

Social Media

October 27, 2010

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This Week in Social Media – October 27, 2010

We believe Social Media and its associated technologies will change the world to a larger degree than is currently appreciated on Wall Street. Furthermore, we believe that for the foreseeable future, the news flow on the sector will be highly positive. To keep investors abreast of the latest developments in the sector, we publish this weekly newsletter on all things Social. In this issue:

- **New \$250mm KPCB sFund Placing Bets on Early Stage of Social Media**
 - Doerr and other KPCB partners need to start living it
- **Privacy Issues Bite Facebook Again, Washington Ramping Up the Heat**
 - Facebook members / the public may be losing interest in the issue
- **DDB/Opinionway Study Highlights Value of Facebook for Brands**
 - Largest fan bases still growing at a robust 160%+ annualized rate
- **ComScore Study Highlights Reach Dominance of Facebook**
 - Linked In and Twitter also growing rapidly
- **Facebook Stops Showing You Pictures of Your Ex**
 - Highlights quick response to group complaining about the functionality
- **New Reality Web Series Puts Users in Control**
 - Top Tier sponsors highlight interest in Web video
- **SocialTwist Study Shows Email Still the Dominant Sharing Tool**
 - But social tools drive the majority of clicks

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\$250mm KPCB sFund Highlights Early Stage of Social

In a move that highlights the secular shift to all things social, John Doerr and his VC firm, Kleiner Perkins, are the lead investors in the sFund, a new \$250 million venture fund devoted to social-related investments. What makes the sFund particularly noteworthy are the other participants, Facebook, Zynga, Amazon, Comcast and Wall Street powerhouse Allen & Company. The announcement of the formation of the sFund was made at Facebook headquarters, where Doerr was joined by Zuckerberg, Pincus, and Bezos, who discussed their commitment to helping the companies that the sFund will invest in.

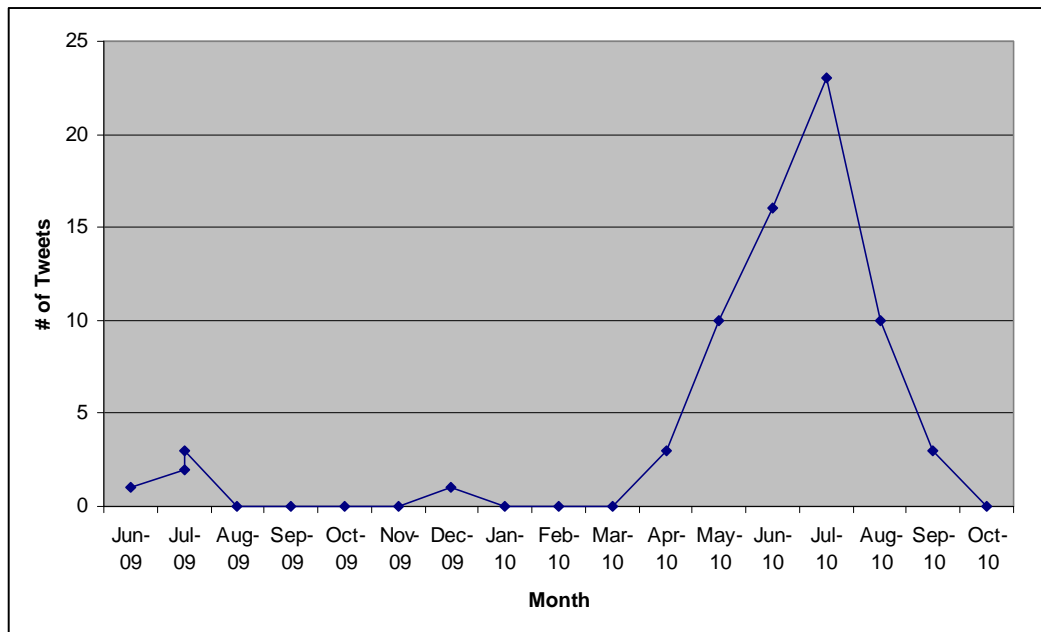
Doerr invested in Zynga in late 2008, and watched the social gaming giant become the fastest growing company in the legendary history of Kleiner Perkins. At the TechCrunch Disrupt conference in May earlier this year, Doerr began discussing what he coined the “Third Wave”...

“I think we’re on the verge of a third great wave of innovation. The first was the microchip and the PC in the early 80s. The second wave was 1995: the Internet. Marc Andreessen brought Netscape Navigator to the world. Then Amazon came. Then in 1999 we saw the 15th search engine called “Google.” This Third Wave is social, mobile, new commerce. We don’t have a name for it yet. We could be on the verge of reinventing the web. It’s people, it’s places, it’s relationships. It’s exciting.”

The sFund will play across the spectrum of investment types, including seeding new companies with as little as \$100,000, as well as taking positions in larger established players with investments of as much as \$100 million, which would likely include letting the founders and early investors take some chips off the table.

While we believe the formation of the sFund is a seminal moment in the evolution of social media, for the fund to truly play a pivotal role in the development of social media, the partners running the sFund need to LIVE it, in our opinion. By that we mean, they need to deeply integrate social tools into their daily lives to best understand the right companies to invest in. While we don’t know John Doerr, we do follow him on Twitter, but rarely see a tweet from him. A quick review on Twitter showed that Doerr has sent a total of 72 tweets since his first tweet in June \2009. That works out to an average of 4 tweets per month (active tweeters tweet hundreds of times a month). As the chart below shows, John has tweeted as often as 23 times in one month (when he attended the Aspen Ideas Festival, which drove 8 tweets and invested in Flipboard, which drove another 5 tweets):

Exhibit 1: Number of John Doerr Tweet’s by Month



Source: Twitter

In addition, John only follows 32 people, including his partner, Bing Gordon, Kara Swisher (from *The WSJ*), Bill Gross (of idealab! fame not Pimco), and Al Gore, among others. John also has 124 friends on Facebook. The other senior KPCB partner on the sFund, Bing Gordon, has tweeted over 600 times in total, but has averaged less than seven tweets per months for a while. The only point here is that these guys are not yet living social. We’ll see if they start living it in the coming months.

In addition to announcing the formation of the sFund, Doerr also announced the fund's first move, a \$5 million investment in Cafebots, a six-person start-up that remains in stealth mode, other than to state that they are focusing on the challenge of managing social connections. The CEO, a professor of Computer Science at Stanford University, has been working on artificial intelligence and game theory-related research since receiving his Ph.D. in Computer Science from Yale in 1987. In addition, his bio states that he is also a founder of several successful e-commerce software companies.

Support from the various partners will include Web services from Amazon's AWS, access to Facebook's platform teams, beta APIs, and new programs, like Facebook Credits. Zynga will host periodic sessions with sFund companies to focus on management and technical development, including open source collaboration. Comcast Interactive Capital, Comcast's venture fund, will provide access to Comcast's resources, teams, and relationships.

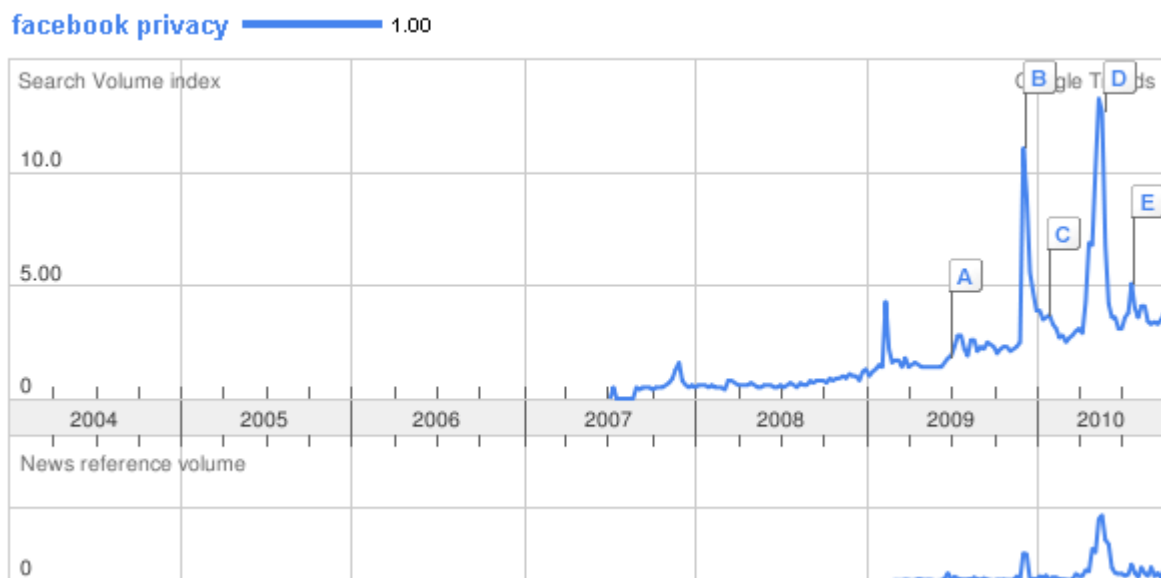
Privacy Issues Bite Facebook.....Again, Media and D.C. Appear to Care More Than Facebook Members

Facebook privacy issues made headlines again last week starting with the lead front page story on *The Wall Street Journal* that reported that Facebook had a privacy breach that caused apps on Facebook to inadvertently leak people's names, friends' names, and other sensitive information to different advertising and Web tracking companies that pay the app companies for access to their data. That problem was apparently a code issue that Facebook is fixing. However, the story piqued the interest of Congress.

The privacy problems continued later in the week when a new report was released that showed that Facebook's targeting systems enables marketers to learn sensitive information about users, including a member's sexual orientation. The research was based on fake profiles that were created and the ensuing ads that were shown. Facebook responded by stating that the company's ad guidelines ban advertisers from using data collected based on running an ad.

While we believe that privacy should be a concern for everyone, it seems to be more of a concern of the media than members. After privacy changes in April, a "Quit Facebook Day" movement started, garnered lots of press, and lead to an estimated 35,000 people deleting their accounts, an imperceptible 0.009% of members at the time. An interesting chart is revealed when looking at Google trends for "Facebook Privacy," which shows past spikes in news stories on the bottom chart driving spikes in Google searches for "Facebook Privacy." But the latest flurry of news stories last week, which appeared to hit new heights, didn't appear to move the dial as much for Google searches for "Facebook privacy."

Exhibit 2: Google Searches for "Facebook Privacy"



Source: Google Trends

The lack of a surge in the last week in the number of Google searches for "Facebook Privacy" is consistent with our sense that there is consumer fatigue around Facebook privacy issues.

While the media certainly has no Facebook privacy fatigue, and the privacy issues should be a concern for Facebook, the bigger threat is Washington and other lawmakers around the world. After the *WSJ* story broke last week, U.S. Reps. Joe Barton, R-Texas, and Edward Markey, D-Mass., co-chairmen of the House Bi-Partisan Privacy Caucus, sent a letter to Mark Zuckerberg with 18 separate

requests for privacy-related information. (The letter can be found in the appendix in the back of this report.) After privacy issues were raised in May, the Chairman of the House Judiciary Committee, John Conyers, sent a letter to Zuckerberg (also in the Appendix) asking for more clarity about the information Facebook provides to third parties and how the service's policies have changed over the years.

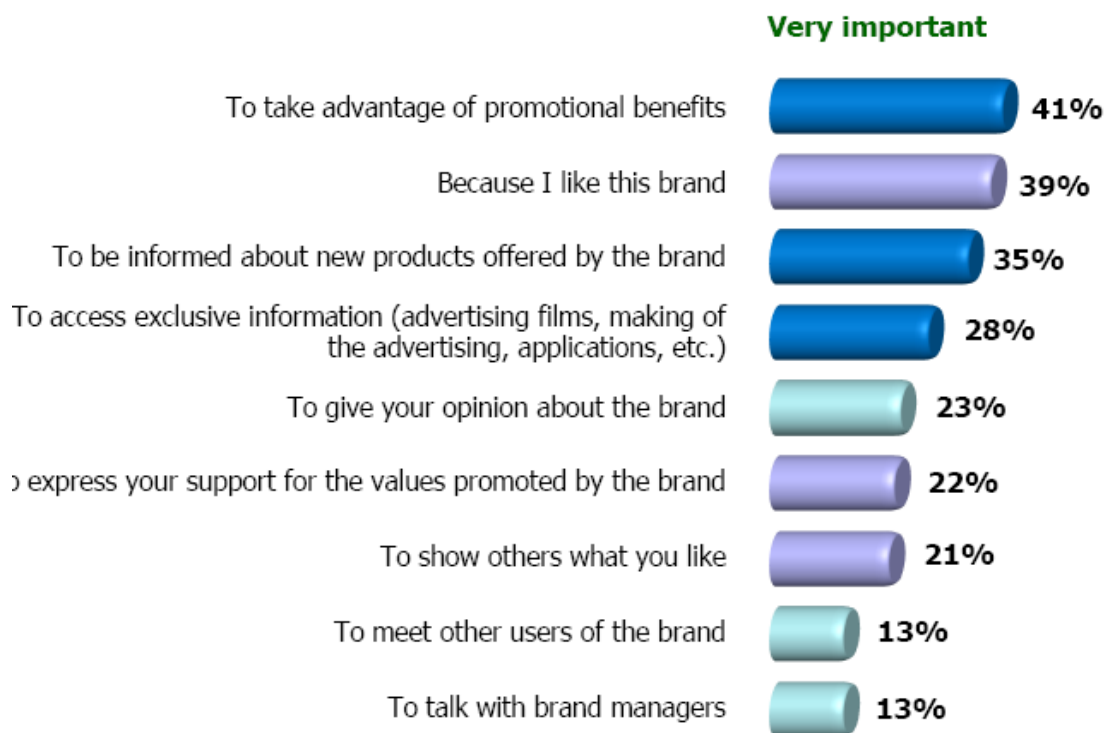
DDB/Opinionway Study Highlights Value of Facebook for Brands

The October study surveyed the habits of 1,642 Facebook members, from six countries, who have "Liked" a brand.

Among the slew of interesting facts that can be found in the survey, are the types of "brands" that people become fans of on Facebook. The leading category of brands are media/entertainment related, with 55% of Likers liking a media brand. Causes (51%) and luxury goods brands (46%) were the second and third most popular types of brands to follow on Facebook.

What was also very informative is the reasons given as "very important" factors in driving members to Like a brand:

Exhibit 3: Reasons Why Facebook Members "Like" a Brand

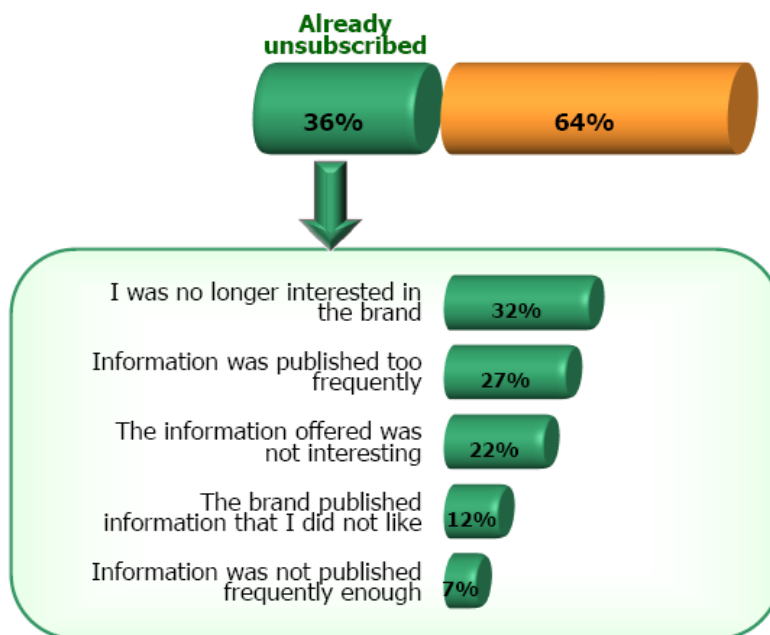


Source: DDB/Opinionway

In perhaps the most telling stat in terms of the impact of fans, the study found that 36% of brand fans said they want to buy more products from brands they have liked.

It also turns out that more than 1/3 of people who have liked a brand have also "Un"Liked a brand by unsubscribing to the Fan Page, with the most often reason cited for unsubscribing given as being that they were no longer interested in the brand.

Exhibit 4: Reasons Why Facebook Members “Unlike” a Brand



Source: DDB/Opinionway

It’s also interesting that 27% of un-subscribes were driven by communications that was deemed “too frequent,” highlighting the need for brands to be judicious with their Facebook fan messaging.

As the stats below indicate, the 10 largest brand fan bases on Facebook are still growing at an annualized rate in excess of 160% on average, a remarkable growth rate, highlighting the increased focus that fan bases are getting from marketers.

Exhibit 5: Top 10 Facebook Fan Brands

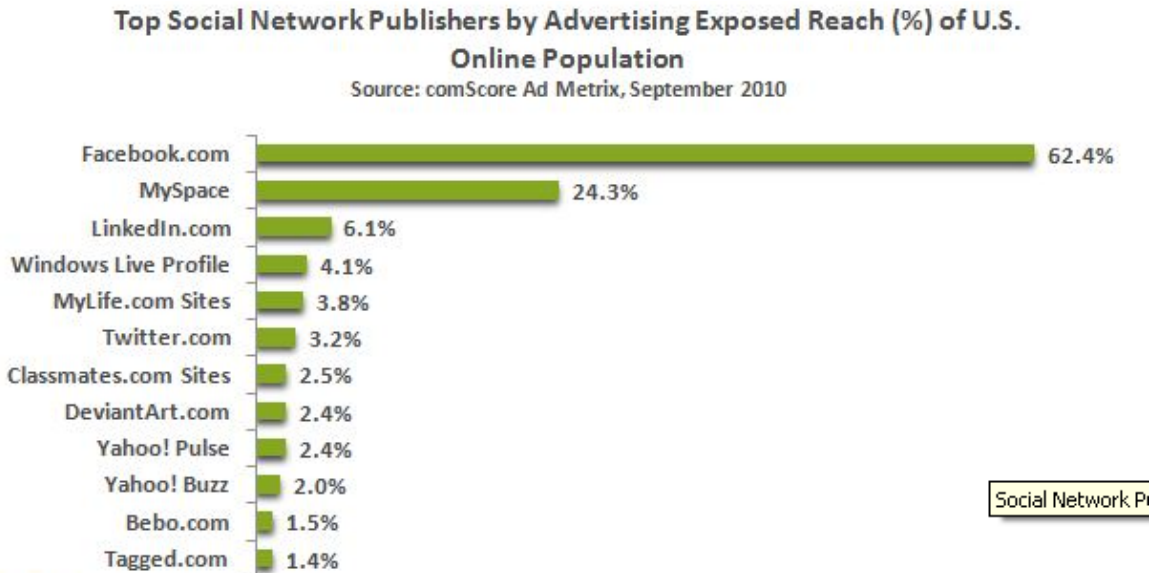
Facebook Fans				
	August	Septemebr	October	Growth Rate
1 YouTube	11,000,000	13,000,000	18,000,000	281.8%
2 Starbucks	12,400,000	13,500,000	16,200,000	83.9%
3 Coca-Cola	10,400,000	11,600,000	15,300,000	182.7%
4 Oreo	8,500,000	9,600,000	12,300,000	168.2%
5 Skittles	8,300,000	9,300,000	11,600,000	138.6%
6 RedBull	7,700,000	8,500,000	10,300,000	102.6%
7 Disney	5,600,000	6,400,000	8,600,000	221.4%
8 Victorias Secret	6,200,000	6,900,000	8,500,000	122.6%
9 Converse	5,000,000	5,700,000	7,500,000	200.0%
10 iTunes	5,300,000	5,800,000	7,200,000	115.1%
Total	80,400,000	90,300,000	115,500,000	161.9%
M/M Change		9,900,000	25,200,000	

Source: Facebook

comScore Study Reveals #1 U.S. Social Network Facebook Garners Larger Audience Than #2-#10 Combined

Everyone knows that Facebook is the largest U.S. social network. But September's comScore data below on the leading social sites really highlights the total dominance that Facebook now enjoys.

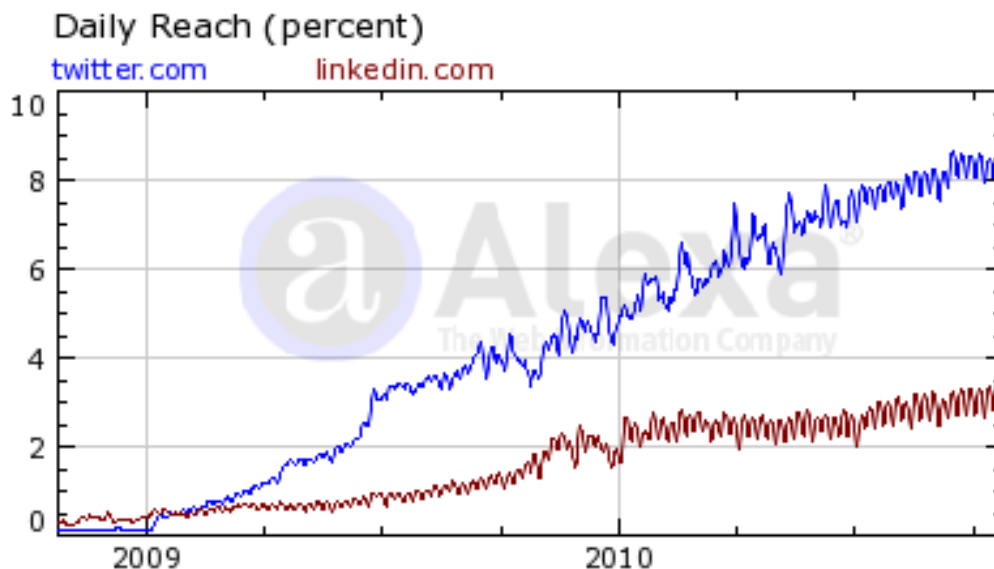
Exhibit 6: Leading U.S. Social Networking Sites



Source: ComScore

However, while Facebook growth has devastated some of the earlier leaders in social networking (e.g., MySpace, Bebo, Tagged), we note that Twitter (up 80%+ ytd) and LinkedIn (up 70%+ ytd) continue to experience significant growth as they provide complimentary services to the broad social networking application that Facebook provides.

Exhibit 7: Twitter and LinkedIn Continue to Grow Rapidly



Source: Alexa

Facebook Stops Showing Pictures of Your Ex

Photo Memories appear in the top right corner of some Facebook pages, including in Friends and Photos sections. They can include photos tagged by friends based on a blackbox Facebook algorithm that computes the photos you'd most like to see. Users quickly notice that "memories" tend to emphasize romantic relationships. The problem is that the romantic photos can continue to appear after the relationship has ended. Some members found this so annoying that they created a Facebook Group ("I Hate Photo Memories") that counts over 1,000 members.

Exhibit 8: Members' Complaints of Facebook's Photo Memories Feature.



Source: Facebook

Facebook Photos Project Manager Sam Odio listened and blogged that "The photo memories product no longer shows tagged photos of your friends if you were previously in a relationship with them."

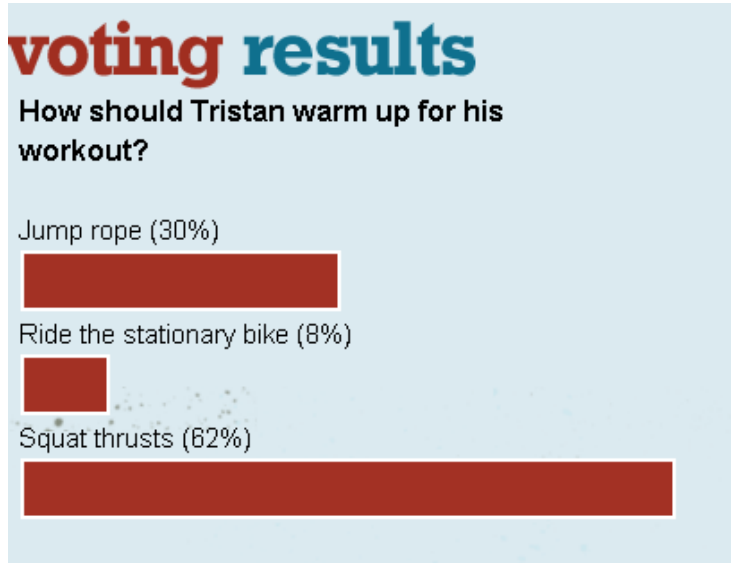
But the fix doesn't solve all the relationship photo problems. Most obvious, if you never declared your relationship status, Facebook doesn't know to stop showing the photos. More problematic are old photos of your current squeeze with one of their exes. All in all, the strong negative reactions just highlight how important Facebook is in the daily lives of many of its members. In addition, we're impressed by the speed at which Facebook responded to the issue (less than a month after the formation of the group).

New Social TV Show Puts Users in Control

Seth Green of Austin Powers fame has partnered with Digital Broadcasting Group to produce ControlTV, a Web series about the real daily life of Tritsan, a 25-year-old L.A. transplant now living in his new TV friendly loft. The twist of the show is that his life is not only viewed by thousands, but controlled by those same viewers.

The show has attracted over 50,000 uniques in its first few weeks, which is a modest hit by today's streaming standards. The twist is that viewers vote 15-20 times a day on the minutia surrounding Tristan's life. For example, during a brief time we were logged on this week we got to vote on the timely issue of how Tristan would warm up for his workout:

Exhibit 9: Online Voting for the Web Series ControlTV



Source: ControlTV

The show has attracted a Blue Chip list of advertisers who, highlighting how brand marketers are eager to try new things in the emerging world of online video.

Exhibit 10: ControlTV Sponsors

Presented by

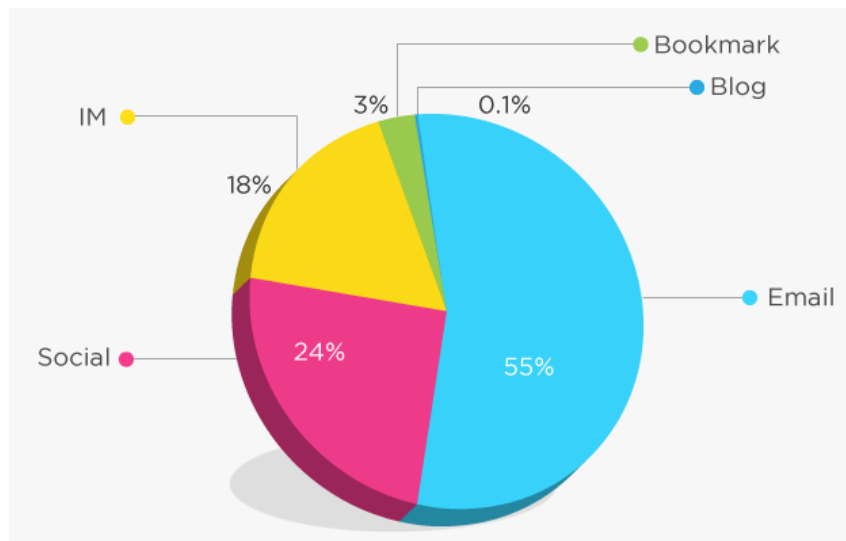


Source: ControlTV

SocialTwist Data Shows Email Remains Most Popular Sharing Platform, But Social Drives More Clicks

SocialTwist enables users of more than 70,000 sites around the world to share content they find on a site. The diverse group of sites, including ING’s SharebuilderFriends.com and Liquidators.com, leverage SocialTwist’s Tell-a-Friend widget that lets users share the information by whatever mechanism they choose. The recently released study that aggregated data from billions of shares over the last year, revealed that email is still the dominant platform used by most people to share data with their friends:

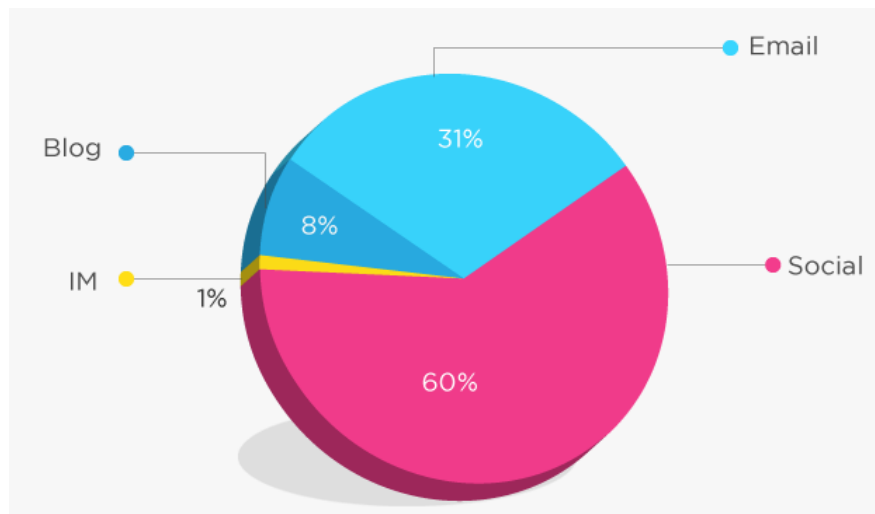
Exhibit 11: Aggregate Usage of Sharing via Social Platforms



Source: SocialTwist

Though there has been a marginal decrease of 4% in its share from last year, email still accounts for an impressive 55% chunk of the shares made. But when it comes to clicks generated from all the sharing, social dominates, responsible for 60% of all clicks generated, and increase of over 10% in the last year:

Exhibit 12: Clicks Generated by the Sharing



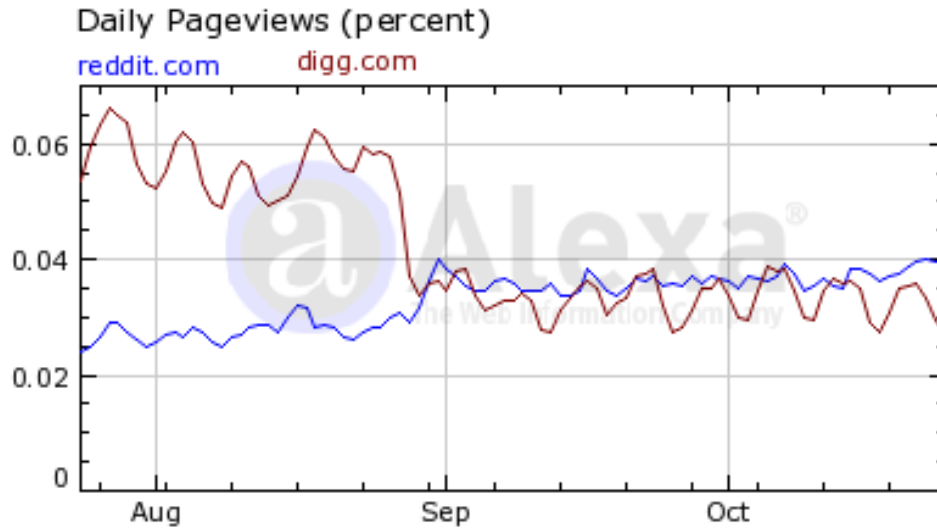
Source: SocialTwist

Facebook accounted for 78% of social networking clicks, followed by MySpace and Twitter. But while the average share with their Facebook friends generated 3 clicks, the average Twitter share generated 19 clicks.

The “Digg Effect” and What Buried It

Sites need to re-design to stay relevant by adding functionality, as we saw recently with Twitter. However, sites have to balance the need to evolve with the need of their users to continue to know how to use the site and be comfortable with it. A cautionary tale can be found in Digg.com, one of the leading sites for Web surfers to find and share content. Following a major re-design in August, Digg found it had alienated its user base, pushing many into the arms of competitors like Reddit.com.

Exhibit 13: Pageviews for Reddit and Digg



Source: Alexa

Founded in 2004, the site allowed publishers to submit content for users to Digg (like) or Bury (dislike). The site enjoyed a quick rise in popularity, with content that was most Digged being moved up to the home page and instantly enjoying large boosts in traffic, often referred to as the “Digg Effect.” Content that was Buried quickly disappeared, which helped clear out spam and clutter.

In a recent attempt to become more like Twitter, the site was redesigned in August. The Bury option was eliminated and users were able to follow what particular publishers were posting. Publishers were also given the ability to automatically upload content directly into the news stream, removing the need for users to manually link content. The change in dynamic was seen by many users as a shift in power from the average voting user to the larger publishers. Users began to leave Digg for the more user-centric sites like Reddit. Since the release of Digg 4.0 in August, the site has experienced a 23.4% drop in daily page views, and a 16% increase in bounce rate, which measures the percent of users who leave the site after a single view. Reddit benefited from the drop in dig with a 33% increase in page views since Digg’s re-design. It’s a cautionary tale indeed, highlighting that if you don’t give the users what they want, someone else will.

Appendix:

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May 28, 2010

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THOMAS ROONEY, Florida
GREGG HARPER, Mississippi

Mr. Mark Zuckerberg
Chief Executive Officer
Facebook, Inc.
1601 S. California Ave.
Palo Alto, CA 94304

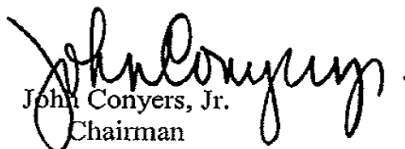
Dear Mr. Zuckerberg:

I write about Facebook's practices and policies concerning the sharing of personal information of its users with various third parties.

Specifically, we would appreciate a detailed explanation of the information about Facebook users that your company has provided to third parties without the knowledge of the account holders – particularly in circumstances in which the users did not expressly opt for this type of information sharing. Please explain your prior policies with respect to user consent for information sharing, and with whom any such information was shared. Also, please detail how the new policies Facebook is adopting differ from past practices, including whether the burden is on the user to opt in or opt out of the relevant privacy settings.

Thank you for assisting the Committee with our goal of enhancing the personal privacy of all Americans.

Sincerely,



John Conyers, Jr.
Chairman

cc: The Honorable Lamar Smith

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ROBERT E. LATTA, OHIO

October 18, 2010

Mr. Mark Zuckerberg
Founder & Chief Executive Officer
Facebook
1601 S. California Avenue
Palo Alto, CA 94304

Dear Mr. Zuckerberg:

We write with respect to today's article in the *Wall Street Journal*, which reported that various third party applications gathered and transmitted personally identifiable information about Facebook users and those users' friends.¹

According to the article, this series of privacy breaches affected "tens of millions" of users, even those who adjusted their privacy settings to the strictest settings possible. Given the number of current users, the rate at which that number grows worldwide, and the age range of Facebook users, combined with the amount and the nature of information these users place in Facebook's trust, this series of breaches of consumer privacy is a cause for concern.

As I am sure you are aware, the Committee on Energy and Commerce is the primary House panel responsible for oversight of consumer privacy. As I am sure you are also aware, comprehensive privacy legislation is currently pending before the Committee. Accordingly, we request responses to the following questions or requests in order to inform those policy discussions.

1. How many users were impacted by the series of privacy breaches discovered by the *Wall Street Journal*?

¹ Emily Steel & Geoffrey A. Fowler, *Facebook in Privacy Breach*, WALL ST. J., Oct. 18, 2010, at A1 <http://online.wsj.com/article/SB10001424052702304772804575558484075236968.html?mod=WSJ_hpp_LEFTToPStories>.

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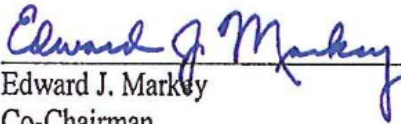
2. What was the specific nature of the information transmitted from the third party application to other parties?
3. When did Facebook become aware of this series of privacy breaches?
4. Did you notify your users of this series of breaches, including the specific nature of the information shared without their consent? If not, why not?
5. What terms contained in your privacy policy were violated by this series of privacy breaches?
6. How many third party applications were involved in this series of privacy breaches?
7. What procedures do you have in place to detect and/or prevent third party applications that may breach the terms of Facebook's privacy policy?
8. Have there been similar privacy breaches by third party applications in the past? If so, please describe the nature of those breaches. Please also describe any measures you may have put in place following the discovery of any such breaches to guard against future breaches and to better protect consumer privacy.
9. What guidelines does Facebook have in place for third party applications to protect its users from advertent or inadvertent privacy breaches?
10. Please identify the officials or offices within Facebook who are responsible for ensuring that third party applications satisfy Facebook's terms and conditions. What is Facebook's procedure for reviewing third party applications to ensure they satisfy Facebook's terms and conditions?
11. Please provide copies of any agreements between Facebook and its third party application developers.
12. Does Facebook receive any remuneration, financial or otherwise, as a result of the sharing of information between third party applications and internet tracking or advertising companies? If so, please disclose the nature and amount of the remuneration paid to Facebook.
13. For each application, please provide a copy of the terms and conditions or notice that was presented to the user before using the application. If multiple versions have been used, please provide all versions and note their dates of use. Please also identify any specific terms violated in this series of breaches.
14. Will Facebook seek the deletion of its users' personal information from data bases of the internet or advertising companies who received it as a result of this series of privacy breaches? If yes, when? If not, why not?
15. To what extent has Facebook determined that data relating to minors 17 years of age and under were breached?
16. To what extent has Facebook determined that personal financial or medical data were breached?

Letter to Mr. Mark Zuckerberg
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17. Please describe any policy or procedure changes Facebook plans to adopt to ensure that users have better control over how their information is shared and with whom their information is shared when using third party applications.
18. Please describe any changes Facebook plans to adopt in the terms and conditions or notices presented to users before using third party applications.

Thank you in advance for your cooperation. We respectfully request a response by Wednesday, October 27, 2010.

Sincerely,



Edward J. Markey
Co-Chairman
Bi-Partisan Privacy Caucus



Joe Barton
Ranking Member
Committee on Energy and Commerce

Covered Public Companies Mentioned in this Report (as of close 10/26/10)

Company	Ticker	Price	Rating	Price Target
Google	GOOG	\$618.60	NEUTRAL	\$575

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OUTPERFORM – Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL – Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

UNDERPERFORM – Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

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OUTPERFORM – 53% (11% of this rating category were investment banking clients within the last 12 months).

NEUTRAL – 38% (2% of this rating category were investment banking clients within the last 12 months).

UNDERPERFORM – 9% (3% of this rating category were investment banking clients within the last 12 months).

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

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WS makes a market in the securities mentioned herein.

Lou Kerner maintains a long position in shares of Facebook (private).

* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/inside/CapitalMarkets/CoverageList.asp>

Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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Covered Public Companies Mentioned in this Report (as of close 8/31/10)

Company	Ticker	Price	Rating	Price Target
Google	GOOG	\$450.02	UNDERPERFORM	\$525

ANALYST CERTIFICATION

I, Lou Kerner, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

IMPORTANT DISCLOSURES



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OUTPERFORM – Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL – Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

UNDERPERFORM – Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

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