A man with long hair, wearing a dark suit jacket over a light blue shirt, is pulling a thick red curtain. He is looking directly at the camera with a serious expression. The background is a solid red color.

Way Beyond Home Videos

YouTube could be a new NBC—or another Napster

BY HEATHER GREEN

ALL CHAD HURLEY AND Steve Chen wanted to do was share some videos from a dinner party with a half-dozen friends in San Francisco. It was January, 2005, and they couldn't figure out a good solution. Sending the clips around by e-mail was a bust: The e-mails kept getting rejected because they were so big. Posting the videos online was a headache, too. So last February the two buddies got to work in Hurley's garage, determined to design something simpler.

What they came up with is a Web site, now called YouTube, that has become an Internet phenomenon. In 11 months the site has become one of the most popular on the Net. It shows 30 million videos a day and drew 9.1 million people in February, says Web measurement service Nielsen//NetRatings. That makes the upstart one of the biggest providers of videos on the Net, ahead of Yahoo! and Google and just behind Microsoft, according to the Nielsen//NetRatings estimates.

Why has the site caught on so fast? Chen and Hurley designed it so people

can post almost anything they like on YouTube in minutes. The result is something like the TV station you always dreamed of. YouTube offers mainstream shows from the current season, clips from TV's earliest days, and homemade movies from around the world. You watch what you want when you want, whether it's highlights from Los Angeles Laker Kobe Bryant's 81-point outburst in January or a 1968 clip of Johnny Cash performing *Ring of Fire*. Members, who can comment on videos and set up their own sites on YouTube, are adding 30,000 new videos a day. "From Day One we concentrated on building a service and community around video," says Chen. "That made us a lot different from the iTunes and the Googles out there."

TOO OPEN?

THE TROUBLE IS, THE freewheeling approach that has made YouTube a hit could be its downfall. Users have been posting videos that are still under copyright, without any of the required legal approvals. These include clips from the Olympics, prime-time news shows, episodes of *The Office*, and music videos. Needless to say, this doesn't sit well with



THE HURLEY AND CHEN SHOW
Pals since early days together at PayPal

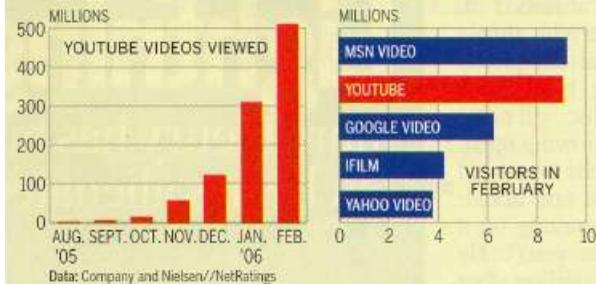
the major media companies. NBC, CBS, and others have requested that YouTube remove clips taken from them. Hurley and Chen typically don't screen out copyrighted works before they're posted, but they do comply with all such requests.

That raises the question: What does YouTube want to be when it grows up? Is it the next NBC or the next Napster? Hurley and Chen think they're working toward the future of TV. Venture stalwart Sequoia Capital is betting on the prospect, having invested \$3.5 million. But skeptics wonder if the startup can balance its surging popularity with the looming legal risks. "I think YouTube is fantastic," says Joanne Bradford, head of sales at MSN and other Microsoft properties. "But five years from now I don't know how they make their money. Their problem is all the pirated content."

The next few months will be critical. Hurley and Chen are investigating whether they can generate revenues by adding advertising. They're also working to convince media companies that YouTube can be a good partner, capable of delivering an audience of millions. The San Mateo (Calif.) company is rolling out tools aimed at protecting copyrighted

YOUTUBE'S LIFTOFF

YouTube is rocketing to popularity through a mix of community features, homemade videos, and copyrighted works



works, including technology that prevents clips from being uploaded again once they've been removed. They're also limiting videos to 10 minutes to cut out entire TV episodes and movies. "We want to be a destination that promotes the entertainment offered by these guys," says Hurley, YouTube's chief executive.

Some major players are showing interest. Marketers for Nike Inc. used the site to run a spot of soccer star Ronaldinho showing off with a new pair of Nike shoes. Satellite TV service BSkyB, which distributes *The Simpsons*, posted a live-action version of the animated show's famous intro to promote it in Britain. And Matador Records is marketing several bands on YouTube with specially created video contests and biographical clips. "We love the Tube," says Adam Farrell, Matador's online marketer. "Their numbers are undeniable."

Hurley, 29, and Chen, 27, feel at home in turbulent times. They got their start in the business world during the dot-com bubble and the bust that followed. They were among the first 20 hires at online payment service PayPal Inc., joining during the second half of 1999. They got to know each other well during the lean years, becoming part of a tight-knit PayPal mafia that remains close today. Their venture money came in part through their connection to Roelof Botha, a Sequoia Capital partner who had been PayPal's CFO.

A key lesson Hurley and Chen learned from the PayPal days is flexibility. PayPal's founders started out providing security software for handhelds and then

tried several other fields. Only later did they hit on the idea for their online payment system, a business that eventually was sold to eBay Inc. for \$1.5 billion in 2002.

Hurley had an entrepreneurial streak from the start. He grew up in the Philadelphia suburbs and as a 5-year-old tried to sell paintings from his front yard. He studied design at Indiana University of Pennsylvania and landed at PayPal after reading about it in *Wired* magazine and sending an e-mail inquiry about a job. During his interview he designed a new logo for PayPal, one that executives liked so much they still use it today. He left after the eBay deal, working with a few companies as a design consultant.

ELUSIVE BALANCE

CHEN, YOUTUBE'S chief technology officer, has been a math and science geek since high school. He threw himself into programming and computers at Illinois Mathematics & Science Academy and went on to study computer science at the University of Illinois at Urbana-Champaign. During his last semester he was recruited by Max Levchin, co-founder of PayPal and a former classmate. Chen remained at PayPal until ear-

ly last year to help finish launching the company's expansion into China.

In the year since, Chen and Hurley have come a long way. Yet they are still searching for the right balance to turn their sudden popularity into profits. If they cater too much to their users, they risk getting sued for copyright violations and losing the support of content companies. If they're seen as favoring content companies, however, they could lose their millions of fans. It's a challenge they couldn't have imagined a year ago. "We started this to solve a personal problem," says Hurley. "Now we're creating a new way to reach audiences in an era where the traditional TV time slot doesn't exist anymore." ■



ANYTHING GOES YouTube viewers can post clips of Scary Movie 4, Johnny Cash in concert, and *Wayne's World*