we…

Adrian Bye: …and suggests that you can make – as on the thank you page and show ads?

Khalid Shaikh: That is exactly correct and this new…this generation of web technologies is all about giving services away and monetizing off ads. The huge, I don't know how many billion dollars the advertising space is and the relatively small amount of dollars being spent online and that huge friction created that…we know that eventually over the next five years that more of that money is going to come online, it's going to bring life to new business online and I aim to own something that has to do with media hosting online. And that's primarily, in all of these websites, the number one transferred file is video, number two is audio and the number three is photo, so really these are all media hosting companies.

Adrian Bye: Right. Now I mean one of the, the reason why Google is so incredibly profitable is because it's showing very targeted ads. The user types in a key word, that key word then pulls up ads that are relevant to what they're looking for at that moment. In display advertising we can do some sort of behavioral targeting but even still that's not that accurate and at the end of the day what you're showing is display advertising on a general interest download page. How are you going to get the level of profitability that some of these other companies can?

Khalid Shaikh: See you're right. Right now all I'm doing is displaying or all we're doing is displaying basic banner ads and…nothing special but we believe as the advertising market evolves new methods will come out. For example the industry, even Google I've heard is slightly moving toward CPA verses CPC, Yahoo is doing the same thing, so I believe that new opportunities will present themselves and also that we have access to the user's content, so…it's not that hard to be able to target based on…what they're doing, be able to target advertising. But obviously today is not the day where we have that kind of technologies available, so you kind of have to plant yourself in here, sit and wait and just grow a page for views while…the advertising market develops itself.

Adrian Bye: And so looking then at your site, you launched FlyUpload what, about seven or eight months ago, is that right?

Khalid Shaikh: I actually purchased the IP and assets from a company in the UK, from a bunch of people in the UK, because I didn't want to go there, redevelop the technology and iron it out and make sure it was solid and scalable, so I purchased the IP and assets and then I just invested in operations and infrastructure.

Adrian Bye: So it looks like it's taken off in the last six to seven months, does that sound accurate?

Khalid Shaikh: Yeah.

Adrian Bye: And then but then what I noticed is that you've got an Alexa Rank showing of 2,500 now but then that's actually, the today's Alexa Rank it's like around 10 or 15,000.

Khalid Shaikh: That is very interesting actually, because my internal tools are telling me that nothing is changing but the Alexa is changing, so I'm not sure exactly about that, but…

Adrian Bye: I've heard that from…

Khalid Shaikh: Pardon?

Adrian Bye: You're not alone, that actually Fark.com has had the same thing happen…

Khalid Shaikh: Yeah, it's a higher rank.

Adrian Bye: …their Alexa Rank is half and then at the same time their traffic has almost doubled.

Khalid Shaikh: Yeah, so I'm not actually sure about that. But separate from that I'm sitting here and pondering…what's the next thing in this file transfer, is it social networking plus file transfer or…what is it exactly that needs to be done, so that…

Adrian Bye: Right.

Khalid Shaikh: …I mean there's also the next product that one has to build and…so I'm thinking about that.

Adrian Bye: Okay. So I mean it's an interesting model and you don't do any kind of media buying whatsoever do you, it's all just driven through viral?

Khalid Shaikh: So correct, everything is driven viral traffic, no buying and…there are a lot of competitors in the space that are operating very profitably but are also just aiming at the cash flow and not after…capital markets.

Adrian Bye: So you're talking as an example of RapidShare and, yeah.

Khalid Shaikh: Well there are those two. I was just talking to FileFactory, which just…recently was on SitePoint looking to sell for 3 million dollars. So I go, "Okay, well if I can raise up that much money can I…buy it?" And they were like, "No, no, no, we're selling out for 25 million dollars." So a lot of people…are making a good amount of money in the space and it looks easy to execute in but I do think that it's also a short-term, they're looking, their vision is very short-term.

Adrian Bye: Okay, so traffic comes virally, I mean I upload a file that I need to send and then I send an e-mail to you or does the service send an e-mail to you or do I just send an e-mail to you?

Khalid Shaikh: The service sends the e-mail to you.

Adrian Bye: So I put in your e-mail address, the service e-mails you and says, "Hey, there's a file here from Adrian, you can go and download it now."

Khalid Shaikh: Correct, that's it.

Adrian Bye: So how do the economics of it work? I mean let's say I send a big file, I send a one gigabyte file to you and then you see – and I looked at your download page and it was filled with tons and tons of ads...

Khalid Shaikh: Yeah.

Adrian Bye: …so you see 12 ads…and a couple of pop-ups and everything else, you're downloading that one gigabyte file and seeing those ads, how do you make money on that?

Khalid Shaikh: So the normal economics of this work is that you offer some huge size but in general the average that people send is lower than a certain amount. So let's say that they're sending on average 20 megs, somewhere above 40 megs you'll be losing money and something below 40 megs you're making money.

Adrian Bye: All right but you take all the others anyway?

Khalid Shaikh: Pardon?

Adrian Bye: You take all of the files anyway?

Khalid Shaikh: We take all of the files because you're trying to provide a service that's valuable to the user.

Adrian Bye: So the better monetization you can do on the download page, then the larger files you can offer more?

Khalid Shaikh: That's exactly, and the idea is that if you're focused on making money today, what you're going to do is maximize your revenue. If you're focused on making money tomorrow, you'll invest all of that money into upping that limit so that the users have a better service which will differentiate you from the competitors, that you have a better service.

Adrian Bye: Yeah. And how, are you guys self funded, do you have investors?

Khalid Shaikh: Yeah, I basically liquidated money I got from parting with YouSendIt and used that to purchase the IP and assets and then invest in the operations.

Adrian Bye: So at the moment it's self funded?

Khalid Shaikh: Correct. We are meeting with investors but this time I've learned that just partnering with an investor and getting 20 million dollars doesn't necessarily make you succeed. Partnering with the right investor that believes in the vision and the long-term opportunity and lets the executive team operate, that's really the right investor you want to work with. So I'd rather decline millions of dollars than to work with an investor that is just going to make…make this not agree with the vision.

Adrian Bye: Right. So the guys listening to this are all pretty hardcore direct response guys, all of the things that they do are based around economics of, you buy a click somewhere or you put some advertising somewhere and at the end of the day you end up making a certain amount of money. And they're going to be listening to this and saying, "Well this guy, he's building this model, he's investing a bunch of his own money in this but he's kind of just hopeful that the rates in display advertising are going to rise and that he's going to catch a wave but he's taking a very big risk. Is this just Silicon Valley froth?" How would you respond to that?

Khalid Shaikh: Wow! I actually, I like that one. You know I don't know. I guess I can't verbally prove anything. I can't verbally prove anything at all. All I can do is, I mean we can just look at the markets right, irrespective of whether it's FlyUpload or not, right. All of these web companies, Facebook, YouTube, whatever, they invest in an operational infrastructure and they're monetized through ads. You know those are the two technologies for you to invest in, the two areas and spaces for you to invest in. You build something on top of it, you hire a bunch of engineers, you can build like any website really quickly. So yeah, I agree, you look at FlyUpload, that might not be it but when Steve Jobs came up with the Apple II-E did he envision the iPod, did he envision the iPhone? Any successful company will successfully iterate and build new ideas every few years. So…I mean, yeah.

Adrian Bye: A lot of traffic volume. So like how many page views are you getting per day on your download page?

Khalid Shaikh: Right now it's about one million unique, one million visits a month and about 200,000 download page views a day.

Adrian Bye: So 200,000 download, so you're getting 200,000 download page impressions per day, is that correct?

Khalid Shaikh: Yeah.

Adrian Bye: So in fact anyone listening to this that wants to contact you for traffic that might be something that you can help them with?

Khalid Shaikh: Sure, sure.

Adrian Bye: So okay. So – sorry?

Khalid Shaikh: What I'm more interested in is working with people that see the space, that see that there are…this many companies and…what can one do in the space, that's really what I'm interested in, because these guys are like unwilling to work in ad revenue, these guys are…they're all protecting their own little one-million-dollar, five-million-dollar companies and they're failing to see that consolidation is going to occur in the space, just like it did with eBay, just like it did with Google.

Adrian Bye: How, I'm not sure I completely understand.

Khalid Shaikh: So I've heard, when I meet people…'95, '96, back then when eBay started, right, there were hundreds of auction sites and then the best auction site ended up consolidating the space and owning it…

Adrian Bye: Right.

Khalid Shaikh: …which was eBay.

Adrian Bye: Did they consolidate the space, didn't they just, I mean wasn't the network effects just strong enough that they just took over?

Khalid Shaikh: Okay, there you go, right, so they took over, right? So then this space right now, there is going to be a company that takes over and I don't think it's the top two because they don't, they're not looking at ad monetization as one of their components and they're not building a stronger end. I'm honestly, I go up to the top two, I go, "Hey look, if you want to own the space, if you want to be the next 30-billion-dollar company let me join you." But they're like, "No, no, no, we like to stay small; we like to protect our revenue."

Adrian Bye: Yeah, right.

Khalid Shaikh: Exactly.

Adrian Bye: And so what kind of revenue are those guys doing?

Khalid Shaikh: About 10 million a year, the last I heard within the last year, and some of the guys in the middle are doing about a million a year.

Adrian Bye: So RapidShare is about – sorry.

Khalid Shaikh: I can't specifically name the name but I mean out of those top two, yeah, one of them is doing over 10 million a year.

Adrian Bye: Over 10 million?

Khalid Shaikh: Yeah.

Adrian Bye: And that's revenue?

Khalid Shaikh: That's their revenue and they operate without the VC model so they're cash flow positive and growing as you can tell.

Adrian Bye: So what would you assume their profits are out of that 10 million?

Khalid Shaikh: Oh, it's actually up to their discretion, they keep as much as they want. So they could be profiting anywhere from 3 to 7 million out of that.

Adrian Bye: Oh, it's that profitable is it?

Khalid Shaikh: Yeah, and not just that, not even them, there is – if you go look up DivShare, they started six months ago, their Alexa is 800 and something. What's happening is a lot of these guys come in, invest cash in operations, grow it up and then either they can make costs and expenses match or if you look up Gigasites in Alexa you'll see there in Montreal they did the same, you'll see that they couldn't make it match so eventually they killed their user base and their Alexa flat lines, they just, you can look it up. Okay, separate from this, something I just want to say.

Adrian Bye: No.

Khalid Shaikh: Go look at Alexa for Megaupload verses Facebook, Megaupload is twice the size of Facebook.

Adrian Bye: I mean – oh, I don't know what I mean. Let me just see this.

Khalid Shaikh: Yeah.

Adrian Bye: I'm going to Alexa and so I'm going to do a what, a comparison of Megaupload…

Khalid Shaikh: Look up Facebook.com and Megaupload.com.

Adrian Bye: So the daily reach of…

Khalid Shaikh: Megaupload.

Adrian Bye: Is about 1 percent and the daily reach of Megaupload is over 6 percent.

Khalid Shaikh: Okay. Now so look up RapidShare, Rapid Share is the equal, same size as Megaupload, which means its market, it eclipses Facebook's market.

Adrian Bye: You're right. Yeah, so those two, those are right around 6 percent and Facebook is right around 3 percent, yeah?

Khalid Shaikh: Right, and last time I asked RapidShare, "Hey…" I actually asked him some other question and he's like, "Oh yeah, I'll sell for 800 million dollars." And no one's identified this as an X-billion-dollar market opportunity, it kills me.

Adrian Bye: Yeah, I mean that's…

Khalid Shaikh: Yeah.

Adrian Bye: I have no comment; they have a lot of traffic, that's incredible.

Khalid Shaikh: Yeah, and they're both growing and DivShare is coming in attacking the same market and growing at 30 percent per month. And you go look at DivShare's website, very simple.

Adrian Bye: At DivShare?

Khalid Shaikh: DivShare.

Adrian Bye: Okay.

Khalid Shaikh: I apologize; I'm extremely excited about thus space.

Adrian Bye: Yeah, great, it's fascinating to see. So that's amazing but neither Megaupload nor RapidShare are showing any advertising.

Khalid Shaikh: Because – exactly. So Megaupload just got banned from Google. Actually there was this In Fact something report, In Fact Fair Report that talked about Google click-fraud and Google sits there and bans me claiming I'm doing click-fraud, right. I notice at the exact same time they banned Megaupload and I'm assume it's the same thing they claimed they do click-fraud. Megaupload releases Megavideo which is an YouTube competitor and they just gave up on advertising-based revenue. Meanwhile Google continues to support websites like FileFactory and VShare.net.

VShare.net, top 300 website in the world, does the exact same thing I told you, except monetizes 100 percent off Google ads.

Adrian Bye: So…

Khalid Shaikh: Yeah.

Adrian Bye: …you're saying, you said RapidShare was kicked out of Google?

Khalid Shaikh: No, it was Megaupload that was kicked out of Google.

Adrian Bye: When you mean kicked out of Google, does that mean they're banned from doing pay-per-click advertising or were they actually dropped out?

Khalid Shaikh: Right, banned for doing pay-per-click.

Adrian Bye: So all these guys, so RapidShare for example does, I thought they just grew virally or are you saying they also do media buying as well?

Khalid Shaikh: What I mean by pay-per-click advertising, I imply both RapidShare and Megaupload are growing virally. Megaupload was using Adsense to monetize.

Adrian Bye: Oh, okay.

Khalid Shaikh: Yeah.

Adrian Bye: And they got dropped from the Adsense Program?

Khalid Shaikh: Correct. Yeah, so some of the file sharing guys or whatever you want to call these one-click hosting, have been dropped from Google and the other ones haven't, and it's hard to determine how Google is deciding.

Adrian Bye: Yeah, maybe they're still trying to get their heads around the space as well.

Khalid Shaikh: I don't know. I don't know. But I…

Adrian Bye: What they… is Google's Adsense, is that better at monetizing that stuff? It would seem to me that some of the just display advertising would be more effective?

Khalid Shaikh: Well you're right. I'm not sure what's effective in that space. I'm not sure. All I know is that some of them are using Google; some of them are using this. I've tried out a number of them; I know there is something happening in this space and I want to be associated to it.

Adrian Bye: So how does a company become a billion-dollar company in this market? You're saying just get as much downloads as possible, so therefore in your case show as much download page advertising as possible and therefore when some sort of behavioral targeting comes along that's

more effective, your CPMs on your download page will go up dramatically and therefore it's a bit market, is that the logic?

Khalid Shaikh: Okay. I guess the moral way that I define the market is if I look at Facebook and I look at its user-based size and then I look at its 100 million a year in revenue and you basically take 20 times gross revenue which is about a 2-billion-dollar company, which I'm assuming that's how they're valuing themselves, right? And then if I look at something like RapidShare and Megaupload and I add up their user bases and I give them, maybe they could make 100 million a year in revenue through innovative direct sales force, they have to have a direct ad sales force, then I see it as a 2-billion-dollar market opportunity. Also I don't believe that any of these public companies that get there do it off of one product. Like Google has…if you look at – I don't know, you might want to look at their com score but…their growth in their search engine might have been like…they weren't getting as many page views as they needed and they ended up acquiring YouTube to continue their…leadership on the web. So I don't think it's a one product thing to get to a billion-dollar valuation but…you can see based on these stats as well that there is definitely something here that's sizeable to Facebook, which is already a 2 to 6-billion-dollar company.

Adrian Bye: Yeah, that's really, really – I mean I've seen these sites around and knew they had a lot of traffic, I didn't realize they would double the volume of Facebook. So looking at these, between RapidShare and Megaupload, those two combined are actually four times the traffic of Facebook.

Khalid Shaikh: Exactly, and I've flown, like VC is here, Summit Partners, I flew with one of their associates to Hong Kong to meet the Megaupload guys. So the investors here are knocking on their doors but they're refusing to accept the investment. Even Michael Morits …I was trying to get the Megaupload guys to go take some Sequoia capital and this the Megaupload guys are like…Michael Morits seemed to be interested but he Megaupload guy's like, "You know what I don't even want to take the meeting; I don't want to do it." Yeah.

Adrian Bye: Well they've got something that's working, that's…

Khalid Shaikh: Exactly, they're profitable, they're in a happy place but I still think that they'll be disrupted by someone with the longer term vision.

Adrian Bye: And so, and again to cycle back, your vision is that because you – because you're download page is a little hard to get through; you make people go through two download pages and all that sort of stuff, you're…

Khalid Shaikh: Yeah, and so that, for our stuff is actually one of the experimental things we're trying right now, which could be good or bad, we're varying the number of download pages based on the file size.

Adrian Bye: Right.

Khalid Shaikh: Yeah.

Adrian Bye: And so that gets more ad impressions and all of that stuff?

Khalid Shaikh: It's just we're just looking for ways to pay the costs, correct.

Adrian Bye: Right. And that's more effective, you think that longer term that will be more effective than the way Megaupload or RapidShare are working because users go to you more if they don't have to…

Khalid Shaikh: I check these things out, I do believe that the ad-based revenue model will disrupt the subscription-based revenue model.

Adrian Bye: Right. Well, very interesting.

Khalid Shaikh: It's unknown, yeah, it's unknown.

Adrian Bye: So let me ask just some questions then. Well actually you mentioned you're interested in working with people that understand the vision for your space. What exactly does that mean? I mean we have some pretty large advertisers listening and some other guys in other areas in direct response, how can those guys work with someone like you?

Khalid Shaikh: So for example, let's say that advertisers want to get in on this space, right? We could perhaps create an advertising company that goes and specifically targets this space and tries to create value out of it. Clearly Google and Yahoo don't know how to monetize them well and…that's why they're banning some of them or whatever. So maybe we build some sort of, maybe we work with Zedo or whoever, to go and say, "Hey, let's take these 10 to 15 file transmission, one-click hosting companies accept them in a network and try to monetize their users." Because they clearly have a lot of users and we need to…figure out a way to get the most value out of these users, because why is RapidShare and Megaupload not showing advertising, they should be and maybe someone is not showing up the right ad value proposition to them that's why they're not doing it.

Adrian Bye: They are sharing advertising; it's just they're advertising trying to get users to pay for their service.

Khalid Shaikh: They're not advertising, they're just not showing advertising because it's not profitable to them anymore; they have had advertising in the past.

Adrian Bye: Oh, really?

Khalid Shaikh: Yeah.

Adrian Bye: So to that question, is Yupload profitable?

Khalid Shaikh: Yupload, no, I keep it slightly cash flow negative.

Adrian Bye: And so you're looking and that's why you're doing some optimization on the download page, to see if you can find a way to make it cash flow positive?

Khalid Shaikh: And well I can make it – one can make a company, any company, cash flow positive at any time. All it means is firing, it means slowing down your growth, your revenue growth, your user base growth, whatever it is…you just fire a bunch of employees and you end up cash flow positive. So when you're creating a company, any entrepreneur, think about it. You have…nothing at home and you want to build a company, you have to invest some money to buy a server or code something or hire someone, that implies you're cash flow negative. Yeah, that's pretty much it.

Adrian Bye: Right. So questions then on the space, how do you deal with things like copyright issue and adult content?

Khalid Shaikh: So the adult content is a gain in terms of service but basically you use the users to help police your system. You have a system that lets you block files within ten minutes, that will let any user block a file within ten minutes. And the other, one was adult content and copyright issues, oh, copyright same thing. So…according to the BMCA all you have to do is take down the material. That's basically what you do; you provide a webpage for people to take down material. Right now we don't have enough traffic where we do that automated. Right now you send an e-mail to BMCA at FlyUpload.com, we take it down. But a lot of the larger sites and just like we did at YouSendIt, you're just provided an automated way. You go to YouSendIt, there's a report abuse button on the front page; you go to YouTube, there's a report abuse button on the video; and on Megaupload same thing.

Adrian Bye: And so that's using the similar way that YouTube got going, where it was hosting a lot of copyrighted content. A large percentage of your content has to be copyrighted stuff owned by other people that people are just sharing across the net doesn't it, but given the BMCA and the way it works you're allowed to legally do that.

Khalid Shaikh: It's not like we're trying to legally host copyrighted content. As I mentioned, we had a long time ago at YouSendIt we had this terrorist video go through and they said, "Look, if you're trying to…" I was talking to the Wall Street – no, no, not the Wall, the *Washington Post*. I said, "If you're trying to build a community there is going to be some crime; you're creating a society. If you just stop everyone from driving cars then…so for example, someone steals a car and uses it to rob a bank, right, if you stop everyone from driving cars you cripple the economy. You have to police the system so that people aren't allowed to rob banks with cars but yet cars are still allowed to travel throughout the roads."

Adrian Bye: Right.

Khalid Shaikh: So we're trying to build a system here that genuinely encourages legitimate content and discourages illegitimate content and follows the laws, otherwise you don't have this valuable system. Just like Google, you could use Google to do anything.

Adrian Bye: Right, fair enough. What's the viralness factor, do you split test or optimize on the viralness of the site or is it just viralness is inherent in the model and you don't spend any time on optimizing it?

Khalid Shaikh: Right now, no, you owe every, in my opinion, every company on the web spends time either, well one thing they could be doing SCO to get traffic or they're trying to build their website viral. So what you do is you make it easy for you to e-mail a large group of friends, you encourage them to share the file verses sending it to one person…post it up on forums, blogs…

Adrian Bye: Saw that one; tried that, I liked that aspect, I thought that was well done.

Khalid Shaikh: I mean those are things you just have to do and I think as the markets are evolving and as the web is evolving there are new things that are happening and I do believe social networking is the next way. I think that people want to have a little community where they can share their content with each other and I think that's the next product to build, it's just something that we have to…get on and get out the door. Oh in terms of the virality, about 60 downloads to 100 downloads for one upload; that's about it.

Adrian Bye: Sixty to 100 downloads per every single upload?

Khalid Shaikh: Yeah.

Adrian Bye: Oh, so these, I mean these are being – so these are not just people, one person sending a file to another person…

Khalid Shaikh: No.

Adrian Bye: …these are being posted and everyone is downloading?

Khalid Shaikh: On average that's what you want to encourage sharing because that just creates your website's growth.

Adrian Bye: Oh, so this is not a case of one user brings in one more user; this is a case of one user brings in 60 users?

Khalid Shaikh: Yeah. By the way, someone might actually come and listen to me talking about RapidShare and Megaupload and go, "Hey, this guy…what is he, why isn't he talking about to me, he has this company FlyUpload, it has no traffic, why does he keep talking about these guys?" The reason I keep talking about them…

Adrian Bye: Have 500 Alexa Rank.

Khalid Shaikh: And I'll tell you why I keep talking about them, because actually YouSendIt was created in early 2004, which was pre YouTube, pre RapidShare, pre Megaupload. What Megaupload did was copied our business literally, from word to word of the terms of service said, 'YouSendIt a California company.' for Megaupload's first company which was called YouShareIt. If you were Alexa, RapidShare and Megaupload and YouTube, all of them were started after us and our number one shared file was video and what happened was that our management team was very, kind of scared of the DM sellers, kind of scared of creating a consumer website that was growing that quickly and so we gave up the market.

Adrian Bye: Right.

Khalid Shaikh: Yeah, that's pretty much it.

Adrian Bye: So no point in going back and trying to do it again on your own without that sort of control in the way?

Khalid Shaikh: There you go. I think at our peak we were doing about, just two or three guys, doing about a million a year in revenue with like I don't know, 600,000 a year in infrastructure costs. And then…one gets investment, you can look at the Alexa Rank of YouSendIt yourself.

Adrian Bye: And that was, so you're saying the investment messed you guys up?

Khalid Shaikh: We changed the vision and that was our fault as entrepreneurs, we changed the vision. You know we didn't know which way the market was going to go and then YouTube came out and successfully exited so that's just part of the game.

Adrian Bye: Yeah, right. So obviously you're growing fast. I mean you must be running into all sorts of scalability issues, how do you handle that stuff?

Khalid Shaikh: Less so with scalability issues because I'm from an engineering background and I did the entire technical side of YouSendIt, so scalability isn't the issue, business is the issue. So finding the right advertiser that believes in the space, heck if an advertiser wants to own this space I would work with them to help them own the space. I don't care I just want to be part of it.

Adrian Bye: So now, well how does that have to be part of the vision, because what an advertiser wants to do that every media that they buy or traffic that they…clicks that have come into their site is profitable, so how does an advertiser need to get the vision? Are you talking like he could advertise?

Khalid Shaikh: So advertisers have a lot of money to buy inventory, right? If one…

Adrian Bye: No, advertisers like to buy profitable advertising.

Khalid Shaikh: Sorry, say that again?

Adrian Bye: Advertisers what to put their ads anywhere where they're profitable.

Khalid Shaikh: I think I'm thinking about…

Adrian Bye: There are a bunch of guys listening to this right now that have…all sorts of like free vacation offers, that kind of stuff, that they can put those on your download page and work with you to integrate those in some way that's more effective that then creates more money for them and pays out more money to you; that's the kind of stuff these guys can do.

Khalid Shaikh: I think I'm mainly looking at…these advertising agencies. Like if you look at Marchecks, right, they recently purchased 100,000 domain names from a guy in Hong Kong for like 164 million; they know how to monetize ads but they don't, they're not afraid of getting into the content space and to actually owning the web pages. And someone who understands advertising and is not afraid of owning the web pages is the perfect partner to work with because they'll work with you, they understand this space is…worth a couple of hundred million a year in revenue, they understand that the other guys don't get it and either I can work with them to work with the big guys, Megaupload, RapidShare or we can go in and do our own and own this space and that's…

Adrian Bye: Right.

Khalid Shaikh: …mainly what I'm looking for.

Adrian Bye: Fair enough. So does this space then does it become a competition to provide more free services; I mean is it like some kind of a race to the bottom somehow?

Khalid Shaikh: Well do you call Google a competition to provide more free services?

Adrian Bye: Well I mean, yeah, and I guess that's your point but it has happened in other markets. I mean the quality of a lot of voice over IP phone service now is horrendous.

Khalid Shaikh: Correct, okay. I don't, I mean I'm not looking, I don't look at things from the negative, I mean and not to imply you're saying anything negative but I just don't look at things in that light. I see…30 percent, I see their share growing at 30 percent per month, I see Facebook grow at another rate; I see these guys…at least 2x larger, I see the space at least 2x larger than Facebook; I see at least 10 to 30 million a year in revenue today; I see it profitable and I see them not leveraging online advertising and I just see a huge gap there that needs to be filled and that's where I'm kind of focused on.

Adrian Bye: Right.

Khalid Shaikh: Yeah.

Adrian Bye: Fair enough. You have social book marking links on your download pages, do you get a lot of traffic from those?

Khalid Shaikh: I pull biz mainly off of tech crunch, I mean I guess I'm not analyzing it that much, which thing, which specific item is causing what. What I do know is when you build with the right product the user base just skyrockets and when you have the wrong product it stays flat or goes the way it's going. So I agree, what I see in FlyUpload right now isn't right and if it was the right product it would be going 30 percent per month, every month. And so I'll have to sit here and I'm trying to adjust things and tweak things to figure out what it is that I need to do to get that thing to skyrocket. But even when it's skyrocketing I won't have the investment capital to grow the infrastructure, which is why…on my…which is why every once in a while I set up some meetings with some investors to talk to them and I'm like, "I want money now." But when I'm ready I want the money and that's what I want to work with them on.

Adrian Bye: So your main focus right now is on increasing the viralness of the site, that's what you care most about, to get that growth.

Khalid Shaikh: Correct, correct. I know when I have the right product and right now it doesn't feel right.

Adrian Bye: But you already have, I mean as of today your Alexa, and I guess Alexa is recalibrating, but an Alexa Rank of 2,500.

Khalid Shaikh: Correct.

Adrian Bye: So you have a fair amount of traffic as it is today, but your traffic…

Khalid Shaikh: Correct, and then that kind of goes to show how easy it is to create traffic for these kinds of sites.

Adrian Bye: Sixty to one is really incredible. I mean Greg from Tagged is happy if he can get one user to bring in more than one more additional user and you're getting 60 new users for every one user potentially.

Khalid Shaikh: Yeah, and I think that's normal for any video sharing site, audio sharing site, photo sharing site, because that's all we're enabling; we're enabling the sharing of video, audio and photos and then all the extra files.

Adrian Bye: That's really incredible. So I noticed going through your site another thing you have is an offer for business users, like one cent a download, how does that work?

Khalid Shaikh: That's just testing out a transactional cost. It's just like…for example, let's say you are…a lawyer or someone and you're like, "You know what, you have way too many ads, like why do you have that many ads?" And just to prove to you I'm not after the money I let you remove all the

ads for a cent and like because that – and I don't get any of that money, it's just a way to say, "Hey look you know what, I know there is a lot of ads, I don't need to do that it's just I'm just trying to get the users to pay for the costs and to build a really compelling long-term service; I'm not after the money or whatever."

Adrian Bye: Have you had any business users sign up?

Khalid Shaikh: It's not a subscription offering, it's just pay to remove the ads, so yes, I've had people pay or we've had people pay.

Adrian Bye: I'm just astounded by the viralness of this…as there are other ways to get viral but this is, what you're doing is incredibly viral. And I guess though that when you get one user sharing a file and you get 60 other downloads, they're only using the service, they're not necessarily signing up and using it themselves?

Khalid Shaikh: Correct, but then as you know, in…online advertising…having a click-through of 1 percent or .1 percent is something you can depend on and if you assume that out of every 1,000 downloads one guy converts and uploads a file then you end up with a viral product.

Adrian Bye: So that's the numbers. So when you have one user upload a file, 60 users download the file, how many out of that 60 typically come back and start uploading files themselves?

Khalid Shaikh: I don't know the exact stats but…what you do is you put links around the download to say, 'share another file', you put links after the upload, 'share another file', and the greatest thing, you go look at YouTube or whatever, they always have that link somewhere that says, 'upload' and…it's like we encourage you to upload because this is how our entire website is built.

Adrian Bye: That's incredibly viral, that really is.

Khalid Shaikh: Yeah.

Adrian Bye: So what kind of – do you want to talk about the monetization, I mean that's obviously an area you're working on; what sort of stuff you've been doing there and what kind of things you'd like to try?

Khalid Shaikh: There is nothing tremendously innovative on the monetization side. One of the other founders of YouSendIt that I have good relationships with works over at Encyclopedia Britannica and Merriam Webster monetizing them…or not actually, I can't actually mention any details about that, but basically…I'm working with people in the ad space that own direct sales forces, monetize it X million a year or whatever, and I'm basically trying to see, okay, well what are they asking for when you have direct sales people talking to them? And then I'm also just working with third parties trying to see what's the next thing. And just like you, I am nowhere ahead of anyone on this curve. Just like you, is it behavioral or what is it? And I'm just kind of following the market there. So there is nothing

special or unique that we're doing, I'm just trying to find the best return on investment and that's why I have so many ads because I don't know what the correct method of monetizing online is.

Adrian Bye: Right.

Khalid Shaikh: Even when YouTube was going…when they were doing their million a month in operational costs, they tried to put some Google ad words that you would read articles about it and they said, "Well…we took it off after we put it on because we felt it was undervaluing our web page views."

Adrian Bye: Really?

Khalid Shaikh: That's what they said, yeah.

Adrian Bye: Well Google there, those contextual ads don't work that well.

Khalid Shaikh: Exactly.

Adrian Bye: That's where some of this, Roy is doing from Zedo. Have you talked with him about some of his behavioral targeting stuff?

Khalid Shaikh: No, definitely something to talk to him about.

Adrian Bye: Yeah, he's got some pretty advanced stuff there, he's a guy worth talking to in that area.

Khalid Shaikh: Okay.

Adrian Bye: All right well we've got some more time, do you want to talk a little bit about your process of raising money and your experience with YouSendIt or is there anything else you'd like?

Khalid Shaikh: Ah yeah, sure, sure, okay. I'll tell you, I'll just talk about raising money. So I learned when I came here in about 2000 I just wanted to create a company. And first one, got it up to like 10,000 a month in revenue and…we could raise money but then we were like 'why do we want to give up the control', so we tried to rev up for a few years and couldn't really grow it ourselves. So this time I was like, "You know what, I really want to raise money." So me and the other two founders started in January of 2004, well okay we need a website…to be able to raise money off, we need something that's worth something, so we create this simple idea which just skyrockets. In May 2004 we went to this event called Pie Contract to meet some people, ended up meeting our seed investor…

Adrian Bye: Just to…

Khalid Shaikh: Yeah?

Adrian Bye: …circle back a second. So the simple idea was YouSendIt?

Khalid Shaikh: Correct.

Adrian Bye: And that was viral file sharing?

Khalid Shaikh: That was viral, exactly, and it was done before the market…before the space was identified by other people, before user generated content.

Adrian Bye: Okay.

Khalid Shaikh: We raised the 5 million in a pretty bad time. The first 5 million Series A we raised it before the Web 2.0 bubble.

Adrian Bye: Okay. And so then what happened?

Khalid Shaikh: So in, well, so in terms, okay, so in May 2004 we ended up getting a verbal commitment for $50,000.00, we got that in August 2004 from a venture firm called Cambrian Ventures, which is a bunch of ex signers of Jungley, they gave us money to ad more servers and bandwidths, we did that; they asked us to kick in a revenue model, we did, we were cash flow positive…doing really well; then he threw in another $200,000.00 and then we worked with the Stanford GSP guy to help us raise the 5 million, we raised that in August 2005 from Alloy Ventures in Seven Rosen; then those guys put in another 5 million and then after that they got – oh man, I can't remember the last partner because it happened after me – but they got Sigma Partners to put in another 10 million; but this is all, everything after Series A, after the 5 million, switched our vision to aiming at the SMB space, aiming at…high value $30.00 a month subscription offering to let you send files with great branding and…corporate usage and multi user accounts and…so they aimed after that market. In terms of funding raising in general, I don't know if this is appropriate to say on media but I kind of draw it akin to – this will pretty much guarantee that it will get funding with this one. I draw it akin to the entrepreneur has to go in and meet the investor with a bat, right, and the guy goes in and he just keeps, he beats you to death on your idea, right, if he has the bigger bat he wins, you walk away de-motivated and you give up. If you have the bigger bat you beat him to death and then you meet again in three months and you do it again and you do it again and eventually they go, "Hey you know what, you're a strong enough entrepreneur with enough proven stuff that we'll give you some money." That's…

Adrian Bye: Right.

Khalid Shaikh: …essentially how the game works. Most people, they'll go in, they'll get beaten enough, they won't prove…the revenue, the user base, whatever the investors are asking for and then they'll get de-motivated and give up.

Adrian Bye: So you mentioned – I mean that's fascinating. You mentioned then the small, being toward oriented toward the small and medium business market, why did that work?

Khalid Shaikh: Pardon? When did that happen?

Adrian Bye: No, why did that not work?

Khalid Shaikh: Why did – oh no, so no one's saying it's not working and I don't think I should be discussing the financials of that company but I did sell all of my stock.

Adrian Bye: Right.

Khalid Shaikh: So…it comes down to how you grow a company. I've seen companies like…I interviewed at Tagged too, and what I've noticed, the formula in today's market have a set of less than ten employees drawing in millions of dollars a year in revenue or you're doing it wrong.

Adrian Bye: Okay.

Khalid Shaikh: And if you have like 50 employees and you're only drawing in a few million a year in revenue then you're doing it wrong. That's my, that's one theory.

Adrian Bye: Tagged has like 26 employees. Yeah, I know it's – and all the teams I work with are all very small teams, scattered all over the place, that's very correct?

Khalid Shaikh: Exactly, exactly.

Adrian Bye: Any other comments on the business model or things you're doing in general?

Khalid Shaikh: No, no, no. I'm just really anchored to this space, I'm anchored to being an entrepreneur and hopefully…your audience will be able to use one of the services I create in the next…three to five years whatever that is, whether it's by upload or whether it's something else, I don't know.

Adrian Bye: And anyone wanting to test out what you're doing just needs to go to FlyUpload.com and send some files to people?

Khalid Shaikh: Of course, of course. Great, so that's it I guess.

Adrian Bye: Cool. Well thank you very much for the interview.

Khalid Shaikh: Okay, thank you very much for your time.