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# The Inside Story Of Snapchat: The World's Hottest App Or A \$3 Billion Disappearing Act?

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**THIRTEEN MONTHS AGO** Facebook's Mark Zuckerberg, the richest twentysomething in history, reached out to Snapchat's Evan Spiegel, who oversees a revenue-less app that makes photos disappear, with an invitation, delivered to his personal e-mail account: Come to Menlo Park and let's get to know each other. Spiegel, now 23 and the brashest tech wunderkind since, well, Zuckerberg, complete with his own legal battle against a college buddy who helped him start his company, responded to his role model thusly: I'm happy to meet you... if you come to me.

And so, armed with the premise of meeting with architect Frank Gehry about designs for Facebook's headquarters, Zuckerberg flew to Spiegel's hometown, Los Angeles, arranging for a private apartment to host the secret sit-down. When Spiegel showed up with his cofounder Bobby Murphy, who serves as Snapchat's chief technology officer, Zuckerberg had a specific agenda ready. He tried to draw out the partners' vision for Snapchat—and he described Facebook's new product, Poke, a mobile app for sharing photos and making them disappear. It would debut in a matter of days. And in case there was any nuance missed, Zuckerberg would soon change the large sign outside its Silicon Valley campus from its iconic thumbs-up “like” symbol to the Poke icon. **Remembers Spiegel: “It was basically like, ‘We’re going to crush you.’”**

Spiegel and Murphy immediately returned to their office and ordered a book for each of their six employees: Sun Tzu's *The Art of War*.

Snapchat represents the greatest existential threat yet to the Facebook juggernaut. Today's teens have finally learned the lesson their older siblings failed to grasp: What you post on social media—the good, the bad, the inappropriate—stays there forever. And so they've been signing up for Snapchat, with its *Mission: Impossible* style detonation technology, in droves. FORBES estimates that 50 million people currently use Snapchat. **Median age: 18. Facebook, meanwhile, has admittedly seen a decline among teenagers. Its average user is closer to 40.**

Zuckerberg understood this, which might explain the gamesmanship. When Poke debuted, on Dec. 21, 2012, Zuckerberg e-mailed Spiegel, telling him that he hoped he enjoyed it. Spiegel, who had deactivated his Facebook account, frantically called Murphy for his review. It was, Murphy responded glumly, a near-exact copy.

But a funny thing happened on the way to obsolescence. The day after its launch Poke hit number one on the iPhone app store. But within three days, on Dec. 25, Snapchat had pulled ahead, boosted by the publicity, as the Facebook app disappeared from the top 30. Laughs Spiegel: “It was like, ‘Merry Christmas, Snapchat!’ ”

Which helps explain what happened in the fall when Zuckerberg reengaged Spiegel, basically ready to surrender on terms so generous, on paper, they seemed preposterous: \$3 billion in cash, according to people familiar with the offer, for a two-year-old app with no revenue and no timetable for revenue. (Facebook refused to comment for this article.)

Even more preposterous, of course: Spiegel turned Zuck down. It was the most scrutinized business decision of the past year, complete with head-spinning math. FORBES estimates that Spiegel and Murphy each still owned about 25% of Snapchat at the time, which means they were both forgoing a \$750 million windfall. “

I can see why it’s strategically valuable,” one leading venture capitalist tells FORBES. “But is it worth \$3 billion? Not in any universe I’m aware of.”

## **In Pictures: The 2014 30 Under 30 – Technology**

The roots of that decision, however, were obvious to anyone who knew about the primer that Spiegel and Murphy had bought for their team. Chapter 6 in the *Art of War* specifically addresses the need to attack an enemy where and when he displays weakness. Spiegel and Murphy sense an opening and insist that rather than selling, they're aiming to upend the social media hierarchy, armed with a \$50 million war chest raised in December at a lower (but still heady) valuation of just under \$2 billion. "There are very few people in the world who get to build a business like this," says Spiegel. "I think trading that for some short-term gain isn't very interesting."

For those keeping score, a "short-term gain" for a 23-year-old who still lives in his dad's house now apparently equals three-quarters of a billion dollars. In going for the long gain, Spiegel will either become the next great billionaire prodigy or the ultimate cautionary tale of youthful hubris.

**A LANKY 6-FOOT-1**, dressed in a button-down shirt, designer jeans and plain white sneakers, Evan Spiegel hasn't quite molted the carapace of an awkward teen. Sitting at Snapchat's new Venice Beach headquarters for his first-ever in-depth media interview, he shifts abruptly from raucous laughter to icy glares, constantly grabbing fistfuls of gummy bears and Goldfish crackers. His conversation is pocked with plenty of examples of "like" and "whatever." And while Spiegel proves extremely opinionated on subjects like

politics, music and other techies, he's reluctant to discuss even the most basic CEO topics, like his ideal management team or his long-term vision for Snapchat.

If you're patient enough, however—one of my conversations with him lasted two and a half hours—you'll get the full backstory, one that shares an uncanny similarity to that of his frenemy, Zuckerberg.

Like Zuck he was a child of relative privilege, the first-born child of two successful lawyers (mom Melissa went to Harvard Law and practiced tax law before Spiegel was born, while litigator dad John, a Yale Law grad, has represented the likes of Sergey Brin and Warner Bros.), living in tony Pacific Palisades, just east of Malibu. And like Zuck he was a middle school nerd who found refuge in technology, building his first computer in sixth grade, experimenting with Photoshop in his school's computer lab and spending weekends at a local high school's art lab. "My best friend was the computer teacher, Dan," Spiegel laughs.

In high school he began to display the moxie that Zuckerberg would later exhibit, promoting Red Bull at clubs and bars and using his parents' divorce as a leverage tactic. He first moved in with his dad when he gave him a free hand in outfitting his room and who could come over. "I had some notorious parties," he smirks. But when Pop reportedly refused to shell out for the lease on a BMW 550i, he moved in with Mom. Days later the BMW was his. Except for college, he's been based in his dad's home, a stone-faced mansion

a half-mile north of the ocean, ever since. “A lot of things have changed very quickly, so it’s nice to have that one constant,” he says by way of justification. “It’s also pretty grounding.”

He entered Stanford’s product-design program and in 2010, during his sophomore year, moved into the Kappa Sigma fraternity house. Bobby Murphy, a senior major in mathematics and computational science, lived across the hall. “We weren’t cool,” Murphy says of the fraternity. “So we tried to build things to be cool.”

**Related: [\*Snapchat’s Evan Spiegel And The Antics Of A 23-Year-Old Novice\*](#)**

While Spiegel is animated, albeit measuring what he’s saying, Murphy, the Berkeley son of state employees (his mother emigrated from the Philippines), sits placidly, one leg tucked under the other. “I’d describe him almost like a monk,” says David Kravitz, Snapchat’s first hire. “I don’t think I’ve ever seen him upset.” At Stanford it was Murphy who first hired Spiegel, recruiting him to design an online social network inspired by Google Circles. It went nowhere.

Still, Spiegel was getting noticed. Intuit’s Scott Cook was impressed by an answer he gave while guest lecturing at Peter Wendell’s popular graduate level class, “Entrepreneurship and Venture Capital.” “After class concluded, I commented on the intelligence and reasoning in this particular student’s response,” says Cook. “And Professor Wendell said, ‘Well, you will be

surprised to know he isn't an M.B.A. student. He is an undergraduate who is auditing this class.” Cook quickly hired Spiegel to work on txtWeb, an Intuit project that broadcasts Web-based information via SMS texts in India.

Spiegel, however, was in too much of a rush to remain content as an apprentice. In the summer of 2010 he and Murphy developed Future Freshman, a suite of online software to help parents, high schoolers and guidance counselors manage college admissions. “It ended up being this unbelievably full-featured website,” Murphy recalls. One problem: “We got, like, maybe five people on the service,” says Spiegel.

That's when fate, in the form of another fraternity brother, Reggie Brown, stepped into Spiegel's room to discuss a photo he wished he hadn't sent someone. The ensuing set of events makes *The Social Network* look like C-Span2.

**WHILE OWNERSHIP** of Snapchat remains hotly disputed, all sides seem to agree on the genesis: Brown said something to the effect of “I wish there was an app to send disappearing photos.” Brown refused to speak to FORBES, citing the pending litigation, but his side of the story comes through via numerous court documents, including a leaked deposition. According to Brown, Spiegel became “physically animated” and repeatedly called Brown's remark “a million dollar idea.” (Spiegel acknowledges he was excited, but won't comment about the “million dollar idea” line.) That night they set out to find a developer. Brown claims two candidates declined; regardless, they settled on Murphy, who had just graduated.

The original roles were fairly defined: Murphy as CTO, Brown as chief marketing officer, Spiegel as CEO, honing the idea as part of a design class he was taking. The first iteration was a clunky website that required users to upload a photo and set a timer before sending. The eureka moment only came when the idea migrated to mobile. “At some point it was like, ‘Hey, there’s a camera on your phone,’” Spiegel says. “‘Wouldn’t that be easier?’”

The class culminated in a presentation to a panel of venture capitalists. Brown came up with a name for the app, Picaboo, and Murphy put in 18-hour days to get a working prototype. The response was tepid. “The feedback was basically, ‘Hmmm. Well, thank you for showing us your project,’” recalls Spiegel. One investor suggested he partner with Best Buy. Many wondered why anyone would want to send a disappearing photo.

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The first version debuted in the iOS App Store on July 13, 2011... to yawns. “The Instagram fairy tale”—the app had 25,000 downloads on the first day—“that was not us unfortunately,” Murphy laments. The team had worked around a potentially fatal flaw—the fact that recipients can take a screenshot, rendering a disappearing image permanent—by building in a notification if your picture has been captured, a potent social deterrent. Still, by the end of the summer Picaboo had only 127 users. Pathetic. Brown toyed with positioning the app as a sexting tool. (“Picaboo lets you and your boyfriend send photos for peeks and not keeps!” reads a draft of a press release he



wrote.) Murphy's parents implored him to get a real job. And Spiegel apparently began pushing to shake up the team. According to Brown's deposition, he overheard Spiegel and Murphy plotting to replace him.

The breaking point came when equity was being finalized. On Aug. 16 Brown, back home in South Carolina, called his two partners and laid out his case. He wanted around 30%, according to Murphy's deposition, and listed his contributions: the initial idea, the Picaboo name and the now-famous ghost logo. Spiegel and Murphy countered that he didn't deserve anywhere close to that. When Brown claimed that he had "directed [the] talents" of Spiegel and Murphy, Murphy remembers, an enraged Spiegel hung up. Spiegel and Murphy changed administrative passwords for the app and cut off contact except for a few tense e-mails about a pending patent. Brown was out, relegated to Snapchat's version of a cross between the Winklevoss twins and Eduardo Saverin. (Ironically, in their battle with Brown, Snapchat has hired the legal team that pursued the Winklevoss claim against Facebook.)

Now a two-man operation, Picaboo changed its name to Snapchat after receiving a cease-and-desist letter from a photo-book company with the same name. "That was like the biggest blessing ever," says Spiegel. But even as he and Murphy added photo caption capabilities, they seemed destined to replicate their Future Freshman experience: a technically competent product that virtually no one wanted. Spiegel returned to Stanford for his senior year; Murphy took a coding job at Revel Systems, an iPad point-of-sale company in San Francisco.

But that fall Snapchat began to exhibit a pulse. As user numbers approached 1,000, an odd pattern emerged: App usage peaked between 9 a.m. and 3 p.m.—school hours. Spiegel’s mother had told her niece about the app, and the niece’s Orange County high school had quickly embraced Snapchat on their school-distributed iPads, since Facebook was banned. It gave them all the ability to pass visual notes during class—except, even better, the evidence vanished. Usage doubled over the holidays as those students received new, faster iPhones, and users surged that December to 2,241. By January it was at 20,000; by April, 100,000.

But with growth came server bills. While Spiegel helped cover some of it with money from his grandfather, Murphy had to fork over half his paycheck. As monthly expenses approached \$5,000, the guys needed a bailout.

Lightspeed Venture Partners’ Jeremy Liew came to the rescue. His partner’s daughter relayed how Snapchat had become as popular as Instagram and Angry Birds at her Silicon Valley high school. But Spiegel and Murphy proved difficult to track down; their website had no contact information, and no one was listed on the company’s LinkedIn page. Liew finally did a “whois” lookup to find the owner of the Web domain, linked the obscure LLC to Spiegel and tracked him down via Facebook. “His profile picture was with Obama,” shrugs Spiegel. “So I thought he seemed legit.”

In April 2012 Lightspeed put in \$485,000 at a valuation of \$4.25 million. “That was the greatest feeling of all time,” says Spiegel. “There is nothing that will replace that.” On the day the money went through, he sat in a machine-shop class busily refreshing the Wells Fargo app on his iPhone. In a final homage to Zuckerberg, when the money appeared he walked up to the professor and dropped out of the class and Stanford, a few weeks from graduation.

**SNAPCHAT HAS MOVED THREE TIMES** since the initial investment, as the company has grown to a still-lean 35 employees. The latest offices, in a former art studio a block from the Venice boardwalk, are appropriately anonymous, with just a small ghost logo to identify it. Most of the development that has made it a viral sensation, however, took place in 2012, when the company was headquartered at Spiegel’s dad’s house. “He convinced us to drop out of Stanford and move down to L.A. over the course of a single conversation,” says Daniel Smith, who was hired along with Kravitz.

The team worked around the clock, sleeping where they worked. (Smith lived in Spiegel’s sister’s room, with enough girlish orange and pink polka dots, Spiegel remembers, “to give you an anxiety attack.”) “Bobby had a habit of pushing code changes and then going to sleep,” says Spiegel, who then found himself on debugging duty. “I’d wake up in the morning and go, ‘Oh my God!’” Adds Murphy: “I still have nightmares about him stomping down the stairs.”

The arrangement proved oddly effective. Says Lightspeed's Liew: "They can call 'bulls-t' on each other, which makes their ideas better." What emerged was an app that, rather than a tool for the likes of Facebook, can potentially challenge it. By both luck and design, Snapchat addresses three red flags for Facebook. First, it's more intimate and exclusive. Just as Facebook took the anonymous Internet and boiled it down to real people you knew, Snapchat narrows your world from Facebook "friends," which range from long-forgotten schoolmates to nagging aunts, to your network of phone contacts. People, in other words, you actually talk to.

Second, it's perceived as young and cool. Most teens can probably find a grandparent on Facebook. Snapchat's mobile-first roots give it credibility with the app generation, which increasingly view PCs the way their parents viewed black-and-white televisions.

And in the age of Snowden, parental Facebook monitoring and "revenge porn" (exes who publicly post nude pictures of former lovers), the self-destruction feature has become increasingly resonant. "This isn't a silly little messaging app," insists Liew. "It allows people to revert back to a time when they never had to worry about self-censorship."

An entire subindustry—so-called ephemeral, or temporary, social media—has emerged behind it. Besides Poke (which has largely faded), there's Clipchat (a Snapchat-Twitter hybrid), Wickr (disappearing texts) and dozens of other

apps pushing the boundaries of digital communication back toward what a telephone call used to be—a way to communicate with little risk it will come back to bite you.

All of them, however, are stuck chasing Spiegel and Murphy, who have evolved Snapchat into something fun and easy. To view a snap users hold a finger on their phone screens, a feature designed to make it still more difficult for people to photograph the image with another camera. Disappearing video is now an option. And while teens have embraced a medium unreachable by prying parents or future employers, grownups are catching on. All told, Snapchat users send 400 million photos and videos each day, matching the daily uploads to Facebook and Instagram combined.

“We certainly didn’t invest in this to flip it,” says Mitch Lasky, a Snapchat board member and partner at venture capital firm Benchmark, which led Snapchat’s \$13.5 million fundraising round a year ago (they also raised \$60 million in June from Institutional Venture Partners)—and invested in Twitter way back in 2009.

**ALL THE ASTOUNDING GROWTH**, valuations and talk of an independent future misses one key ingredient: revenue. Asia offers a possible blueprint. There, a handful of wildly popular mobile messaging services that upsell users with “in-app” purchases. Spiegel’s party line, when discussing revenue, feels as if it’s read from a script: “In-app transactions followed by advertising, that’s the plan we’re sticking to.”

Drilling down through some of the companies that Spiegel cites raises more questions than answers. China's WeChat, a massive messaging app owned by the Chinese Internet behemoth Tencent, encourages users to subscribe to celebrity greetings and purchase physical goods. But it's mostly a texting app, and the messages don't disappear. Korea's KakaoTalk and Japan's Line make most of their money via mobile games, which don't seem a natural fit with Snapchat. And, of course, digital goods, like premium sticker packages, emoticons and animations, are also moneymakers in Asia, though Spiegel seems to disapprove. "It'll make sense in a Snapchat way," he says. "But it will *not* be stickers."

Advertising is similarly tricky. Snapchat's core strengths in gaining users (your privacy is protected and your images disappear!) cripple the targeted advertising that most social media companies rely on (Snapchat knows little more than e-mail, age, phone number—plus your ads disappear!).

But it has one advantage that few other digital advertisers can claim: guaranteed engagement. Users must keep their fingers on a photo or video to view it—and that applies to any ads thrown their way. Snapchat can tell advertisers with absolute certainty whether their ads were viewed, a useful data point in the metric-driven world of digital advertising.

Like Facebook the company can also charge businesses for setting up branded accounts. Acura, Taco Bell and the New Orleans Saints already use the app to debut new products and show behind-the-scenes footage. The company's Stories feature, which lets users display a compilation of snaps

taken over the last 24 hours, is useful for brands looking to tell a longer story. Example: Online retailer Karmaloop uses the feature to show clips of posing models sprinkled with discount codes and new items. Others, like frozen yogurt chain 16 Handles, have experimented with “exploding coupons.”

Spiegel and Murphy, slow in their college days to adapt to emerging platforms, also seem keen to not make that mistake again. In September, for example, Snapchat debuted on the Samsung Galaxy Gear smartwatch. “People haven’t thought about use cases on new computing platforms,” says Thomas Laffont, managing director of [Coatue](#), the hedge fund that provided the latest \$50 million infusion. “In one tap you take a photo, one more and you can share it. Imagine [the difficulty] trying to post on Instagram from a Google Glass device.”

Ah, Instagram. Zuckerberg’s Poke might be languishing, but he still has the last billion-dollar app to come out of Stanford. Kevin Systrom’s \$1 billion sale last year, in fact, is often held up as the reason Snapchat was right to turn down Facebook’s preemptive billions. (Instagram could be worth as much as ten times more now.) Zuck is going after Snapchat again with a tweak to Instagram—Instagram Direct, a Snapchat knockoff with a key difference: The images don’t vanish unless users go in and delete them.

Spiegel and Murphy have another headache. Brown’s lawsuit, which asks for one-third of the company plus punitive damages, might go to trial this year. “It’s definitely over a billion dollars we’re seeking,” says Luan Tran, one of

Brown's lawyers. Insiders say Snapchat is eager to try the case, but videos of depositions, presumably leaked by Brown's team, show Spiegel and Murphy far more equivocal and forgetful than their opponent. "I'm just hoping it gets resolved so it doesn't prove to be a distraction," says Benchmark's Lasky.

The proverbial "adults" have been brought in, including Philippe Browning, the vice president of monetization, nabbed from CBS, and COO Emily White, poached from the business division of, yes, Instagram. But, tellingly, the company prevented FORBES from interviewing either of them.

And then there's the most recent [hacking scandal](#). On New Year's Day, an anonymous hacker matched the usernames of 4.6 million Snapchat users to their phone numbers, then dumped the data, with the numbers redacted, on the Internet. The breach was meant as a warning to Snapchat, which has yet to secure vulnerabilities benevolent hackers pointed out months earlier.

So for now the doubters carry the day. "There's an almost ritual incantation when these things reach 50 million daily active users and people say, 'Well they're not making any revenue,'" says Lasky. "It's unfair to expect these things to generate revenue while growing so quickly." To his point, the same was said about Twitter and Facebook. But it was also intoned by the dot-com oracles on the eve of catastrophe 15 years ago. Will Snapchat wilt like MySpace, get out at a peak valuation the way Mark Cuban sold Broadcast.com or prove the next great social media IPO? We should get our answer within two years, just in time for Spiegel to turn the ripe old age of 25.



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