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From [REDACTED] <[REDACTED]>  
Cc "Karen Seto" <[REDACTED]>  
Bcc  
Received Date 2006-06-27 05:42:46 CST  
Subject good press (tube & nbc - wsj article)

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## Garage Brand With NBC Pact, YouTube Site Tries to Build a Lasting Business

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Internet Video Service Sketches  
A Path to Profitability;  
Difficult Copyright Issues

Receiving 60,000 Clips a Day

By KEVIN J. DELANEY  
June 27, 2006; Page A1

Over the past decade, large media and tech companies have tried to build mass-market services offering video over the Internet. Someone has finally succeeded big: a startup with 35 employees and an office over a pizza restaurant.

Through YouTube Inc.'s Web service, consumers view short videos more than 70 million times a day, ranging from clips of unicycling jugglers and aspiring musicians to vintage Bugs Bunny cartoons and World Cup soccer highlights recorded from TV. Users post more than 60,000 videos daily, with a limit of 10 minutes for most clips.

The big question for YouTube now: Can it turn this loose bazaar of videos into an enduring business?

It will take a step in that direction today when it gets a big endorsement from General Electric Co.'s NBC Universal. NBC plans to announce that it will make available on YouTube promotional video clips for some of its popular shows, such as "The Office," "Saturday Night Live" and "The Tonight Show with Jay Leno." NBC plans to market its new fall lineup using clips on YouTube, and is holding a contest for consumers to submit their own promotional videos for "The Office." It will also buy ads on the site and promote YouTube with mentions on television. That's a significant step for NBC, which earlier had demanded that YouTube take down clips of its programming. (Time Warner Inc.'s Warner Bros. has made a deal to distribute movies and TV shows via Guba.com.)

YouTube is a classic

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Nike Inc. Cl B (NKE)	84.25	-0.11	6/26
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**Steve Chen**

Silicon Valley garage-to-glory tale. Two friends, Chad Hurley and Steve Chen, started a company in a garage to tackle an issue they were grappling with personally: how to share home videos online. They maxed out Mr. Chen's credit card on business expenses before a financier bankrolled them. They built following under the noses of richer, better-known companies with larger payrolls. The young company burst forth as the dominant player.

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But for every Apple Computer Inc. or Google Inc., Silicon Valley's history is filled with hot startups that gained 15 minutes of fame but couldn't sustain their brief success. Executives, including some alumni of Internet flameouts, are now furiously planning deals to sustain their upward arc.

YouTube's 29-year-old chief executive, Mr. Hurley, and its 27-year-old chief technical officer, Steve Chen, see two big challenges. The first is to figure out how to make money. The second is to address concerns of copyright holders that many of their TV and movie clips, music videos and songs are available through YouTube without permission.



**Chad Hurley**

Messrs. Hurley and Chen, who worked together at eBay's electronic-payment unit, are trying to tackle both issues. They're quietly building an online-ad system with Google which they intend to use to entice producers to post their videos on YouTube. When the system rolls out later this year, YouTube will receive revenue from ads that appear alongside some videos with those videos. Messrs. Hurley and Chen hope that Hollywood will see YouTube much as it now views network TV: a legitimate distributor of content with revenue and promotional payoff.

With stepped-up ad sales, YouTube could become a big player in the industry. While much of its content consists of home-shot videos, say the most-viewed items often involve some type of copyright infringement. On a recent day, top-viewed videos included "Today" and "The Daily Show," a shaky "Radiohead" concert video and World Cup highlights recorded from TV.

YouTube says it removes clips when content owners request it, under a procedure set by the Digital Millennium Copyright Act of 1998. In some cases, copyright owners sue YouTube to get the clips off its site themselves in order to generate buzz or to test ideas.

NBC has been among the media companies most actively requesting YouTube to remove clips that users have uploaded without permission. With today's agreement, NBC will continue to show to YouTube's audience while getting assurances that material it doesn't want will be removed. "YouTube has done their work on protecting copyright and we have them they will continue to do so," says NBC Universal Television Group Chief John Miller. "They are a bright light, they have a lot of traffic," he adds.

Based in San Mateo, Calif., YouTube got its start in February 2005, after a dinner between Mr. Hurley, who studied design in college and sports shoulder-length hair, and Steve Chen, a Taiwan-born engineer with small hoops in each ear. They took videos of the party and were frustrated when they tried to share the footage with friends. They set out to build a site that would let them do just that. At the time, Mr. Chen was still working at PayPal, who had designed PayPal's current logo during his 1999 job interview there, and was working

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They set up shop in Mr. Hurley's Menlo Park garage. In May 2005, they released the site on the Web with no marketing. Early videos available prominently featured PJ.

#### Building a Following

The site quickly built up a following. It stood out from the growing corps of ones including an offering from Google, for its simplicity. YouTube serves up videos directly or from other sites where people insert them, generally not requiring use of special software. To accomplish this technical feat, YouTube drew on open-source code. The service can handle about 110 video formats and 64 audio digital photo and video cameras and cellphones.

It also let consumers display its videos on other sites, such as blogs or personal Corp.'s popular MySpace social networking service. Users could easily upload their links to YouTube videos to each other. The influential techie site Slashdot's mention helped boost traffic.

After seeing Mr. Chen at a party last summer, former PayPal Chief Financial Officer put some clips from his honeymoon in Italy on the site. Now a partner at venture Sequoia Capital -- known for backing Apple, Cisco, Google and Yahoo, among others, invited the YouTube co-founders to his office in mid-August. Mr. Botha says they share a key attribute with some of those tech legends: "building something for a wide audience that winds up being universally useful."

By September, users were viewing YouTube videos more than a million times a day. In a strategy with Mr. Botha in October, the YouTube founders still believed their main opportunity involved individuals sharing home videos. The next month, they had injected \$3.5 million to help finance the company.

But it started becoming clear to YouTube that users were sharing more than just home videos and viewership stretched far beyond circles of friends. By the time of the site's launch on Dec. 15, consumers were viewing YouTube videos more than three million times a day. Of users had watched clips starring Brazilian soccer star Ronaldinho posted by Sony Inc. A few days later, someone posted to YouTube a skit from NBC's "Saturday Night Live" dubbed "Lazy Sunday," featuring two grown men rapping about cupcakes, red licorice and "The Chronicles of Narnia" film.

After it turned up among user favorites on the site, Mr. Hurley on Dec. 28 emailed NBC. He asked whether NBC had provided the clip itself, and volunteered to remove the YouTube if the video had been shared without NBC's permission. The NBC staff didn't know the answer, but would look into it, Mr. Hurley says.

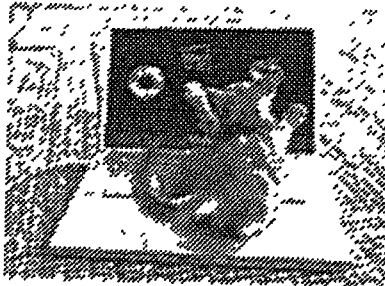
Consumers viewed "Lazy Sunday" six million times before NBC on Feb. 3 contacted YouTube to request that it be removed, along with hundreds of other clips including Jay Len's "The Jay Leno Show" video from the Winter Olympics.

#### Run-in With MySpace

YouTube's rising popularity led to run-ins with others. In December, MySpace began playing YouTube videos on their MySpace pages. Consumer outcry followed and MySpace deactivated the YouTube feature again. A News Corp. executive later said MySpace deactivated the YouTube videos because they contained porn, and only reactivated them once YouTube had assurances about porn filtering. (YouTube says it removes any pornography after a complaint.) Shortly after the incident, MySpace released its own video service to compete with YouTube.

As YouTube users began complaining that the system was slowing, the company upgraded its technology. In January, it began displaying limited advertising to help offset its costs for computer equipment and telecom lines. Mr. Chen predicts YouTube will open offices in cities with computers to run its service each month this year.

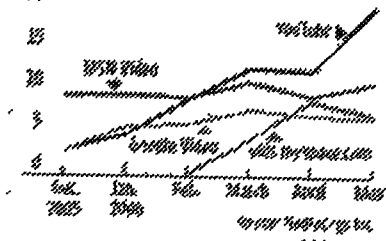
Thanks partly to its use on MySpace and the Saturday Night Live clip, YouTube cultural phenomenon. Amateur video enthusiasts created their own video tributes that they titled "Lazy Monday" and "Lazy Muncie." Videos of young people, in students, hamming it up in front of Webcams while lip synching to popular songs millions of times.



A video on YouTube, above, viewed over one million times since June 7.

### Eye Catching

YouTube's unique interface continues to draw in a loyal audience of users.



Along the way, the entertainment world how it might benefit from YouTube's arrival. Weinstein Co., a movie company run by Harvey Weinstein, in April premiered the film "Lucky Number Slevin" on YouTube. Inc.'s Paramount Vantage movie unit has exclusively on YouTube an 83-second clip of fun at Al Gore to promote its "An Inconceivable" By midday yesterday, it had been viewed 1.5 million times. "As a marketer you almost can't find a better place than YouTube to promote your movie," says a vice president for interactive marketing at Vantage. Viacom owns YouTube rival id

Still, there were bumps. C-SPAN asked to remove a popular clip of an appearance by personality Stephen Colbert at the White House Correspondents' Association dinner in April. It distributed the clips free through Google

Some top tech and entertainment executives are in admiration of the company -- while others have shown their disapproval. Microsoft Corp. Chairman Bill Gates told attendees of The Wall Street Journal conference that, given the copyright issues, there is no clear path to profitability, his company is

trouble" if it did what YouTube has done. But he also acknowledged spending time on a bunch of old Harlem Globetrotters movies up there the other night, it's great," he

Google and other YouTube competitors also stepped up their games. Google said it will launch a video-upload interface to match what YouTube had been offering. Yahoo this month launched its own video service to allow consumers to submit videos directly to it, competing more directly with YouTube.

Rumors have circulated in recent months that some major media companies have been in talks about buying YouTube. In response, Mr. Hurley says the company is not for sale. A public offering in the future is a possibility.

The YouTube co-founders decline to provide many specific details of the ad system they are gradually beginning to roll out next month. But they say they're not fond of commercial interruptions before a user can watch a video, known in the industry as "prerolls." YouTube recruited former sales executive Tony Nethercutt to build its sales team.

#### Submission by Cellphone

Consumers can now submit videos from their mobile phones, and Messrs. Chen and Chen say they one day should be able to view YouTube clips on phones and other devices. They also plan to potentially expand beyond video to audio and other content.

For now, YouTube remains by far the most-visited video site on the Web. It attracted 11.1 million U.S. users in May, compared with 11.1 million for Microsoft's MSN Video and 7.7 million for both MySpace's video site and Google Video, according to research by NetRatings Inc. YouTube says behavior indicates that users are most interested in

three minutes or shorter.

"We're at the fork in the road where Google was at maybe four or five years ago before they rolled out" their current ad model, says Mr. Chen.

A big question is whether more advertising and promotions will drive away some users who like the site's edgy feeling. Consumers spoke up earlier this year when YouTube's home page began to highlight in yellow links to videos from official content partners, questioning the preferential treatment. In response, YouTube quickly removed the yellow highlighting from the page.

Write to Kevin J. Delaney at [kevin.delaney@wsj.com](mailto:kevin.delaney@wsj.com)

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