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Interview with James Hong from HotOrNot.com



Adrian Bye: So, today I am sitting in the house of James Hong, over here in California and James is the founder of HotOrNot.com, which is a kind of a revolution for a lot of us in the internet because it's one of the first companies that is totally self funded and made it themselves online. So, it was started out of their houses and grew to quite a scale and then sold. James has got a good story, we are actually sitting here drinking tea and it's a good thing. So, James take it away. Tell us about yourself.

James Hong: Okay. What can I tell you.

Adrian Bye: Just tell us a little bit about your background for people who haven't heard of who you are.

James Hong: My background is, I guess, I've been online since I was in third grade, when I got my first modem, which was a 300 baud modem. I grew up on BBSs and cracking games, downloading software and ...

Adrian Bye: What were you cracking games with?

James Hong: Mostly on apple II. A lot of it was just like playing with the bytecode on the disc and stuff like that, with disc editors and stuff. That's back in the day of like Ultima 2 and things like that. I got a modem when I was in fifth grade. Got really into BBSs and downloading software and freaking credit card.

Adrian Bye: Were you doing blue boxing?

James Hong: No, at that time I was like in sixth grade. I tried to make one, but it didn't work. Back on the day of the blue boxes and all the different colored boxes. Which incidentally is how apple started.

Adrian Bye: How apple started?

James Hong: Yes. When they got together they were making...

Adrian Bye: I know they were selling them but that's how it was started?

James Hong: I mean that's how Wozniak and Jobs. That's what they were working on before. I think Jobs wanted to buy one or something like and that's how they met. One of them wanted to buy and the other one knew how to make them. So, I've been online for a long time and went to Berkeley got into electronic engineering and computer science. So, I'm just basically, I like to play online and I've doing it for a long time and I think that seems to be a common theme with a lot of people who go build web companies in my generation. A lot of people go online very early. So, I bounced around. I got a real job after college, worked at HP, building test equipment like scientific stuff, but I was always still fascinated with the web. So, after I left HP, I went to business school for a couple of years and decided I just wanted to get back into stuff I really loved to play with, which was the internet. So, then I started HotorNot like a year after business school, that was an interesting experience. At the time when we were really interested in web services and things like that, Dave Winer, I don't know if you know Dave Winer, but he is a kind of software industry pundit. He have this concept of the two-way web; it's the phrase that he coined. The two-way web was basically pointing out the difference between the internet medium and traditional medium is the fact that conversations can happen, that feedback is really easy, that the flow of content can go on both directions, not just in one, which is the case in print, TV and so on. So, that was really interesting to us. When we came up with HotorNot we were basically trying to think of things that we felt could be viral, or at least not viral in the strict sense of viral which to be strictly viral, as part of using the product the user has to pass it on to someone else. So, we were not viral with HotorNot. But we just had a strong word of mouth. The concept was basically that someone would submit their picture to the site for other people to rate, and people would rate the picture and see the score.

Adrian Bye: So, you went after that concept because you thought it would be viral.

James Hong: Yes. Actually it's kind of funny. Before we did HotorNot, I was obsessed with this guy called the TheTurkishStud. Do you remember the Turkish Stud? So, I kiss you Mahir. I was a huge fan of him. I had like the Mahir screen saver and I had a t-shirt. Basically, the reason I was obsessed with him was because somehow this dude who turned out didn't even make the website, someone else took his website and made a joke website out of it, ended up on Letterman. He got like a million people to come to his site. That's what they say anyway. The company, Etour, I don't know if you remember them they really tried to write him and they brought him out here and put publicity behind him. But I was young and naïve at that time, I didn't realize that. So, I was pretty fascinated by the fact, talking to my business partner, Jim Young, my cofounder of HotorNot, we were just like, man that is just insane that this dude by himself with no funding got these many people to go and check his site out. That was just amazing to me. I guess, now, today, people understand the potential of the scale of the internet, but back then it was still fairly new. It seemed like the only people who were able to achieve that kind of scale were well-funded companies who got a lot of press and blah, blah, blah. That was the first time I saw like a person get that kind of distribution organically or seemingly organically. So, we kind of had a challenge, I said dude we have to build a Mahir. So, when we launched HotorNot, it was actually never meant, it was not intended to be a business; it was more just like, we just wanted to build a Mahir. Without any thought of the consequences of building a Mahir or the cost, structure or what not at the time.

HOTORNOT

Adrian Bye: You want to build a Mahir and you wanted it to be viral.

James Hong: We realized that viral marketing, word of mouth marketing are the only ways that you can grow to that size without spending for it, either you're buying it or people are giving it to you, and we were broke so, we were trying to get people to give it to us. So, when we came up with the concept of HotorNot, it was based around the idea of voyeurism and looking at girls or looking at guys, which we felt was pretty compelling and we thought it would have potential for becoming a Mahir and so, the concept was so simple

that it didn't take that long for us to build. So, we have the idea one week, Jim coded most of it in a week, in reality a couple of days.

Adrian Bye: Was it your partner that did all the programming?

James Hong: In the beginning, it was always Jim doing the programming. I think I might have like started the database scheme in the very beginning, which I'm sure he wiped out by the end of that week. Yes, Jim did all the coding. It was just an idea that we had and Jim was busy doing his PhD at that time and he was burned out so, he wanted a side project to work on as a break, and again, the intention was just trying to see what would happen. We had a feeling that it could be popular but we didn't know so, we just wanted to throw it out and see what would happen. So, we launched it a week later and all I did was I emailed it to 42 of my friends. I think we launched it on a Monday around 2:00 or 3:00 in the afternoon, and by the end of the day we had like 37,000 visitors or something like that, on the first day. Like within the first half day really. It basically turned out like at that time there was nothing else going on. It was October 2000 so, the downturn had already happened, and people were kind of in a numb state of mind. So, nothing was happening those days. I think just the concept of it and the fact that it was a two-way conversation in our opinion. Like when we built the product, the thinking was hey, it's not me posting my photo for people to see, which was in and itself kind of a novel concept at that time. The idea that I would submit a picture or a content for strangers to look at was totally novel as far as we knew. Blogger and Live Journal and those kinds of things were starting to get popular. You would have strangers looking at your content on Blogger and on Live Journal but it wasn't expressly for that purpose. This was pure exhibitionism and pure voyeurism. When you submit your photo that's like a communication. You're giving content to these other people and when they vote and give you a score back that we felt was the communication back. So, it was kind of early in the days of user-generated content and conversations of this two-way web notion. So, in that way it was fairly new, many of the concepts that underlie this product, and it was simple. You don't have to explain it to anyone. So, that's why we felt like maybe this could be our Mahir and so, we built it and we sent it to 40 people, 37,000 people came by the first day.

Adrian Bye: So, that 40 people just sent it also.

James Hong: Yes, and we didn't even tell them to. All the email said was like it was a link on my picture on the site and saying, hey, here's something Jim and I built, just be nice when you vote for me, and then that was it.

Adrian Bye: But they weren't all voting on you, and so, they went on and started uploading photos, did they?

James Hong: Yes.

Adrian Bye: I'm sure people consider you a handsome guy but I don't think it's you they care about...

James Hong: So, the interesting thing is we seeded the site with maybe a hundred pictures of other people. I think we took them from some dating website or just some random place where you can get pictures of people. So, they were rating those people, then people started signing up, more people started coming and then by the end of the day we had I think like a hundred new pictures uploaded. At that point we were like, okay, we don't need the fake pictures anymore and so we deleted them and from that point on it was all-real. So, that's what kind of what happened there and so it just kept growing on its own and by the end of the week, we broke a million page views a day on the eighth day and I think we did like 1.8 million page views that day. I think the day before we did 900,000. It was like double instantly.

Adrian Bye: So, at that point, you knew you had a model on your hands.

James Hong: Within the first day, the thing was 40,000 people and it was growing really fast. Interestingly enough, a few things happened that really jump-started the growth. One was Salon.com wrote about it the day after we launched. I don't know if you remember Salon.

Adrian Bye: Yes, I might have actually even read that at the time. But I didn't think you were a day or two old.

James Hong: I talked to Janelle Brown the writer two days after we launched. I would need to go back and look at the date to be sure but the funny thing was that Janelle was actually the person who wrote about Mahir and made him big too. But it was total coincidence. The other coincidence was that I went to college with Janelle and we were next-door neighbors in the dorm. But it was kind of funny, because I didn't know, I didn't recognize, my friend who sent it to her and subsequently she contacted me through didn't tell me her last name. He just said my friend Janelle wants to write an article about you guys. So, I didn't know who she was and we were anonymous at that time. So, we said I don't want her to know who I am, so, just give her my number but I'm not going to tell her who I am. And so, halfway through the interview she was just rating people and she just kind of stopped, she's like, is this James Hong? I was like Oh my God, like what? Like how do you know? She said It's Janelle Brown, and, oh my God I didn't realize like I've been talking to my old college neighbor.

Adrian Bye: Small world.

James Hong: Yes, it's a small world. So, she wrote the story the day after or the day after launch. So, she wrote an article in Salon.com which got a lot more people, then it slashed out and things like that. Then by the end of the week, we were in most major European papers.

Adrian Bye: Now I've got a lot of questions for you. So, that was one of the things that really drove you forward, you really pushed PR.

James Hong: Oh yes, absolutely.

Adrian Bye: So, you had a borrowed model but you worked PR. So, your role in the company was what? You are a PR guy.

James Hong: Yes. So, basically at that point, Jim was doing all the coding and he was trying to make it scale. I was doing all business developments and I was doing all the PR. Because we basically felt like what we had was something that had a lot of word of mouth potential, but was not entirely defensible from a technology standpoint or even concept standpoint. We didn't patent it, so it was gone because we launched. So, we basically came to the conclusion that the only way that we could really grow and survive was if...there were two classes of competitors that we saw that could potentially knock us out. One is another start up, who somehow out-executed us or a big company that had distribution already. So, for the big companies that had distribution already, we kind of wrote them off for the time being because we figured any big company who is public is not going to want to start HotorNot because at that time it was regarded as so edgy, that like is this porn that would come up. So, were not worried about them. With the start-ups we were worried about them. You know, like true to form, within a week there were like probably a hundred copycats. In fact, within a month, there was a category on Yahoo called am I X or not. It's just like different copy cats.

Adrian Bye: In a month after you started?

James Hong: Yes, because it was a very simple concept. In reality, it took Jim two days of coding.

Adrian Bye: You're main thing that drove this site was PR, is that how you stayed ahead?



James Hong: That is how. What we realized was that we saw it as growing through word of mouth, but PR people, press people are just people who happen to have a million friends that they can tell about it to. So, the strategy was, if we got that press first then we would lock out any competitor from being pressed because no writer wants to write a story that's already been written, and

they certainly don't want to write the same story twice themselves. So, the goal was for me to get as much traffic, as much PR as we can to get as much seeds for this virality out there as possible, and Jim in the meantime would continue working on scaling the site to keep up with that traffic. Except for some BD that I did in the beginning, like I did a deal with Rackspace that got rid of our costs So, we didn't pay for servers for a long time.

Adrian Bye: That was probably a good one to do.

James Hong: Yes, in the beginning, because I almost wanted to shut the site down because the site cost so much money at that time to run.

Adrian Bye: What was the deal with them?

James Hong: Basically, the whole managed host model was fairly new at that time and they were the leader in the space, but it was still fairly small. So, basically I went up to them and said, listen, we're like a perfect poster child for you guys. Because we have no upfront money, so, like working with you is amortizing the cost of service without needing the money upfront to buy from Dell or wherever. You have the ability for us to scale on quickly because you have machines already whereas if we order the machines it would take weeks to get and we need to scale now. Basically, I said look, we can be your poster child for why scaling internet applications quickly makes most sense on managed host, not on doing it yourself. They believed that, and I also, said, and by the way, I had an interview with the Wall Street Journal, I have an interview with CNET Radio tomorrow, like you want me to, I can talk about it. So, to them, we were a good poster child for them and that we were getting them a lot of publicity.

Adrian Bye: You know them a lot?

James Hong: I think so. I'm still friends with their founders.

Adrian Bye: Is that Richard Yoo? Are you friends with Richard?

James Hong: And Lew Moorman, the person who did the deal with is, he's still there and I think we are part of their early history. Obviously, they did a good job and they had a great product so, they would have made it on their own, but I like to think that we were ...

Adrian Bye: I saw you doing that a long time ago. So, that's it. I probably heard of Rackspace from you back then.

James Hong: Yes, and we put Rackspace's logo on our site, above the fold..

Adrian Bye: What do you think that would have cost you back in the beginning?

James Hong: Well, the bandwidth alone, back then it was about a thousand megabit. A thousand dollars per megabit per second. So, I would say it probably would have cost us about a million dollars a month or something like that. At that cost level. We pushed like close to a hundred megabits per second.

Adrian Bye: And they felt that it was worth that kind of exposure because that must have cost them a lot to host you.

James Hong: No, no, no. but then So, this is before I did a deal with them, it was going to cost us about a hundred, because we were pushing about hundred megabits per second and so, at a thousand dollars per meg that would be a hundred thousand a month. I'm sorry a million dollars a year, but we were broke So, even a tenth of that was not acceptable. No, we actually pushed most of the cost to Yahoo.

Adrian Bye: By hosting the photos with Yahoo?

James Hong: So, we basically stopped hosting photos and we started telling people to go to GeoCities and open an account and give us a URL of the photo at GeoCities and we will just put that URL in HTML.

Adrian Bye: What did they say to that?

James Hong: The funny thing is that a month later Yahoo shut down the ability for people to do that, but they whitelisted us. A year later, I had to call them up and ask them to do something for us, and in the process of talking to them I said, hey, listen I don't want to look a gift horse in the mouth, can you tell me why you did that? Thank you, but why? Basically said, look we just didn't want to be the guys to kill HotOrNot, because we loved it. So, it was basically goodwill. So, we were hosting on Yahoo, on GeoCities all the images for a good year's time.

Adrian Bye: So you had two big breaks that helped you get going?

James Hong: Yes, Rackspace. Not only that, there was a third one. So, Yahoo made it so the hosting of the pictures was free for us. But what we realized was that we needed to make money to make it sustainable

because the free wasn't going to last forever. So, we ended up going to Ofoto as well and this is in the very, very early days of their affiliate program, and we basically said hey, will you do an affiliate deal with us. So, we basically said to new users hey, if you don't have a camera just take your picture...Back then, most people don't have cameras so, they got their pictures from their friend who happen to have a camera. So, back then, it was like if you don't have a camera go to Yahoo GeoCities. If you do have a camera go to Ofoto, and Ofoto said they would host the photos of those users for us and they paid us a dollar per user. So, that was interesting. We took something that was going to be our biggest cost driver and turned it into a profit center. So, that was quite nice. So, those three were probably our biggest breaks that made the difference between us succeeding and not succeeding.

Adrian Bye: Because now today that would not be an issue, all those things, but back when you did, you grew on that cost, and that was hard.

James Hong: The ratio of cost of bandwidth is probably a hundred to one.

Adrian Bye: I mean it almost shouldn't have been possible what you did but I guess it was probably because of the tricks put out there.

James Hong: Yes, if it weren't for those tricks, we certainly couldn't have done it without raising money. Like I said it was a thousand dollars per megabit per second and today you can get it for about ten or less. So, quite a bit difference and the machine costs are all different now, too. So, building a HotorNot application today would be trivial in terms of cost structure, but not back then.

Adrian Bye: In your first year, how much of your time was on PR? Like in terms of percentage? 80% of your time? 50%?

James Hong: Probably about 75 – 80%.

Adrian Bye: 75-80% of your time PR.

James Hong: 75-80% of the time that I worked, I wouldn't say that I was necessarily working full time. It was kind of a lifestyle at that point and so, we worked some of the time, not all the time.

Adrian Bye: You weren't working that hard.

James Hong: Well, in the beginning we were working pretty hard, but it tapered off. The press probably lasted really strong for about half a year which was pretty remarkable actually, now that I understand how the press works effectively we were getting the press for that long is actually quite remarkable because most things don't get press for that long. They just kind of come and go but a few things do get press for a long time. You look at Twitter now. Twitter is going like well beyond half a year and Facebook did as well and so did MySpace. We were kind of in between there. Most people get their one article, their five articles and then they pay their PR person \$20,000 dollars and thank you very much and that's it. So, I was working on the press most of the time and then the rest of the time I was like doing the carious Rackspace deals. Then Jim and I would work on the product together. Like trying

Adrian Bye: Were you in school?

James Hong: This was post school. Jim was still a graduate student.

Adrian Bye: So, are you ever going to be able to work hard again or are you just being like you've had this lifestyle businesses.

James Hong: No, I don't think so. I don't think for me and I don't think for most people out here or for most entrepreneurs, I don't think the motivation... the motivation is the excitement and the adrenaline of doing something cool and building something that a lot of people can use and that basically builds you street credit. When we first started Hot or Not, the motivation was not to make money either because it was actually just to build street credit, just because we wanted to build Mahir, but we worked our asses, I think, it doesn't matter if you have money or you don't have money, if you have something that is taking off like crazy, you're going to work really hard on it because it's fun, and it's like an adrenaline rush. The first week I probably slept about 8 hours the whole week. Not per night. I slept maybe an hour a night and it was just because I couldn't stop thinking about the site. I couldn't stop thinking about things I should do.

Adrian Bye: You lost a lot of sleep on that one.

James Hong: Yes, absolutely. It's funny I remember when we launched it, Jim and I had a conversation very, very early on, like the first night. We basically agreed that we didn't know how but we knew that this was like a life-changing event. It definitely turned out to be true but at the time, we just thought the life changing event would be that we would now have street credit.



Adrian Bye: So, you could like go and get a venture capital and start a company. Is that what you thought?

James Hong: For something else, yes.

Adrian Bye: Then you make the Ofoto deal and money started coming in your life well.

James Hong: Well, no, but the Ofoto deal kind of tided us over but we saw how advertising was shrinking so we knew that advertising was not going to be a sustainable model anytime soon. So, then we created the dating part of the site. Then threw in the revenue model there which was subscription-based. Actually, the interesting thing is we had no real idea of how well it would monetize, but it ended monetizing very well over 15%...by the time we sold the company, it was optimized overtime, it was converting about...over 15% of new

dating site users would end up paying, which is pretty good. They were paying \$6 a month at the time, which we felt was kind of like an impulse buy.

Adrian Bye: Did you test different prices?

James Hong: No, we didn't. We just felt comfortable at \$6 because it was based on what we thought two beers would cost in a bar. Subsequently, like five years later, we did price testing because we felt like two beers, the price went up, and we did the price testing and it showed that \$8 was the right price. But then we actually never implemented it and then when we sold the company they implemented it and true to form it was inelastic. The demand was still the same.

Adrian Bye: You left a lot of money on the table.

James Hong: We did leave money on the table but...

Adrian Bye: I know you did well.

James Hong: Yes. In a sense maybe we got soft in that regard because why did we not just implement it right away? But the real motivation for that was that we knew that the utility of making more money was not worth as much to us as the sure money that we are going to get at \$6 a month. So, we basically didn't want to fuck with it. If we touch this machine, if we change the machine, too much it could destroy it and we don't know that we can rebuild it. Because you like to think that its skill and like, but fuck, we were really lucky. So, does luck strike twice? I don't know so, we were fairly conservative with the company in the monetization because we knew that if we just ran it for like five years we would both make enough money that we won't have to ever get jobs and so, that was actually what made us really risk averse. But getting back to do we think that am I soft now? I don't think so. I mean I think I personally obsess about things as a matter of personality, and I think for Jim as well. It's the adrenaline, it's making something cool.

Adrian Bye: You guys started out in 2000. During the eight years that you ran it how hard were you working?

James Hong: Not that hard. Honestly. The first year was hard.

Adrian Bye: Solid 10-hour week?

James Hong: In the beginning, it was just 24x7- 8. The first half year was a lot of work in terms of time. After that we got the revenue model working. The first year I think we ended up earning about 700-800 thousand dollars. At that point that we turned the model on, we are like, okay, this more than pays for our salaries. As long as we can just keep it going, it's cool. So, at that point we didn't have to work as hard. Jim and I were never really that hard workers. We're capable of hard work but inverse so, we just kind of did what we needed to maintain it at our own pace. Jim was still working on his PhD, so we were working probably ten hours a week, each.

Adrian Bye: So, your poster boys for the Four Hour Workweek.

James Hong: Ten-hour Weeks. But I worked about two hours a day on weekdays doing...at that point...after the PR died and all that stuff. Besides working with Jim, it's just mostly doing PR. But the reality was we worked on it 10 hours a week, but mentally we worked on it 24 hours a day. Like it's your baby So, you're always thinking about it, and we were roommates and our office was our living room, so, we were always on it.

Adrian Bye: What were you doing the rest of the time?

James Hong: We were drinking a lot. We were going to parties and stuff like that. We were basically having a lifestyle business life like you would live when you were in your twenties. Unfortunately, it was our late twenties, not our early twenties. Well, probably fortunately, it was our later twenties not our early twenties. I can only imagine what it would have been like if we were younger. So, it's probably less crazy than it would have been, but we were basically just kind of hanging out, we like to go to cafes, we would go to the café everyday. We had friends who lived in our neighborhood that also, worked from home, so, we had kind of our neighborhood gang that would go get lunch everyday. You know what it was like, it was basically like summer school for a kid. We had to work like maybe 10 hours a week, including homework and class, but then the rest of the time we would go out and hang out with our friends and go out and play. So, I don't think that really made us soft. Like I said, it's the adrenaline I think that most entrepreneurs are going for. Even if you're motivated by the money or whatever in the beginning to get started, I'm not going to lie the money is definitely one of the goals, but I think if you experience hyper growth on anything, just the adrenaline kicks in and it's like a rush. When things like that happen, it's usually make it or break it for the whole company like in that first month because you're either going to pull it off and scale or you're not. So, that's just like an exciting adventure.

Adrian Bye: And you had nothing to lose.

James Hong: Yes, we had nothing to lose.

Adrian Bye: So, you guys started to sell with \$700-800,000 in your first year. Can you talk about it in terms of revenues?

James Hong: Probably \$7.5 million in revenue every year, it went up to that level.

Adrian Bye: With almost no cost.

James Hong: No cost. So, for the first three years, it was Jim and I working out at the house. At some point we came to the realization, Jim started really getting into motorcycles. We had a conversation once, hey, you know if you die that's not a good thing. We never heard of D&O, insurance, or anything like that. Whatever, D&O wouldn't have covered like the loss of running the site. So, basically that's when we decided to hire some people, and so, we went up to maybe a steady state of maybe 3 to 4 coders and a customer service persons/office manager. We had like 4 or 5 salaries...

Adrian Bye: Which doesn't make a big dent.

James Hong: No, no. Our net margin was probably, over time, in the 80%.

Adrian Bye: Then you had a \$20 million exit.

James Hong: \$20 million exit at the end was...it was slightly more than that... but that was basically just gravy in our minds. After 8 years of running the company, being basically 24 x 7 mentally on HotorNot we were just tired. We have made enough money over the previous 8 years that honestly like whatever price we can get for it was fine. I remember telling my wife at that time. My wife at that time when she was my girlfriend, I remembered telling her, if someone were willing to just take it for free I'd probably give it to them if I thought

that they could do a good job with it. The goal of HotorNot financially for us was to achieve financial stability and security such that we would be able to work on start-ups for the rest of our lives. That's how kind of viewed it and that's how we milked it. Arguably, we could have made a lot more money on HotorNot even just by charging \$8 instead of \$6, but the goal was really just to get us to that point of stability. So, when came the time to sell it, let's just get rid of it.

Adrian Bye: Do you think you sold it too low?

James Hong: Do I think that we could have gotten a higher price if we shopped it harder? Because we didn't shop it at all at that point. Yes, probably. But I don't know how much higher and I don't know what the percentage risk was of no deal happening at that point. At that point, Jim and I had already made our goals so, it's almost like we didn't really care. Especially if you put it into the context of, one of our friends, actually the YouTube founders, Steve Chen and then their first engineer Mike Solomon actually almost joined us before they started YouTube to start a social network around media sharing. So, Jim was very close friends with Steve and we would see Steve at the café because we were at MountainView, which is where PayPal was and we were, right down the street from PayPal. So, we used to all go to the same café. Basically, Steve's objective in the beginning of YouTube or any start up that he wanted to do was basically to achieve a lifestyle business. He wasn't actually trying to build a billion dollar business but they kind of like picked the right idea and ran well with it.



The thing that we've learned from watching Steve was that they went from zero to one and a half billion in a year and a half. So, I's kind of like, well, are we going to build HotorNot into a billion and a half dollar business? Probably not. So, we could continue working on it, but there would be opportunity cost of potentially about one and a half billion, or some megawind and something else. The

fact is that because we were working on it for so long our heart was not in it this much because both Jim and I had typical ADD personalities. So, the reality is if it's going to happen, it would have already happened for us a long time ago. It's not to say that it couldn't be a much bigger business but we were probably not going to be the ones to do it. So, we could stay collecting checks that would not have a marginal utility to us. If I have an extra million dollars a year or something like that, it's not going to make the biggest difference to my lifestyle. The next jump has to be much bigger and we we're not going to achieve that doing this. So, in our minds the opportunity cost was selling it for less price was probably worth more to us than the money.

Adrian Bye: One of the reasons you gave at the time when you sold was the spam issue. I was really interested in that because this relates to something else. There's a site, as you know I live in the Caribbean, there's a site called sexy or not.

James Hong: yes. Sexy or not. Yes.

Adrian Bye: Which I guess is a knock off.

James Hong: It's fascinating like we had so many rip offs and we used to really enjoy looking at all the rip offs and saying man, like these guys are not going to make it because they changed this or they changed that. We did put a lot of thought into our product. Sexy or no was spark in that. Their first rev was exact, exact copy of our site. Like they didn't change anything.

Adrian Bye: It's a knock off style.

James Hong: Yes, because for most of the knock offs, we could point to something that they did that were like okay that's going to destroy it. Like the most common one was people wanted to add the ability for people to comment on the photos. But we knew what would happen, you'd get like really lewd comments or you'll get really mean comments, which means other people who are reading those comments are not going to want to submit their pictures because they don't want to submit themselves to...they can submit themselves to the number, but they don't want to hear like you're an ugly bitch. So, sexy or no was one of the more successful copycats.

Adrian Bye: They've done well and then...

James Hong: Are they still running it?

Adrian Bye: Yes, and so they're still running. When you guys, one of the reasons you wanted to get out was the spam issue like they haven't had an issue with spam.

James Hong: No, we didn't get out because of the spam issue, but we knew that the spam was becoming a bigger problem and that we would have to spend a lot of time and energy fighting it which I'm sure they've done.

Adrian Bye: What do you mean by spam?

James Hong: People from other countries like...there are two outfits there.

Adrian Bye: Hi, I'm Olga, from Russia.

James Hong: Nigerian, can you wire me money. That type of thing, typically. I mean the scammers are actually very well organized. In fact, it's funny like some of them would often use the same password on HotorNot that they would use on the email accounts that they were using to rip off. So, when we identified the scam account, we started doing research to understand what they were doing and one of them was a very sophisticated operation out at the Philippines that was like a call center. They had level one people, level two people who would escalate. One person there would have bought, they would do things and then someone would start engaging you. If it looked like you were a hot lead, they would escalate you to a next level person who could close the money or something like that.

Adrian Bye: That sounds like the right way to do it.

James Hong: Yes, and it was very professionally ran and so finding these guys is not impossible, but it was going to be a lot of work.

Adrian Bye: And so they were doing their lead gen on hotornot.com

James Hong: Yes. Lead gen for them getting you to send the money. Not lead gen for products.

Adrian Bye: Because I have never understood really what you meant by scam.

James Hong: It's fraudsters, basically, it's a Nigerian scam over dating sites instead of email. So, it's not like we sold because the problem was so bad that it couldn't be solved. It's because we realized that to solve it we would have to come back in and work really hard on a system that we were kind of tired of working on. So, that's what I meant by the scam problem being one of the reasons that we sold.

Adrian Bye: One of the things that you guys did that I thought was pretty clever was you got a team of volunteers to help you run the site. So, you had the slogan of fun, clean and real.

James Hong: Which actually YouTube used as well after.

Adrian Bye: You want to talk about that, how you got an army of guys that basically do your work for you.

James Hong: So, what we realized is that in the beginning when we launched the site, we also added a forum. I think we actually had one of the largest Yahoo clubs or whatever they call that then. Yahoo clubs? I think it was clubs. Anyway Yahoo had a bulletin board system and we created one and it was fairly large. The user base inside it was very active. So, when we first started thinking of ways that we could monetize, we thought okay we will go with advertising, the lowest hanging fruit. But then we talked to the Founder of Double Click early on and asked him for advice and he said look, if you're going to have advertising, you're going to have to be able to guarantee that's there's not going to be a naked picture on the site. So, we said okay, how do we deal with that. So, the first thing we did was we built a system for Jim and I to look at pictures and reject them. Basically, his words made us shift the model from pictures being innocent until proven guilty to guilty until proven innocent. It had to be moderated before it will show up on the site. So, we did that for about a day and realized that that wasn't going to work out because we are too busy. So, we enlisted my parents to do it because my parents were my dad was newly retired and so they were just hanging out at home, and they started moderating pictures. A few days after they did that, I called them and said how are things going? My dad said, you know, it's really interesting, mom saw some really interesting pictures and he started describing them, and I told Jim we can't have my parents looking at porno pics. So, we said, what can we do? and I said why don't we have our community do it. So, we came out with the fun, clean and real tag line because we felt like it was a kind of a call to action or something that they could gel around. The interesting thing was that it was not hard even then to find porn on the web, but to some of these people, it was like a mission to try and keep at least one place clean. We're like the well-lit corner of the seedy web.

Adrian Bye: I remember seven years ago or six years ago, I emailed some of the guys. I found them on the forms and emailed them because I couldn't understand why they were doing it. It felt like that they had a mission that they really want to keep porn out of the space.

James Hong: Yes, one is they're in a community and when people are in a community, they care about the community. They care about each other. Just like any other, it's a socializing, it's human nature for you to care about the group that you're active in. It's just like teen behavior.

Adrian Bye: Do they know you're making a fortune of it?

James Hong: No, but at that time they didn't know. They didn't know but the reality is we were very timid about, but when we finally revealed it, they were happy. Because then it's kind of like the thing that they were part of was a success. Which kind of surprised us, but now looking back on and thinking about what I'm saying, actually it makes sense. Because people wanted to be on a winning team and people care about that more than they care about money, in fact. That's why people buy virtual goods on communities like the places where people are going to make most money selling virtual goods are places where people care how they looked to other people and they care how they look to other people when they interact with them more.

Adrian Bye: That's what Facebook has now.

James Hong: That's what Facebook has now. That's why Facebook is so powerful because your friends see you and that's why you care about. In general that's social networking, that's why people care about their social networking profile because they want to look cool to their friends. So, with the mods, they were a part of this community and because they were part of this community, they were spending so much time talking to each other, this gave them another way to be deeper in this community and most of these people were doing it from work, where they work in isolated jobs. We had a lot of admins and disc jockeys and even some investment bankers. Investment banking is a lot of work but a lot of it is actually face time, they're just sitting at the office waiting for documents to come back from the legal team or something like that.

Adrian Bye: How many moderators did you have?

James Hong: We had thousands.

Adrian Bye: Thousands of moderators. So, if you had to pay that team that would have been another massive cost.

James Hong: Yes, absolutely. People working for that functionality like Friend Finder and all the other dating sites, to this day, many of them pay for that functionality. What we found was that using the wisdom of the crowds type of technique, that the efficiency and the accuracy of the system was quite strong.

Adrian Bye: You guys seemed that you just did everything right.

James Hong: Yes. I mean that's ...

Adrian Bye: You obviously got lucky.

James Hong: Yes, we got lucky and who's to say that we couldn't have done...things turned out well so, things looked great in retrospect, but who knows what could have been if we've done things differently maybe it would have been better. It's just like people say eBay is doing great but maybe it would be better and even bigger if they were doing other things.

Adrian Bye: You hooked on to a lot of user-generated content.

James Hong: We solved some problems in ways that were unorthodox at the time but today are more commonly accepted and known. So, user generated content, the concept of two-way communication of the content, and virtual goods. I think we were the first interesting site in the US to do virtual goods back in 2004 selling virtual flowers and the concept of wisdom of the crowds was not known then, but retrospectively, that was what HotorNot was and that's also what our moderation system was. Because what we realized is that it was based on the math that the moderation system that even if someone only have a 5% accuracy if you require 5 people to vote in favor of a picture then the odds of getting 5 negative votes or getting 5 wrong votes is 1 minus 1% to the fifth power. So, it quickly becomes 99.999 percent system. That was the interesting thing that we came up with then and it was very interesting to read Wisdom of Crowds to understand what we had done. It helped us understand what we did even better as well. But it's not that we invented it, and it's not like Surowiecki invented it, you know the author. This kind of thing has been going on in communities all the time.

Adrian Bye: You guys did a lot of things.

James Hong: That's really what the internet changes is that it enables communities to form and it's kind of like Web 1.0, it was about community formation and then Web 2.0 started being more about with this network, what can you do now that you couldn't do before? Now that you have this distribution, now let's start flowing content over it, now let's start doing intelligent observations based on that content. Like HotorNot, like Yelp, like all sorts of things. Yelp is not new, Zagat existed, but it only existed in book form. So, it's slow and not everyone could participate, it was edited to some degree and so on. The web is like the ultimate opening of community action. This did happen on BBSs but just on a minor scale because the only people on BBSs or on network are dorks like me whereas now everyone...

Adrian Bye: ...and like me. You guys had the domain you started off with Am I Hot or Not. Then you switched to HotorNot. How did that work? How much did that cost you?

James Hong: That's actually what we used all the Ofoto money for.

Adrian Bye: Really?

James Hong: It's kind of funny. When we started HotorNot, the original name was going to be canyoutakeit.net, which just shows the naivete of Gemini at the time. Nothing .net has ever worked. Craigslist.org is probably the most interesting org. So, when we started HotorNot, we looked at different names and we actually did look at AmIHot, AmIHotorNot, we looked at HotorNot but it was taken. We didn't find anything on the sites but AmIHotorNot was the only one that was not taken, so we launched on that. Then, my understanding of what happened is that Howard Stern was talking about our site in that first week and the next thing we know there's a site on AmIHot.com. Then a month later, we got a cease and desist from them saying that we launched after them. Which we knew not to be true because we went to their site and their site was down, and their reply to that was well we have to move the server so you must just have caught us when it was offline, which we didn't really buy but we didn't want this legal action against us. At that point we didn't even think it was a company and so, we worked out with them and say okay look we're going to get HotorNot.com and we'll move from amihotornot to HotorNot. It turned out later that we found out from someone who interned at their company that they really thought that they were screwing us by doing that deal. Because they felt like AmIHotorNot everyone would abbreviate to AmIHot and they would basically win and we would lose. But as soon as that happened I basically reoriented all the press to being HotorNot.

Adrian Bye: Which is shorter and easier to remember.

James Hong: Yes, and which is why we liked it and it rhymed.

Adrian Bye: That's it. AmlHot versus HotorNot. HotorNot, it's totally rhymes. It's like simple like blackberry.

James Hong: Yes. It's catchier and little things like that matter. So, a lot of people asked us why we thought HotorNot was a success and I had two reasons. One was the name and the other was because the java script auto submit thing that we did. Back then all forum post people would have to hit a submit button and we came out with the java script to make it just go. The interface is a lot more addictive. Those two things probably made us from a product standpoint, but ...

Adrian Bye: Was it your idea or your partner's?

James Hong: The JavaScript was my idea. HotorNot we worked on together. The java script thing was my idea but Jim figured out...basically, I said dude can we get that...can that exist with java? Back then java script was fairly new and no one used it. We did a lot of clever things with JavaScript, actually. Another problem that we had was people would get their picture approved and then they would change that because it was distributed on GeoCities. They would change the picture after it was approved. So, we did this thing when they submitted the photo, we took a hash of the photo, we took the dimensions and the file size and things like that. We didn't do hash, but we did do file size and dimensions, because internet explorer allowed java script to access those functions, those characteristics, in browser. So, what we would do is when we displayed the photo on any given page, we had java script code checking to see that the file size and dimensions of the picture were exactly the same as what was in our database for that image. If it wasn't it would automatically go to the next page, it would send to our server a request saying hey, give me another picture and by the way this one is bad now. That one would go back into the queue, the moderation queue.

Adrian Bye: I remember reading an interview with you somewhere you talked about how everything was very efficient. What you had was just very efficient.

James Hong: We basically tried to automate wherever we could and that was basically a function of the fact that it was just two guys and we didn't have employees and we were running lean. I think if we have raised money things would have probably worked out a lot differently. We really made the thing pretty efficient in the beginning of the site.

Adrian Bye: Do you think it helped you being in the Bay Area? Could you guys have been...

James Hong: Yes, absolutely.

Adrian Bye: If you'd have been in Nebraska, could it have gotten to where it was or...

James Hong: Not likely.

Adrian Bye: What was it that helped?

James Hong: Some of these factors have changed since then, but one is that there's a lot of expertise that we got from friends. Let me take that back. You probably could do it from somewhere else but it was very helpful to us to have friends who work in the same space who could give us a lot of advice. The odds of having

those friends are a lot lower, if you're not here. Because we're physically here and these are our friends like people we went to college with helped build big sites. But today, on the internet, it's not hard to make friends, virtually either, So, it certainly is possible to do these kinds of things.

Adrian Bye: What kind of stuff were the advice that you got from your friends in the Bay area?

James Hong: A lot of it is technical.

Adrian Bye: Scaling it, do you mean?

James Hong: Just scaling it. Just infrastructure recommendations and the Rackspace deal, I did call them cold but I happen to know, I read that Lew Moorman went to Stanford Law School the same year as this other guy I knew. So, I emailed my friend, and say hey, did you know this guy and he said yes, I know him. I'm like can I mention that I know you. And he said yes. So, when I cold called them I say hey, I know you went to law school with Josh, Josh Becker and so, I'm a friend of Josh's and that was helpful. Certainly, we could have achieved what we achieved if we didn't live here. But it's kind of hard to answer that question because I don't know. I don't know what would have happened if we lived in Nebraska.

Adrian Bye: You didn't raise money. You didn't have a Board, you just had friends that helped talk you through stuff.

James Hong: Yes and if we didn't have that help I can't say maybe we would have been successful still. There certainly are companies that are successful that are not in the Bay Area but it's kind of when like people ask me did I get anything out of business school. I can't really tell you what I got out of business school. My answer to that would probably be not really. But I can't really say, maybe I did. Maybe there's some intangibles that I learned or developed skills that I have that became useful. It's hard to say what the world would be like if we took a different path because I don't know.

Adrian Bye: Do you want to talk a little bit about what you're doing now. I mean you're an angel. You are funding stuff. You are involved in some things.

James Hong: Yes, I started angeling things about four years ago. So, Mochi Media is probably the biggest one I'm in, Slide.

Adrian Bye: You're an investor in Slide?

James Hong: Actually, Slide, I'm best friends with Max Levchin who is the founder of Slide and because we are all in Mountain View. So, we were close to PayPal and that's how I met him, through PayPal connection. But Slide started off as a baby ticker, it was a product that was going to show you pictures of...it's basically RSS images feed reader. The first feed that he offered was a HotorNot Hot Girl Feed that we created for him. So, we have Slide, a company called Raptr. I don't know if you know Dennis he was one of the founders of Xfire, which was a gaming. So, he's doing a new thing in gaming called Raptor. I was involved with BitTorrent, probably like 10 companies or so. So, I started doing that. Thinking that maybe that could be my career, but I have come to the realization lately that I'm not sure if I'm ready to be just an investor because I kind of miss the adrenaline.

Adrian Bye: And working 10 hours a week?

James Hong: Not the adrenaline of working 10 hours a week, but the adrenaline of having something that is worth working 10 hours a week on. I'm not going to say 10 hours a day, obviously. We've been very lucky, but I miss the adrenaline of having something, the creation aspect of it is very valuable to me. I've always liked building things and when I was a kid, it went from being with Lego and then programming, but I feel like internet services are things like they're not physical things but they are meaningful to people and so, I enjoy making things that people like, and you get a rush out of it. So, I think my goal now is probably to go back to starting something.

Adrian Bye: Will you do it from the States?

James Hong: So, I'm going to take this vacation for a year. My wife, we just had a kid and so, it's pretty clear that I'm not going to get much work done over the next year anyway. So, might as well go travel, not just sit at home all day.

Adrian Bye: You're going to travel with the kid?

James Hong: yes. I'm told that it's actually easier in the beginning. Because he sleeps a lot. It gets harder when they start running around. So, I think I'm going to take this year to come up with ideas and think of different things and when I get back, I probably would get to work on some of them. I find that like a lot of things, a lot of the better ideas, there is not really a big hurry. Because the odds of anyone implementing, thinking of something innovative and executing on it too at the same time like within a year timeframe is pretty low. That most good ideas can simmer for years. Actually, the good ideas are the ones that stick.

Adrian Bye: Like what's an example of ideas because my feeling is the good ideas go with a certain timing and once they're gone.

James Hong: Yes. Timing is almost everything for a lot of things, and a lot of times people who think of ideas think ahead of the curve. Like a lot of the really big ideas are things that are ahead of the curve. So, with HotorNot, we happened to launch right around the time that digital cameras were getting cheaper and so more people could participate and that made it infinitely more viral. Because usually the content creation aspect of it drives a lot of the growth. So, the timing for us was the content creation piece. YouTube as well, right around when YouTube came out that was when cameras started having the ability to create videos.

Adrian Bye: That makes sense.

James Hong: Things like that. I think often times ideas are ahead of their time. You have to wait for the technology that it relies on to get cheap and widely distributed.

Adrian Bye: So, can I ask what you're looking at?

James Hong: I'm not looking at anything right now. But I do think about like these kinds of issues. What's down the pipe? Basically, I think a good way to think about these things are to think of what is the future going to look like or what's going to be different? Like, for instance right now I can tell you the iPhone is changing everything. Not necessarily that everyone is going to be on the iPhone but the use case, and the paradigm and what people think of, their level of connectivity with an iPhone is going to change how all smart phones are made.

Adrian Bye: So, if you do a consumer website where are things going to be in a year, two or three?

James Hong: So, then you start thinking about things like the concept of... ubiquitous connectivity, like the fact that I'm going to be connected hundred percent of my day and not just when I'm at a computer or even my laptop. The fact that it has push notifications now is insanely huge. So, you start thinking... in that well with that infrastructure. When everyone has the ability to be connected if you contact it twenty fours a day with connectivity like that what can you do now. The truth is that if you think of that, you're going to be early because everyone doesn't have connectivity now. Everyone doesn't have an iPhone now.

Adrian Bye: and no one is designing apps for that.

James Hong: But the truth is that people have been thinking about that concept for almost a decade now. Before it was with Wap, but it's clear that the paradigm shift just happened and so a lot of ideas that people probably had 5 to 10 years ago are only now possible. So, I don't really feel like when I go traveling I can think about ideas that maybe the right time when I get back or maybe a little later. Even HotorNot, we had the general idea for HotorNot for a year and a half before we launched HotorNot. It was basically a dating site that we would use, collaborative filtering and things like this, but it wasn't interesting until people had the ability to take their own photo and submit their own photo to that system. So, that's why the timing was right.

Adrian Bye: But you didn't know that.

James Hong: We didn't know. It wasn't thought out, but the fact is more people had cameras. So, it's not that we thought hey we're going to wait until cameras are out then we'll launch it, but because cameras are starting to come out you start thinking about pictures again. It's like yes we can do that. So, it's not like master, its not like evil plan. It's not a genius thing, but you just notice things and like the timing is right when the idea comes back to you. Because it's coming back to you for a reason based on some external suggestion factor. Like oh, shit, everyone has cameras now.

Adrian Bye: Just quickly, your partner, what is he doing now, is he going to be part of the next venture?

James Hong: No, he is in Philly now. Although he still has a house here so, he goes back and forth. But his wife is from Philadelphia so, they moved out there and he is just kind of working, he is building iPhone apps now. Out of his house just him.

Adrian Bye: Cool. On to the next thing. Is there anything you want to talk about which we haven't covered.

James Hong: No.

Adrian Bye: Cool.

James Hong: I don't have an agenda, you asked it, I'll answer it.

Adrian Bye: That's it, well James, thank you.

James Hong: Thank you.