

## [Transcript] My First Million / #5 - The First Viral Website: "Hot or Not"

All right.

Quick break to tell you about another podcast that we're interested in right now, HubSpot just launched a Shark Tank rewatch podcast called Another Bite.

Every week, the hosts relive the latest and greatest pitches from Shark Tank, from Squatty Potty to the Mench on a Bench to Ring Doorbell, and they break down why these pitches were winners or losers, and each company's go-to-market strategy, branding, pricing, valuation, everything.

Basically all the things you want to know about how to survive the tank and scale your company on your own.

If you want to give it a listen, you can find another bite on whatever podcast app you listen to, like Apple or Spotify or whatever you're using right now.

All right.

Back to the show.

Basically, I had nothing to do.

I was just going out drinking with my friends all the time, like almost like five days a week.

We had the system sending us stats like at noon and at midnight, \$10,000, \$15,000 on a good day, like \$20,000 to something \$1,000.

And is it recording?

Okay.

Okay.

So what is this?

So something that entertains me.

And so I wanted to create a podcast, which was first and foremost just an excuse to hang out with people who I haven't been able to hang out with as much.

So one way is to say, hey, let's go grab a coffee, and the other way is to say, what if we recorded this so that other people could be a fly on the wall and hear stories or chatter about random stuff.

And I'm not trying to do it educationally.

So for me, it's stories.

So stories is the part where, so the podcast is called My First Million.

And the reason I picked that is because the audience that listens to this, they are entrepreneurs already or entrepreneurs kind of thinking about, hey, that's the dream.

I'd love to sort of quit my job and start a business someday.

And I remember for me, and I think this applies to many people, which is the idea of a million bucks is like a magic number.

Even today, when everyone's billionaire, still, if you're a thousand there, a million bucks sounds like all the money.

Totally understand.

In fact, when I made My First Million, I put it all in one account, and I went to the ATM. Just to look at it?

Yeah.

And I withdrew money, so I would have a slip of paper that said I had a million dollars.

You framed that one?

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What'd you do with the slip?

Yeah.

Well, the funny thing is, then we had all these jokes, because I had these ATM slips with a million dollars on it.

And we were just joking around, we're like, man, we should keep these in our wallet.

And then when you give a girl your phone number, and she's like, oh, let me write it down, let me write this before everyone had phones or something, oh, let me write it down on the slip of paper.

I have one.

Never actually did it, but it was a funny idea.

And actually it turned out, I remember, then I searched, googling the idea, and there were companies, I remember, that sold fake ATM slips online.

Oh, wow.

So you weren't the first guy thinking about doing this.

It's a whole new industry.

Yeah, so basically, it's called My First Million.

I'm talking to you about how they made a million bucks in all different ways.

So some people are tech entrepreneurs who started business.

Some people made a million bucks selling mushrooms, and they're mushroom farmers.

Some ones, they did it in crypto, CBD, all the different types of things, real estate.

And so I want to tell stories so that the listeners basically hear, man, first there's a million ways to success.

You don't have to follow a particular track.

And B, just a little bit of inspiration and entertainment about how these stories tend to be really interesting.

They kind of come out of nowhere, wasn't a perfect plan, wasn't a straight line, it usually has ups and downs.

And so I want to tell those stories.

You know, like in Harvard Business School, they have these HBS cases.

And everything in those cases is like, oh, you know, Sean was looking out the window at the Charles River thinking about what he was going to do for his company.

And the solution is always, they give you all this data, and then at the end, it's like, oh, he did this, and this, and this, and this, and this, and then he did that, and that, and that, and that.

And it's like, oh, look how, like, it's, everything's like, the solution was like a neat package.

Right.

And in reality, you like, you know, like the guy was in, you know, he was not sleeping and like, he probably did 20 million things before he did what he actually ended up doing or she, whatever.

But you know, it's funny because like, it's, it's always like that, but it's, reality is never like that.

You know what I mean?

Exactly.

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And so I'll give the brief intro.

So we have James Hong on the show.

Entrepreneurs started famously a company called Hot or Not.

One of the first tremendously viral products before viral was really even a thing, I would say.

And now Angel Investor, all-around good guy, I'm excited to be talking to you.

Last time I talked to you was like five years ago.

Yeah.

A long time ago.

So it's good to, good to reconnect.

And so I always start with, you know, not kind of how'd you do it, but a different sort of question, which is really, did you always want to make a million bucks?

Like when you were growing up, did you want to be rich?

Was that a goal of yours?

Not necessarily, I wasn't really like, oh, I have to be rich.

My mom tells me that I drew, I kind of remember this, in third grade I drew her a picture of my house and I just remember it was on the waterfront and it had like two helicopter landing pads.

And so maybe, maybe I did, but by the time I grew up, by the time I went through college, I was, I wasn't really like, I need to be rich.

But I did want to do something.

You know what I mean?

Like, I didn't want to be bored.

The thing I learned at my first job, which was at Hewlett Packard, I remember is when the web first came out and I was doing basically sales support for a technical product.

And I created a website because I was tired of all these people calling me with the same questions.

I basically eliminated my job and the job of two other people, my coworkers, that we all got deployed onto other things.

But I remember thinking like, they gave me a bonus of like, you know, they gave me a raise of like five grand or something like that.

And I'm like, I just eliminated like, you know, three jobs that was probably like, you know, back then, like a couple hundred grand or something like that.

And I got five grand.

And I just remember thinking like, I'll never make as much money as the value I deliver in a company because a company, a big company at least has to kind of pay people based on kind of like the median value that any given person that the company will provide, right?

I think that's kind of the one thing that's changed a little bit like at Google and at Facebook is that they're now willing to be like, oh, wow, like you created like hundreds of millions of dollars in value, maybe they don't maybe they still don't give you a couple hundred million, but they'll be like, we'll give you 10 million.

So at least maybe maybe it's not that different today, except that things operate at a higher scale and that they're able to because the margin is so high.

But in any case, I was like, you know, screw that, like I'm going to go work for myself

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because then I can actually extract, you know, what I actually created.

Most people don't see that.

If you're at a company, and this is not because companies are evil, this is really just the standard way you have to operate.

You can't if somebody's 10 times more productive, 10 times better than their peers, you can't pay them 10 times as much usually.

Yeah, that's exactly the point.

People make straight up more money at these big companies than they would being fairly successful as an entrepreneur, you know, hitting a double or hitting a triple even, you know, so.

And that's because the scale of these companies is yeah, because a scale in the margin, the margin is high.

Right.

That's really the difference.

And so you were, was it straight out of college that you were at Hewlett-Packard?

That was straight out of college, so I was like, forget it, because in the meantime, you know, the funny thing that happened is this is 90, I got out of college in 95.

And where'd you go to school?

I went to Berkeley.

Okay.

And did engineering, electrical engineering, computer science degree.

And the funny thing is like, you know, in 94, I remember summer of 94, that's when Mosaic came out, the first web browser.

You know, coming out of Berkeley, everyone who got good grades went to grad school or, you know, at worst got the good jobs, which the good job was like going to Intel or HP or whatever.

And I went to HP.

And meanwhile, our friends who were not as strong students who couldn't get into a good grad school, who couldn't get a job at HP, they ended up taking jobs at other places that we'd never heard of, like eBay and Yahoo or whatever.

So like around 96 or 97, maybe 96, like whenever Yahoo went public, all these friends got rich and that's kind of like when you realize that like, oh, like, what game should I be playing?

Exactly.

Did I win?

Because it feels like I lost.

When you're at a, you know, when you come straight out of school, you're still thinking, oh, whoever gets the best grades, whoever works the hardest, blah, blah, blah deserves the, you know, the big prize.

And then you're like, wait, what just happened?

And that's kind of like when reality hits, like, you know what, like life is not, I mean, there's a lot of things in life that determine how you end up doing.

And I mean, a lot of it's luck, a lot of it's just circumstance or whatever.

And so anyway, I realized that like, I'm not going to get rich at HP.

And not only that, I didn't get the value of like the jobs I had that I, you know, got

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made more efficient.

Yeah, exactly.

And so around, so around that time, I was like, okay, screw this, like at that point, I was like, I'm out of here.

And then I was like, well, I was either going to go to business school because that back then everyone thought business school was a path and actually to some degree, it kind of was because back then to start anything you needed to raise venture money.

And it was easier to raise venture money if you had either a lot of experience on the engineering side or, you know, like, it was MBA, VC's funding other MBAs, right?

So it was kind of seen as a path back then to get an MBA to become an entrepreneur.

Today you don't have to do that because mainly because the cost is so much lower of starting up, right?

Like, you know, like,

What did you need to start?

Back then is like, oh, to start any company, well, first of all, certainly you needed a sun machine.

Right?

You need a box from sun to run the web server.

And you know, that might be like half a million bucks or something.

I mean, like just to get started costs a lot of money.

Plus there weren't as many tools, right?

The kit was expensive.

Right.

If you want to buy the box to play.

Just to put up a website with like, you know, like with a database on it, like people thought you have to have a million bucks at least, right?

And so nobody has a million bucks lying around.

And today, what do you need for that?

Nothing.

I mean, you know,

Five hours and

I mean, like you get your, you get a free box, you know, free instance from Amazon, you know, whatever.

It's like, it's nothing.

It's virtually free.

Yeah.

Actually, when we started hot or not, when it first started taking off, it was built on a PC I got for free from E-Trade, I think for opening an account with 500 bucks in it.

It was like the dingy is machine had no memory or anything, but it can run as a server.

Not very well, but it got us online, right?

And the first thing we thought was like, we need to get a sun machine like when things took off.

And so we got a sun machine.

We were leasing through Rackspace, I think at the time, I remember distinctly like hanging

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out in front of some restaurant in Palo Alto and Larry Page saying, oh, yeah, you should buy from Rackable, which was a one you rack mount system company.

And it turned out that like my neighbor, two doors down was the guy who, he was like number 20 at Google.

And he was like, he was like that, remember they used to say that we have a neurosurgeon on staff or that was him.

And he was in charge of scaling all their data center ops.

And so he was handing, he was like, yeah, guys, you should get.

And this is kind of an untold story about Google's, you know, one of the reasons why they were able to win.

Oh, yeah, absolutely.

People don't talk too much about this, which is they were using commodity cheap hardware.

And instead of these expensive specialized systems that were harder to scale.

Because the robustness of a system with a thousand machines was much better than one sun box, especially centralizing all your problems, single points of failure in a one single box.

And you saw them.

You're Roger Bannister four minute mile where you're like, oh, we can do it with that too.

Yeah.

If they're doing it.

Basically.

And it was cheaper.

I mean, like we didn't have money.

So I was in debt from business school and my partner was a PhD grad student, so we didn't have money.

We were a negative net worth.

So hot or not kind of was like Tinder in, you know, 2000, right?

It was, it was a website where people would submit their picture and other people would rate them on a scale of one to 10 on how hot they were.

And this was kind of in the day when everyone was scared to post their photo online.

Like if you posted your photo online, it was behind a password protected page that, you know, was for Shutterfly or a photo back in the day.

So the concept of posting a photo for other people to see that you didn't have full control over who could see it was completely foreign at the time.

Forget about the rating.

That was the rating.

Actually, the rating actually as an idea came slightly second.

It was originally about voyeurism.

I was addicted to reality TV back then.

What were you watching?

Still am.

Back then, you know, I used to watch a lot of like Jerry Springer, Ricky Lake, all that kind of stuff.

The best part of that those days was I actually ended up going on some of those shows.

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You were on Springer?

Yeah.

I was on like Ricky Lake, I think, or one of, yeah, maybe one of those.

As a guest?

As an audience?

Yeah, or something like that.

Yeah.

No, as a, I was a guest judge.

They had people come out like, the themes would be like, my friend thinks she's hot and she's really not.

And then like, they would come out and talk about it, and then I would come at the end and tell them their score.

So anyway, like.

So where did that idea come from?

Post your photo online, and then you said you added later.

Yeah.

Yeah.

The rating was like just kind of an add-on like, oh, it'd be cool to have a mechanism where like the audience could give data back and make it, there was this whole, what they called the two-way web at the time.

The web is about conversations, right?

And so it was like, the concept that the audience could actually give a response back was new.

So you liked people watching?

Right.

But that's still like, still, where did the lightning bolt strike?

You know, actually, there's a backstory to all of this, which is that in the late 90s, there was this guy called the Turkish Stud.

I don't know if you know about.

I've never heard this.

The guy, actually, I think Borat was based on him.

I think the guy who does Borat denies it, but it's so clear.

There was this guy in Turkey who had a web page with pictures of him, like playing ping-pong or whatever.

And somebody, I don't think to this day anyone knows who did it, but someone took those pictures and made another web page that was a fake web page.

And it was like, he called himself the Turkish Stud, and he's like, who wants to come to my country?

I can invite you.

Come have sex.

You know, it was Borat, basically, like, oh, come for a sexy time.

Right.

And it blew up, there was this company called E-Tour that kind of jumped on it and brought, E-Tour was like, it was kind of like the equivalent then of Stumble Upon, I think.

And I don't know if people remember, Stumble Upon, yeah, which is the equivalent of whatever

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like, it's basically like, he just took you to random things on the web, because back then there wasn't that much on the web, right?

So, this company, E-Tour, made a big deal out of this guy, and he ended up on Letterman and whatever.

And within a month, he had like a million-page use or something like that, right?

And my friend and I just thought it was fun, my co-founder, Jim Young, he and I just thought it was hilarious, because there were all these companies back in those days that were raising tons of money, throwing lavish parties and stuff like that.

You couldn't get a tenth of a page use.

You couldn't get any page use.

And you know, this was when like, C. Jerson was starting to talk about viral marketing with Hotmail, and we're like, this is so fucking awesome, because it was just an irony, right? It's like, this guy is like, he didn't even do it.

Someone did it to him, and he ended up like on Letterman and getting all these hits that all these other people were dying for.

We just thought it was funny.

And so, we kind of had in the back of our mind like, someday I want to do, I want to build a Turkish stud, right?

So it wasn't even about money.

It was about, I want to do something that goes viral.

Right.

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I was obsessed with this guy.

I remember I had him as my screensaver, him playing ping-pong.

So when we were talking about just various ideas one time, this voyeurism and whatever came up, and then like, oh, then you could rate them or whatever, like, hey, this could be our Turkish stud.

So actually when we built it, Jim was a grad student, I was working at a friend's company at the time.

We were just killing a lot of time, and we were already set up in this house to do a startup.

So anyway, Jim just disappeared in his room, and three or four days later he came out, he's like, okay, it's done.

Today you could build it in literally like 20 minutes.

But back then, you had to do a lot of extra stuff.



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And so he came out, he's like, it's done, and then I-  
And they let you upload a photo, and then click through other people's photos.  
Yeah, basically.  
And then I tested it that weekend.  
I was just playing with it.  
My dad came into the room.  
What do you mean by you tested it?  
I was just looking at it.  
He sent me a link.  
I didn't look at it for a couple of days.  
Then I started looking at it a couple of days later when I was at home on the weekend.  
My dad was looking over my shoulder.  
He kind of walks in the room.  
He's like, oh, what are you doing?  
You know?  
And like, I was supposed to be, like, working.  
Or by this point, actually, no, I had quit my job, I'm sorry.  
So I was unemployed.  
So now I remember, I was supposed to be looking for a job, probably.  
So I lied and said, ah, this is just something Jim's doing.  
And so my dad started playing with it, and then I see him, he was the first person I  
ever saw, get addicted to rating girls.  
Swipe, click, click, click, which is swipe, swipe, swipe.  
Yeah, and we just had, like, I had just taken photos from ExcitePersonals to, like, seed  
it.  
Yeah.  
And so he was like, oh, she's hot.  
She's like, oh, I'm like, oh, my God, like, this is my dad, he's like a 60-year-old Asian  
engineer.  
He was supposed to be a sexual, except, you know, the three times he had sex with my  
mom.  
Right, which was immaculate conception.  
Exactly, practically.  
So I was like, holy crap, like, this is pretty interesting.  
So then we launched it, like, a couple days, like that Monday, I remember, Monday or Tuesday.  
I think it was Monday.  
And I just, we launched it by sending it, I sent an email, I put myself and Jim on the  
site and then I sent a link to our pictures and sent it to a bunch of our friends.  
And I was like, I remember it was like, it was 42 people, which, I counted it later,  
but, you know, because 42 is a magic number, right?  
Yeah, of course.  
Anyway, so I sent it out and, like, it just immediately took off.  
And I think by the end, that was at two o'clock in the afternoon and by the end of the day,  
we had had, like, 30-something thousand IP addresses in our logs, distinctly, wow.

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And so that's probably, you know, back then, a lot of people went through proxies or, like, AOL and a lot of these dial-ups used proxies or, so it was probably, like, you know, 100,000 people or more.

And we're like, holy shit, like, that was crazy.

So people were just sending it to their friends?

Yeah, people were just sending it and, like, within an hour, we had, you know, had, like, 20 or 30 submissions.

And so I was like, okay, we can take off the fake photos now, because, like, you know, that was, because it was so slow because it was running on that one machine.

I think, like, one, like, after you voted, it would take you to the next page view where it would tell you the score of that person and then show you someone else to rate.

And that, the turnover of that page was about 20 seconds.

Like, people were doing it and, like, clicking away to, like, go into their other browser window doing whatever and then coming back.

But people was amazing, like, people were just doing it.

And so we're like, holy shit, like, this is nuts, like, it just took off, like, crazy.

And so by the end of the week, I think we were doing, like, a couple million pages a day.

And this is all still running on the laptop?

Or at this point it starts scaling?

No, I'll get to that, but yeah, yeah, like, there are all these crazy stories about how we scaled it.

But, like, it got to 2 million a day and then, like, within two months, like, we were in People magazine, I think, like, we were one of the top 20 most trafficked websites on the web at that time.

You had your Turkish Stud.

Yeah, we had, we beat the Turkish Stud, right?

You know, the funny, the funny thing is, you know, the funniest thing about that is that it turns out that the Turkish Stud got popular because, he first hit the scene because there was this woman at salon.com, salon was like an online magazine back then that was pretty popular.

There's this woman who was a writer named Janelle Brown and she wrote about the Turkish Stud. She made the Turkish Stud happen, really, because I think that's how E-Tour and everyone else found out about them.

Well, my friend was, called me up, he's like the first day that we were running and he's like, hey, I got a friend who works at salon.com named Janelle, can you talk to her?

I'm like, okay, you know, like, we'll talk to her, but, like, we have to remain anonymous. Because we didn't know if we were gonna, like, get in trouble or, you know, like, people were gonna be offended by this or whatever.

And so he's like, okay, she said she'll talk to you anonymously.

And then, so I did, I was talking to this woman, Janelle, and she was interviewing me and she's clicking on the site while she's doing it.

And then she's like, and we didn't have that many photos on the site at the time, so she hit mine.

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But there's no way for her to know that, but she's like, wait a minute, is this James Honk?

I'm like, uh, yeah.

How did she put two together?

How did she put a phone call?

Because Janelle Brown was the very first person I met in college, she, her door literally faced my door in the dorms at Berkeley, so I was like, she's like, James, it's Janelle Brown.

And I was like, hold on, because at that point I just knew her, her friend Janelle, right?

So I was like, oh my God, like Janelle, like, please don't tell anyone I'm doing this.

So she's like, okay, okay, no problem.

You know, I said, you'd be anonymous and I'll respect that, right?

So she did, actually, but the traffic actually got so bad that first day that I called her, uh, saying, hey, Janelle, like, don't run it.

Yes.

And I was like, can you please not run it because like, remember, like we were running on a server that was at a time when we were hosting the photos and it was \$1,000 a megabit per second.

So I figured like at the end of that day or whatever, I was like, man, this thing's gonna cost like the run rate was like, you know, \$50,000 a month and it was doubling every like whatever hours.

And so the trick with bandwidth pricing, like no one knows this anymore because everyone just goes to AWS and gets charged on throughput.

So back in the day, like when you, when you pay for bandwidth, most carriers will give you, will bill you at the 95th percentile of your usage, which means you have 5% of, you can spike to infinity and you're fine, right?

So that basically is a day and a half on the, you know, in 30 days, right?

So we had basically a day and a half of, uh, 40,000, uh, to do as much as we want, but we were approaching that day and a half and we're like, holy shit, this is gonna be \$40,000 a month or whatever.

Like we were actually, we almost shut it down.

And so I told Janelle, I'm like, I asked Janelle, can you not run this?

She's like, I would love to help you, but it's a slow news day.

So, you know, like now I understand how journalists work, you know, like she, you know, they're on a daily, like they got to put out something every day or whatever.

And so I was like, oh shit.

So our solution was to that night, we moved it to Berkeley because like I said, my partner was a grad student at Berkeley.

So we like the university, I remember we drove to Berkeley at like three in the morning and we went to his grad student office and we set up the box.

We, you know, hit it under his desk.

We stacked books in front of the box.

Like it was just like this lone wire coming out from under his desk.

That's costing the university 50,000 a month and doubling like, like I said, it was doubling

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like every like four hours.

Anyway, we turned the, the site was down for a couple of hours.

We turned it back on and like we looked at the logs, a lot, you know, we tailed the log and it's like boom, boom, boom, boom, boom, boom, boom, boom, boom, boom, boom, boom.

Right.

So like, we're like, holy shit.

Like we think because we weren't sure if it was going to die once we turned it off for a couple of hours or whatever.

Right.

Anyway, so I remember we, that was at like 530 in the morning.

We got it finally back up and then we like drove home and like crashed and then Jim got like a call from his advisor at like nine or something, apparently like the IT guy at Berkeley like spit his coffee out when he saw the logs or whatever the, you know, the knock management tools and followed the wire, must have followed the wire.

It's like, what the hell is this?

Luckily he didn't turn the box off.

You know, actually I remember we taped, I took like a box of thumbtacks and took half the box and put it over the power switch and taped it.

So like maybe that was a signal to them not to turn this box off.

But anyway, luckily Jim's advisor was a, he was the dean of engineering at Berkeley and he was also one of the co-founders of like Cadence and Synopsis.

He was like a father of that and he was also a venture partner at Mayfield, venture partners. So he was like a very entrepreneurial guy.

Right.

And so he's like, okay, look.

This wasn't a problem.

This was an opportunity.

Yes.

Well, in his wisdom, he saw, this was an amazing thing.

He's like, okay, look, I will buy you a couple of days, like, but you got to, you got to figure something out.

And so we did.

So we ended up calling Rackspace, which at that time was a rinky dink, very small company still relatively, but they were the leaders in managed hosting at the time.

And I just happened to know, you know, I looked at their about us page and their VP of Biz Dev went to Stanford Law School around the same time as a guy named Josh Becker went to law school at Stanford.

So Josh put me in touch with him and then I was like, hey, listen, you know, like we don't have any money, but I think we're a good poster child for you guys because that's their whole stick is like, you don't have to have money up front.

You can, they can scale you up today because they have machines ready to go.

You know, like, because back then, if you wanted to buy machines, even if we had the money, it would take time a month to get the machines and to wrap them up and all that

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kind of stuff.

And you said this is the best marketing money I'm like, this is perfect.

So they're like, okay, put a logo of Rackspace above the fold.

We love what you're doing.

We love the growth.

And I business and look, I'm getting a ton of inbound inquiries about press.

Like I will mention you guys everywhere I can.

And so they're like, perfect.

Let's do it.

And today they didn't even, we didn't even know how big, how many machines we were going to end up taking.

And they didn't care.

They're like, look, just when you need new machines, tell us and we end up calling them every night saying we need more machines, right?

And they were like, yes, let's do it.

Like then we're like, we hadn't even worked out the terms.

The turn of the deal.

Yeah.

Like there was no paperwork at this point.

Sometimes things move too fast.

Well, yeah.

And this is how the web really was back in the day.

Like everyone just kind of helped each other.

You know, like, you know, I think eBay hosted Yahoo or maybe it was the other way around.

But anyway, you know, or maybe it's Netscape hosted eBay.

Anyway, everyone used to help everyone.

And so, yeah, so they're like, yeah, don't worry about it.

Like just get big and then we'll figure it out later.

That's what we did.

And so it grew and grew and what did the traffic get to kind of at its peak?

Gosh, let me, it's been so long ago.

Like I think we were doing about maybe like 15 million, 10 to 15 million pages a day.

And you have to remember like today, like that might not seem as big, but at the time it was, it was hard for things to grow as fast as they do because there was no social media.

So like when things got passed around, they were passed around by email or, you know, it wasn't as easy as just clicking a button, which, you know, and, you know, any bit of friction reduction can increase the liquidity of any system by like 10 X, right?

So like things did just did not grow that fast back then.

And it just, I mean, like today, like it would have probably been like insane.

Anyway, it was insane by those days standards.

And like I said, within two months, I think Net Nielsen or whatever had us as like, we were bigger than ESPN, you know, and it was just like two guys like in their underwear, like in their living room, like coding or whatever.

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And yeah, so anyway, we cut that deal with them.

But we still had the problem of like, they gave us, when we finally worked out the numbers, they're like, okay, you can have a year.

They gave us a half a year of free hosting and then a quarter of like 50% off and then a quarter of 25% off and then in the year we would have to start paying.

But that was more than generous, right?

That was just amazing.

But we didn't know that like, and at that point in time, like we're like, okay, we made our trick a stud, we want this thing to keep going, but Jim needed to get back to his dissertation and I needed to go back to finding a job or whatever.

We didn't think that there was any business model in this.

In fact, we stuck ads on the site.

When it first started, and I remember we were going through like 24 seven media or something, some ad network back in the day, that was pretty big.

The CPM at that time was 0.25 cents CPM, which means for every thousand pages, we got 0.25 cents.

Today, it's like dollars.

And so it basically wasn't enough, it was barely enough, it wasn't going to cover anything.

So we still needed to figure out how to like make this thing last.

So the first thing we did was that's when we stopped hosting photos and we started sending people to Yahoo and saying, hey, just send us a URL of the photo on Yahoo and let Yahoo basically pay for this, right?

That cut the bill by what?

Well, I mean, that killed almost all of the bill.

Now we just have to pay for the machines, but basically all of the cost was basically all of that 50,000 and doubling was bandwidth for the pictures, right?

And you know, the funny thing is a month or two after we did that, Yahoo shut off all ability for anyone to use pictures that were hosted by them.

But somehow we got whitelisted.

And like two years later, I was speaking at Berkeley and I met a guy who worked on GeoCities.

He was your angel inside?

Yeah, basically.

And I was like, hey, listen, I don't want to look a gift first in the mouth.

I'm kind of nervous to ask you, but why are you doing this for us?

And they're like, oh yeah, you know, we love hot or not.

We just didn't want to be the guys who killed it.

So like I said, people used to help people out.

It was really cool.

But anyway, we knew we had to get off of them.

So the first thing we did was we cut a deal with Ophoto.

People were starting to get digital cameras at the time and they were willing to pay a bounty, you know, a dollar for every user that has a digital camera.

So what we did is we said, hey, if you don't have a digital camera, which most people at the time didn't, go to GeoCities and Yahoo will host it for free.

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But if you have a digital camera, please go to Ophoto and they would pay us a dollar basically. And they even paid us 25 grand up front.

Again, really just to help us out, you know, there's a guy I knew named Mitch Brown who worked there who did BD and at the time the company was run by this guy, James Joaquin, who he was CEO of Ophoto.

He's now running Obvious Ventures with Evan Williams.

Anyway, Zem and James, awesome people.

James loved it, too.

So they were really just doing it as a favor to help us out and they didn't really know us, right?

But that's how the web was.

And so did it ever become a business or what ended up happening?

So we realized it had to make money because we needed to hire somebody to run the thing because clearly, like, we weren't going to run it.

We were going to go back to getting a real job or going back to finishing Jim's PhD.

And so, but you know, like the ads were started, you know, slowly the ads started making more money.

It wasn't enough to pay for the bills.

That's why we added the dating side of it.

So we were the first ones to do, like, the concept of what you would call double opt-in dating.

Like, if you say you're interested in someone, then they can say they're interested in you, too.

You know, like what Tinder is today, they have swiped.

We invented the, to my knowledge, we invented the JavaScript auto submit radio button.

Because back then you remember you had to hit submit every time you clicked a button.

So hot or not was the first one that, yeah, it was two clicks.

So we made it one click.

We had never seen it before.

So we think we invented it, but you never know.

Someone probably did it.

But like, but we had to figure out how to do it on our own.

And that's amazing.

Because now there's no rejection.

It's like, if we got connected, it's because we both say we think right, right.

Because our whole thing was you have a highly liquid marketplace.

There is no rejection because you don't even remember everyone you said yes to it.

And the other thing that it did was it protected the woman who like, you know, because basically we saw match.com and all these guys is basically pimps, right?

Like, oh, look at my, look at my, you know, all these, you know, women or men that you might think they're hot.

Like, oh, you want to talk to him?

You know, like, oh, you got to give him \$20, you got to pay, right?

And what that did is that, that what that ended up doing is like that led to lots of men

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paying and flooding women with messages and we're like, the women just look at their photo and they're like, no, and then that guy just like got basically ripped off and the woman got, you know, the signal to noise was too low for the woman.

And so we thought that was just kind of an inefficient thing, right?

And so we thought, you know, doing it, basically it was speed dating and doing it a speed dating, bringing speed dating online was a good idea.

And so that's what we did.

And that actually, so we turned that on, we turned on charging for it.

So the way it worked was like one of the two people once you matched had to be a paid member.

So it was equivalent of, look, a guy smiles at a girl in a bar, she smiles back.

At the end of the day, someone's got to buy drinks, right?

And it's usually not the girl, but so and that's that's how we had a payment model.

So all of a sudden, like, as soon as we turn that on, I think it was like within a month, it was like by the end of that year, we were at like a half a million dollar run rate, which was enough to like hire someone and pay the cost or whatever.

I mean, actually, at that point, the cost was zero because we had the free hosting or whatever.

But even, you know, if you have any, if you can find any model that can convert even a small percentage of, I think we were converting, actually, we were converting like 5% of our users were paid, including the women.

And then by the end of it, we had optimized it to like 20% of people who joined paid, right?

Awesome.

It was enough to pay for everything.

And then, you know, it doesn't matter if you have scale, if you can even have any model that makes enough money.

If you are a lean operation, you can definitely pay your salaries and have like a lifestyle business if you want, right?

And so that's what we had.

Basically, we were doing half a million and then just kept growing, like organically.

And so all we had to do at that point, we were basically like, we were the modern day equivalent of people who ran a laundromat, like we just have to keep these machines running.

And you know, we have to install new machines to support and you know, like we have to like, but we're just collecting quarters.

And yeah, so that, so we kind of stumbled upon, it wasn't, you know, like it sounds much more intentional than it was.

It was like, we kind of stumbled into having a very profitable business.

And then you decide to sell the company at some point?

Well, yeah.

So we ran it for eight years.

Around year three or year four, we finally started, we hired people.

So what happened is we ran it for three years or so out of the house, just the two of us.

And at that point, we were doing like three to four million in revenue, almost all of it was profit.

My co-founder started riding motorcycles.



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And at some point I was like, hey, you know, like, if you, if something happens to you, that's probably not good for hot or not, you know, like, and, and also like, frankly, he was tired and I was tired.

Not to be a bus kill, but I mean, like when we were also like, look, I mean, at that point, we were running like, he was running ops on like a hundred machines, you know, so having to go to the data center all the time, running the ops probably got tiresome.

He automated it as much as he could, so he wouldn't have to go in that often.

But at some point in time, we brought in a friend of his from high school, Greg Lynn, and we brought in Don Paulak, who did customer service because at that, by that point, I was doing a lot of the customer service emails and stuff like that.

And so we brought her in.

And so we basically have now a company, we had employees, and then we started hiring more people and more people, not that many, but we hired a few more people.

And then it kind of became like, we had responsibility, we had employees, and we had to manage people

to some degree, and that wasn't really either of our thing.

And so we both kind of flamed out on it.

We're just not very operational people, either of us.

Or at least, I wouldn't say we're not operational, it's not the part we enjoy.

And so the more people we hired, kind of like the more of a drag it became, and yeah, we both got tired probably year four, year five, I would say, and then I took a break, and Jim took over, and then Jim left, and I took over.

And then at some point, we're just like, let's just, we're just going to sell this thing.

It was right before the 2008 crash, so it was a good timing in that sense, but we probably let it go for a lot less than it was worth just because it was a downturn, because at that point in time, it was doing like \$6 million in earnings.

But both of us, frankly, were so tired of it, and our good friends had just started, friends really close with Steve Chen at the time from YouTube, and we watched them go from zero to \$1.6 billion in how long, like a year, and we didn't really see hot or not getting to that scale that quickly ever.

Arguably, you see what happened with Tinder, and maybe that's true, although it's not clear hot or not would become Tinder because hot or not had the rating part, which made it grow but could also hold it back from being pure playdating.

But in any case, we were just like, screw it, we both just wanted to do anything else.

At that point, when I had left, I had started this thing with Al Lee, he was a co-founder of Evite called Save My Ass, which would send your girlfriend or wife flowers on a regular but semi-random basis.

It was one of the first subscription commerce things I'd ever seen, but then I had to go back to hot or not, so I stopped working on it.

Al started Clear Slide, which took off, so we ended up shutting it down just because it was actually doing decently well, but neither of us could deal with it.

We ended up selling the company mainly because we were just tired of it and wanted something else to work on.

And so how did, again, because you made your first million, you made it basically during

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that while you were collecting quarters, like you said.

You were running the laundromat.

Dude, that was an awesome period of time because I was still in my late 20s.

We had the system sending us stats at noon and at midnight, and that was mainly so we would know how the system was doing, if it had problems or not, how many matches were made per hour, blah, blah, blah, up to that point in time, but it also had how much money we had made up to that time for that day.

And so at noon and at midnight, I would basically get this thing saying, oh, today you made \$10,000, \$15,000 on a good day, like \$20,000 something thousand dollars, and I would have to divvy it up and figure out my portion, but I was like, holy shit.

This is magic.

Yeah, it's fun.

It's like I had a bunch of my friends always knew, because basically I had nothing to do.

I was just going out drinking with my friends all the time, almost like five days a week.

And at midnight, it would be like, I remember, I think it was my friend Philip Kaplan, I just remember him like, you buying, right, because he saw me pull out my phone at midnight and I'm like, I'm buying, yeah.

But it was funny, back in those days, no one was making money on the web.

This was like the dark period, right?

I mean, I used to go out drinking with Philip all the time, Evan Williams, at that time he was doing blogger, he was like, I met Evan because I'd sent him a message saying, hey, he was about to practically shut down blogger.

It was just him by himself at that point, and I was like, hey, we had all this excess bandwidth at this point, so I was like, hey, if you want free photo hosting, happy to help you out, right?

So that's how I met him, and we became good friends.

And so I remember I would pick up Evan from his apartment in Noyan, like, he didn't have much money at that point in time, so I was like, I was like, I was a baller, right?

So how times have changed, right?

Yeah, this one's on you, right, Evan?

Yeah, yeah, basically, but anyway, those were really the days because the people who were still around, no one knew that we were going to make money at the time, and we were one of the few people who were making money, most of the people were having a hard time, but you know, a lot of really famous names were still, like, after the dot-com crash happened, all the MBAs kind of disappeared, and the only people who were stuck around were the people who were just passionate about it.

So many people that are huge today were just hanging out back then, and it's like, because people were like, oh, how do you know all these people?

It's such a, you know, the Silicon Valley, there are so many people running around, like, how do you know all these people?

It's like, dude, they were like 10 of us back then, we used to hang out, right?

It's very simple.

Yeah.

And so you're kind of amazing in that you've been here so long, you built one of the kind

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of staple named products that everybody remembers fondly, and since then...

Everyone over the age of X.

Yeah, if you don't know, that's like the litmus test, like, were you really around, or you just, you know...

Right, if I was single, I'd be like, ah, no, I probably can't date you.

Yeah, exactly.

And so, since then, you've transitioned to being an angel investor, do you, I mean, how do you think about stuff now?

Do you think about getting back on the horse and starting a new thing?

Do you love investing, and that's what you want to do?

Yeah, you know, like, so I got, I mean, I was never an angel investor, I just invested in my friends, right?

And so, like people, and you know, like I said, people back then, we all, everyone helped everyone, so like, we would invest in friends, you know, like, you would invest in people, you didn't even, they didn't even know what they were going to do yet, right?

And like, it was pretty cool, like...

What were the results of that?

Because, you know, some people would say, invest in your friends, that's a crazy, this is a crazy financial strategy, but it seems to do really well.

No, actually, you know what, it is, I mean, it probably depends on how well you pick your friends, right?

Like, I stupidly passed on a lot of friends where I'm like, ah, I don't see it or whatever, and now in retrospect, it's like, I passed on Uber, I passed on, you know, like, I passed on like, all these things were like, I mean, literally I would be like a billionaire post tax.

Right.

I would invest it in the people that I actually liked, you know, but I think it depends on how you pick your friends, like, all of the people that I enjoy talking to and being friends with tend to be like, really smart and really quirky too.

Like creative.

Like people, yeah, like smart creatives or whatever that, like, like people who are like a little crazy, but really smart and can pull stuff off, right?

And so those people tend to do well, and so, I mean, yeah, I mean, I've definitely done pretty well, I think, I mean, actually, I've never really compared to other people, but I think I've done pretty well with my angel investing, but you know, like I mainly just invested in my friends, and I don't really see myself as an investor, and it's actually, in reality, being an angel investor is basically my cover for not working, because I'm basically mostly just hanging out at home with my kids, you know, like I'm Mr. Mom driving, I'm like my kid's chauffeur basically, taking them to school, taking them to swimming or whatever, but

I think about that a lot, and the other person, the person who introduced us, Michael Burch, is another person who I feel kind of got out of the rat race, he definitely does things, he does lots of interesting projects, but he's not just saying, okay, you know, he's sold Bebo for \$850 million, the next one's got to be a billion, right, he's not just endlessly

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in the rat race.

Well, listen, I'm not going to criticize anyone if they choose to be in the rat race, and that's what they want, that's what they want.

I'm all about everyone has to figure out what makes them happy, and the only advice I have to people really about this is, look, you only have to make yourself happy, don't try to make other people happy, live your life for yourself, but be honest with yourself about what makes you happy, because like society wants to tell you, oh, you should want to make a ton of money, or you should want to like not make a ton of money and go meditate or whatever, and I'm just saying, you know, whatever is right for you is right for you, you got to be honest with yourself, but if you can be honest with yourself, go do whatever you want to do, like I have friends who have to be billionaires and like, look, that's not my thing, but if that's what makes them happy, go do it, right, but for me, like, you know, like, I always thought I would do something else again, but then I had kids and then like, you know, like how that can be like all encompassing, and you know, like for me, I just realized like, you know, I built an app that was like a YouTube for kids before YouTube kids came out, I was like, I just want to learn to code again, and I made an iPhone app, and my son at some point was like, and I'm like, I'm a shitty coder, so I wasn't very efficient.

I was always like coding until four in the morning, but the bus still comes at seven thirty, so I'm getting no sleep, I was always grumpy, and I'm like, it doesn't matter if it's a hobby, I'm always thinking about it, right.

And basically at some point, my son was like, Daddy, when are you gonna play with us again? And I was like, oh, shit, like, so well, I mean, like at that point, it's a choice, and I'm like, okay, fuck it, I can't do this.

Like I am so obsessive about anything I build that like the dad that I wanted to be, I wasn't able to be it.

And so what's the recipe for you now?

What's the recipe that makes you happy?

Listen, look, it's not to say that I don't love the idea of starting a company and look, and it's not for the money, it's for the adrenaline rush, right?

Like it's basically like gambling, like this thing's likely to fail, it might succeed, it might win big if it, you know, so it is like gambling in a way, but like we're, and so it's a huge adrenaline rush when you start a company, and the highs, that's why the highs are high and the lows are low.

It's like being an entrepreneur is like volunteering to be bipolar, basically, right?

And so, you know, like, but I had to decide, and I said, well, okay, screw it, I'm not willing to sacrifice these things.

So the next best thing is like, I can just angel invest more.

And so that's kind of what I've done.

And you know, like I, I think I've been pretty successful at it, not as successful as if I just invested in my friends, that's kind of like my new strategy is like, okay, if I have a friend, yeah, you're like, like I have a friend who just picked, ping me the other day.

And I'm like, you know what, I don't even need to know, like, right, because we were,

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we had a call scheduled and I brought in a friend and then I was like, hey, guys, I got to go take my kids, but I'm in, but it doesn't matter.

I'm in, you know, and the funny thing is like, that's what happened with Odio and Twitter with Evan.

And I was like, hey, after, after blogger got sold, because actually blogger, before it got bought by Google, he was in trouble and Nick Denton and I were both like kind of talking to Evan about maybe we could invest in it just to basically to bail it out, keep it going.

And ended up not happening because he ended up selling to Google for, you know, whatever million, you know, in 2002 or something like that, 2003.

And so when that happened, I was like, Evan, I don't care what you're doing next.

I'm in.

Right.

And basically, and then when he, when he returned the money for Odio, I was like, let me know when to put back into Twitter, you know, and then there's a whole long story.

I ended up not.

Oh, no.

There's a whole long story about that.

It's a tragedy, but it's fine because we're going to make another podcast.

My lost million.

I basically decided I, I wanted to choose friendships over money.

And that's how that ended.

Okay, that's a long story.

And I don't regret that actually.

So, but anyway, so, so the other, you know, we got, we got to wrap up with the one question.

So normally I have these like five questions that I ask at the end, but there's one that I'm really curious about for you, because I see you as this incredibly creative guy who has very humble, not saying, you know what all, all that stuff.

I'm just curious if you were 21 today, if I, if I basically, if I took all your money out of your bank account, but I gave you back years and I say you're 21 today, you know, how would you make your first million today?

What would you, what would you be curious about?

What would you be playing in?

What spaces would you be playing in if, if you were back in the game at 21 today?

Well, listen, I mean, I think you can, as you alluded to earlier, you can make money in any space.

So I'm not going to speak about what's, I mean, you should, you should probably work in whatever space you're going to obsess about.

And that can be, you know, like you said, whatever, I mean, it can be anything.

It doesn't have to be tech.

Like whatever you're, whatever you're obsessed about, that's probably a good place to start because it's the people who like know a product inside and out that kind of can take it to the next level and do something innovative or whatever that'll kind of get you attention to make money.

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So forget about advice for us.

I'm just curious what you would do.

But what I will say to someone who's 21 is this, after the crash happened, we actually got a buyout offer for like 6 million in 2000.

It was for the four of us and it was vesting over five years and it was very tempting.

We thought about taking it, but then at the end of the day, we basically decided that was not enough money to sell out our youth because when you're young, you have no liabilities.

Like you don't have a mortgage.

All you have is time.

Right.

You're drinking five days a week.

But the reality is time is all any of us have.

Even at my age, time is all I have, right?

Money is like a man made concept, right?

Like I have my time and I will never have time with no liabilities ever again.

Once I like get a family or have a mortgage or whatever.

So at this point where I was living a really cheap lifestyle, like it's also true of like lifestyle.

Like once you lease that car, it's hard to go backwards, right?

So if you, I would say this, like keep your life as frugal as possible.

Don't, you know, don't borrow money to live lavishly, you know, like basically live as frugally as you can, team up with people, co-founders who also can live that lifestyle with you so you don't have to raise any money.

Even though it's easy to raise money today, I would still probably start things without raising any money.

Just, I mean, like, look, you got to live.

So maybe you got to raise a little money to pay rent.

You know, you don't have to be in Silicon Valley.

You can be in a, you can be in an apartment in Houston, you know, paying 200 bucks a month rent or whatever or \$500 a month rent, you know, as long as the two of you or three of you can live and build and then just keep, keep building until you come across something that has traction and then go scale it, right?

And look, like I said, like nothing is like an HBS case.

Like the first, like very few people I know have something hit on their first try.

Nobody knows what's going to happen.

You just kind of like meander and whatever kind of seems to be sticking, you like go in that direction.

And so it sounds like what you would do is you would keep your burn rate low.

Yeah.

You would live frugally.

You'd get in a house with a couple of friends and you'd bang out ideas that you were just curious about or interested in.

I would.

Like, you know, like we, I had the benefit of like, we were living in gyms, parents,

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they had like an investment house.

And so we were, I was living there rent free.

No, actually, no, I was paying him rent, actually, like really nominal rent.

And then when harder not to go off, I was like, dude, I'm not paying you rent anymore.

He's like, okay, I'm like, this is going to be big, I'm not paying you rent.

But to the extent you can keep your rate, your burn low and just keep building the story.

The lesson to me is not save money.

The lesson is value the time and make sure that you're spending every year of your life the way you want to be spending it.

And one of the ways to do that is to keep, you know, get that reserve capital so that you're not going to go trade your hours for dollars endlessly.

I'm probably an extreme example of this argument.

Look, I have enough money where I don't have to work anymore.

I don't have any fiscal constraints, but I'm still not able to do this because I got my kids and I'm choosing to do that instead.

So, you know, like, so it's money is not not the only limiter out there.

And so when you get older, you're going to you only accumulate liabilities in life unless you're willing to like, you know, just abandon everything, which is, you know, like not, you know, different strategy.

Well, yeah, I mean, like I said, people can do whatever they want for themselves, but like that's not my strategy, right?

So life is not easy for everyone, you know, equally.

And so like everyone has their own challenges on that.

But like I said, if you can get if you can get a job at one of these companies, go work for a while, save that money, don't increase, don't live like you're making that money, and then go do it and do it with a friend because it's very, very mentally hard to do it alone.

Wonderful.

Well, James, it's been awesome conversation, man.

I really appreciate you.

Yeah.

You coming out.

It's great.

Great seeing you again.

Great talking to you again.

And I think a lot of people are going to both enjoy the story of hot or not.

A lot of people won't even have ever heard of it before, so this will be the first time they hear about it.

People I can't date if I'm single.

Exactly.

That's like the line.

And then I think what you've said at the end here about about valuing your time and making the choice that makes you happy and not playing with other people's playbook, I think that's a great, great message.

**[Transcript] My First Million / #5 - The First Viral Website: "Hot or Not"**

So appreciate you coming on.

All right.

Thanks.