

Hacker. Dropout. CEO.

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When Mark Zuckerberg showed up in Palo Alto three years ago, he had no car, no house, and no job. Today, he's at the helm of a smokin'-hot social-networking site, Facebook, and turning down billion-dollar offers. Can this kid be for real?



"I'm just lucky to be alive." Mark Zuckerberg, the 22-year-old founder and CEO of social-networking site Facebook, is talking about the time he came face-to-face with the barrel of a gun. It was the spring of 2005, and he was driving from Palo Alto to Berkeley.

Just a few hours earlier, he had signed documents that secured a heady \$12.7 million in venture capital to finance his fledgling business. It was a coming-of-age moment, and he was on his way to celebrate with friends in the East Bay. But things turned weird when he pulled off the road for gas. As Zuckerberg got out of the car to fill the tank, a man appeared from the shadows, waving a gun and ranting. "He didn't say what he wanted," Zuckerberg says. "I figured he was on drugs." Keeping his eyes down, Zuckerberg said nothing, got back into his car, and drove off, unscathed.

Today, it is an episode that he talks about only reluctantly. (A former employee spilled the beans.) But it fits the road he has taken--an adventure with unexpected, sometimes harrowing, moments that has turned out better than anyone might have predicted.

Zuckerberg's life so far is like a movie script. A supersmart kid invents a tech phenomenon while attending an Ivy League school--let's say, Harvard--and launches it to rave reviews. Big shots circle his dorm to make his acquaintance; he drops out of college to grow his baby and Change The World As We Know It. Just three years in, what started as a networking site for college students has become a go-to tool for 19 million registered users, including employees of government agencies and *Fortune 500* companies. More than half of the users visit every day. When a poorly explained new feature brought howls of protests from users--some 700,000--the media old and new jumped to cover the backlash. But Facebook emerged stronger than ever. According to comScore Media Metrix, which tracks Web activity, it is now the sixth most-trafficked site in the United States--1% of all Internet time is spent on Facebook. ComScore also rates it the number-one photo-sharing site on the Web, with 6 million pictures uploaded daily. And it is starting to compete with Google (NASDAQ:GOOG) and other tech titans as a destination for top young engineering talent in Silicon Valley. Debra Aho Williamson, a senior analyst at eMarketer, says it is on track to bring in \$100 million in revenue this year--serious money indeed.

Yet there is an undercurrent of controversy about whether Mark Zuckerberg is making the right decisions about the juggernaut he has created. Late last year, a blog called TechCrunch posted documents said to be a part of an internal valuation of Facebook by Yahoo (NASDAQ:YHOO). The documents projected that Facebook would generate \$969 million in revenue, with 48 million users, by 2010. *The New York Times* (NYSE:NYT) and others reported that Yahoo had made a \$1 billion offer to buy Facebook--and Zuckerberg and his partners had turned it down. This followed an earlier rumor of a \$750 million offer from Viacom (NYSE:VIA). Yahoo, Viacom, and Facebook would not comment on the deal talk (and they still won't). But Silicon Valley has been abuzz ever since.

"It's all been very interesting," deadpans Zuckerberg, sitting in a conference room in Facebook's Palo Alto headquarters. He looks every bit the geek in his zippered brown sweatshirt, baggy khakis, and Adidas sandals. He came into the room eating breakfast cereal from a paper bowl with a plastic spoon. He still lives in a rented apartment, with a mattress on the floor and only two chairs and a table for furniture. ("I cooked dinner for a girlfriend once," he admits at one point. "It didn't work well.") He walks or bikes to the office every day.

Zuckerberg's college-kid style reinforces the doubts of those who see the decision to keep Facebook independent as a lapse in judgment. In less than two years, the two reigning Web 2.0 titans have sold out to major corporations: MySpace accepted \$580 million to join News Corp. (NYSE:NWS), and YouTube took \$1.5 billion from Google. Surely any smart entrepreneur would jump at a chance to piggyback on those deals.

Looming over the Facebook talk is the specter of Friendster, the first significant social-networking site. It reportedly turned down a chance to sell out to Google in 2002 for \$30 million, which if paid in stock, would be worth about \$1 billion today. Now Friendster is struggling in the Web-o-sphere, having been swiftly eclipsed by the next generation of sites. The same thing could happen to Facebook. New social-networking sites are popping up every day. Cisco (NASDAQ:CSCO) bought Five Across, which sells a software platform for social networking to corporate clients. Microsoft (NASDAQ:MSFT) is beta-testing a site named Wallop. Even Reuters is planning to launch its own online face book, targeting fund managers and traders.

So is Zuckerberg being greedy--holding out for a bigger money buyout? If so, will that come back to haunt him? If not, what exactly is his game plan?

Zuckerberg's answer is that he's playing a different kind of game. "I'm here to build something for the long term," he says. "Anything else is a distraction." He and his compatriots at the helm of the company--cofounder and VP of engineering Dustin Moskovitz, 22, his roommate at Harvard, and chief technology officer Adam D'Angelo, 23, whom he met in prep school--are true believers. Their faith: that the openness, collaboration, and sharing of information epitomized by social networking can make the world work better. You might think they were naive, except that they're so damn smart and have succeeded in a way most people never do. From a ragtag operation run out of sublet crash pads in Palo Alto, they now have two buildings (soon to be three) of cool gray offices and employ 200 people who enjoy competitive salaries and grown-up benefit packages--not to mention three catered meals a day with free laundry and dry cleaning thrown in. And they continue to crank out improvements to a Web site that is in every meaningful way a technological marvel.

Right now, the folks who fronted Zuckerberg that \$12.7 million back in the spring of 2005 and the other venture investors whose money and connections have helped juice Facebook's growth describe themselves as content. After all, since news of the Yahoo deal surfaced, the user base has continued to

boom, arguably increasing Facebook's value. But when those money guys start agitating to realize a gain on their investment, can a sale--or more likely an IPO--be far behind?

"What most people think when they hear the word 'hacker' is breaking into things."

Zuckerberg admits to being a hacker--but only if he's sure you understand that the word means something different to him. To him, hacker culture is about using shared effort and knowledge to make something bigger, better, and faster than an individual can do alone. "There's an intense focus on openness, sharing information, as both an ideal and a practical strategy to get things done," he explains. He has even instituted what he calls "hackathons" at Facebook--what others might call brainstorming sessions for engineers.

But it was old-fashioned breaking-and-entering hacking that spawned Facebook--and Zuckerberg was the culprit. Zuckerberg grew up in the well-to-do New York suburb of Dobbs Ferry, the second of four kids and the only son of a dentist (he has no cavities) and a psychiatrist (insert your own mental-health joke here). He began messing around with computers early on, teaching himself how to program. As a high school senior, at Phillips Exeter Academy, he and D'Angelo built a plug-in for the MP3 player Winamp that would learn your music listening habits, then create a playlist to meet your taste. They posted it as a free download and major companies, including AOL (NYSE:TWX) and Microsoft, came calling. "It was basically, like, 'You can come work for us, and, oh, we'll also take this thing that you made,'" Zuckerberg recalls. The two decided to go to college instead, D'Angelo to Caltech and Zuckerberg to Harvard.

"I'm here to build something for the long term. Anything else is a distraction. "

-Mark Zuckerberg

That's where the hacking episode occurred. Harvard didn't offer a student directory with photos and basic information, known at most schools as a face book. Zuckerberg wanted to build an online version for Harvard, but the school "kept on saying that there were all these reasons why they couldn't aggregate this information," he says. "I just wanted to show that it could be done." So one night early in his sophomore year, he hacked into Harvard's student records. He then threw up a basic site called Facemash, which randomly paired photos of undergraduates and invited visitors to determine which one was "hotter" (not unlike the Web site Hot or Not). Four hours, 450 visitors, and 22,000 photo views later, Harvard yanked Zuckerberg's Internet connection. After a dressing-down from the administration and an uproar on campus chronicled by *The Harvard Crimson*, Zuckerberg politely apologized to his fellow students. But he remained convinced he'd done the right thing: "I thought that the information should be available." (Harvard declined to comment on the episode.)

Ultimately, Zuckerberg did an end run around the administration. He set up the Facebook template and let students fill in their own information. The new project consumed so much of his time that by the end of the first semester, with just two days to go before his art-history final, he was in a serious jam: He needed to be able to discuss 500 images from the Augustan period. "This isn't the kind of thing where you can just go in and figure out how to do it, like calculus or math," he says, without a trace of irony. "You actually have to learn these things ahead of time." So he pulled a Tom Sawyer: He built a Web site with one image per page and a place for comments. Then he emailed members of his class and invited them to share their notes, like a study group on cybersteroids. "Within two hours, all the images were populated with notes," he says. "I did very well in that class. We all did."

Thefacebook.com, as it was originally called, launched on February 4, 2004. Within two weeks, half the Harvard student body had signed up. Before long, it was up to two-thirds. Zuckerberg's roommates,

Moskovitz and Chris Hughes, joined in, helping to add features and run the site using a shared hosting service that cost \$85 a month. Students from other colleges began approaching them, asking for online face books of their own. So the trio carved out new areas on the site for places like Stanford and Yale. By May, 30 schools were included, and banner-type ads for student events and college-oriented businesses had brought in a few thousand dollars.

"We just wanted to go to California for the summer."

That's how Zuckerberg describes his decision, at the end of sophomore year, to head out to Palo Alto with Moskovitz and Hughes. They sublet a house not far from the Stanford campus. And then fortune intervened.

Out on the street one evening, Zuckerberg bumped into Sean Parker, a cofounder of the file-sharing program Napster (NASDAQ:NAPS). The two had met briefly back East. It turned out Parker was moving to Palo Alto but didn't yet have an apartment. "Basically we just let him crash with us," Zuckerberg says.

Parker moved in, bringing with him an irrepressible spirit, lots of ideas, a killer Rolodex--and a car. Parker was also a walking, talking cautionary tale for what can happen to young entrepreneurs. After Napster was derailed by legal challenges from the music and movie industries, Parker had helped launch Plaxo, a site that updates contacts. But he told everyone he'd been pushed out by venture heavyweight Michael Moritz of Sequoia Capital, an early backer of Yahoo, Google, and YouTube. (Sequoia declined to comment.) Zuckerberg took it all in.

Within a few weeks, Parker introduced Zuckerberg to his first major investor, Peter Thiel, cofounder of PayPal (NASDAQ:EBAY), president of hedge fund Clarium Capital, and managing partner of the Founders Fund. After Zuckerberg's 15-minute pitch on Facebook, Thiel was clearly interested. "Peter is a fast-talking, sort of intimidating guy," says Matt Cohler, then a colleague of Thiel's who was in the room. "But Mark stayed calm and got the information he needed." By the end of the talk, he also got a commitment for \$500,000 in seed money and an entrée into the exclusive social network of Silicon Valley.

Zuckerberg and his friends had caught the entrepreneurial bug. With the end of summer approaching, Zuckerberg thought back to a presentation he'd heard at Harvard from a well-known dropout. While taking a computer-science class, he recalls, "Bill Gates came and talked." Gates encouraged the students to leave and go make something, since Harvard lets students take as much time off as they want. "If Microsoft ever falls through, I'm going back to Harvard," he joked. With Thiel's money to sustain them, Zuckerberg and Moskovitz decided to follow Gates's advice.

Zuckerberg and a growing cadre of engineers managed the Facebook site from a series of sublets around Palo Alto, coding together in endless sessions on rickety furniture. "We never had any money," he recalls with a laugh. "We actually bought a car on Craigslist. You didn't need a key. You just had to turn the ignition." In November 2004, Facebook passed the 1 million--users mark. Six months later, with the help of Thiel, Zuckerberg signed the papers for that \$12.7 million in financing from Accel Partners. He hired a new fleet of engineers (including Steve Chen, who would leave a few months later to cofound YouTube). And he moved the company into real office space, on Palo Alto's University Avenue. By the fall of 2005, there were 5 million active users, those who visit the site at least once a month.

Ask anyone who works there what Facebook is, and you will get pretty much the same answer: a social utility that lets people share information with the people in their world quickly and efficiently. Unlike

MySpace, where anyone can trawl the site or take on a different persona, Facebook is based on real-world networks of people who share the same email domain and actually want to know more about one another. What you share--vacation photos, contact information, favorite movies, current whereabouts, upcoming events, whatever--is entirely up to you. This all made perfect sense for the college crowd, who show up at school hungry to meet the people around them. But Web 2.0 watchers wondered how Facebook could grow into something that would work for the rest of us. And it needed to do that, if for no other reason than that the original audience was growing up and getting jobs.

In September of 2005, Facebook was opened up to high school students, many of whom had older siblings already on the site. The following month, the site added a photo feature, and technical demands skyrocketed. "We're one of the largest MySQL Web sites in production," says chief operating officer Owen Van Natta, 37. MySQL, a popular open-source software, "has been a revolution for young entrepreneurs," Van Natta explains, partly because it frees them from paying the licensing fees of, say, an Oracle. But with sophistication comes heat. Literally. "In computing, as things get smaller, they run hotter," Van Natta says. When he first joined the company in late 2005, he recalls, it was growing so rapidly there was almost a meltdown. "We were trying to predict how many new users we'd get, how they would use the site, and what we'd need to serve that," he says. There weren't enough people to do all the analysis. "We were just trying to keep the wheels on the wagon." When he went to check the data center, he was horrified. "There were little fans like this big"--holding up his hands to indicate the size of a grapefruit--"tucked between the servers. It was over 110 degrees in some aisles." And the data-center guys were plugging in more servers and screwing them into racks, trying to keep up with the rapidly scaling site. The Plexiglas sides of the server racks were warping from the heat. "I was, like, *Mayday!*" he recalls. "We need to get on top of this!"

Growth continued. In June 2006, the site was opened to work networks. There are more than 20,000 networks of employees, from the Central Intelligence Agency and the Internal Revenue Service to Macy's (NYSE:FD), McDonald's (NYSE:MCD), Time Inc., and the U.S. Marine Corps. Even MySpace, considered by many to be a Facebook rival, has a corporate network of 22 employees.

Then in September, Facebook announced what it called "open registration": Anyone with a valid email address could join a regional network. It was an auspicious moment--until the Facebook community rose up and almost destroyed its creator. The problem was a new option called News Feed, which creates regular reports about the activity within a network or group of friends. It may have seemed like a good idea at the time, but it set off a revolt in the Facebook community. Users felt that their personal information was being broadcast all over the Web without their permission. Never mind that they had posted it all publicly themselves. Or that it went only to people who were friends or already in their networks. Facebook is a fast-moving, throw-it-up-and-see-if-it-works sort of place that typically adds a feature, watches how people use it, and, based on feedback, adds things such as extra privacy controls. But this time, Zuckerberg and his crew had made a mistake by not putting privacy features in place first.

Taking advantage of another new feature, which allowed individuals to start their own issue-oriented "global groups," disgruntled users set up a group they called Students Against Facebook News Feed (Official Petition to Facebook). Ironically, the News Feed service itself then spread the campaign ("Your friend has just joined this group!"). In less than 48 hours, 700,000 people had joined the protest, and the blogosphere declared it the end of Facebook. News crews camped outside the Facebook offices, as if a bald Britney Spears were being held captive inside. "There was a hilarious email thread as we discussed what to do," says Zuckerberg, who was stuck in New York fending off his own onslaught from the media. "Someone writes, 'Okay, it's like midnight, and we want to leave. But we can't even look through the blinds because they're videotaping us. I'll pay someone \$50 to go streaking.'"

From his New York hotel, Zuckerberg posted an open letter to users via the blog on the site. "We really messed this one up," he wrote. "When we launched News Feed and Mini-Feed we were trying to provide you with a stream of information about your social world. Instead, we did a bad job of explaining what the new features were and an even worse job of giving you control of them." His engineers worked around the clock for three days to add better privacy features.

The storm eventually passed, and Zuckerberg now claims News Feed has actually been a hit. "Once people had the controls and knew how to use them, they loved News Feed," he says, launching into some uncharacteristic hyperbole. "We're actually producing more news in a single day for our 19 million users than every other media outlet has in their entire existence." (Facebook has also been snared in a more lingering dispute: When the site first launched, four other Harvard students sued, claiming that Zuckerberg stole their idea. The Facebook defendants filed a countersuit. At press time, litigation is continuing.)

"We're private, and we just don't talk publicly about these types of things."

We're in the Facebook conference room at the end of the day, and Zuckerberg is politely ducking questions about the company's financials. Last spring, Facebook received another infusion of VC funding--\$25 million led by Greylock Partners and Meritech Capital; Accel and Thiel also reinvested. But conversations with the executive team make it clear that Facebook isn't living on VC cash, at least not anymore. When I met with Cohler, who joined Facebook as the vice president of strategy and business operations, I asked bluntly whether a report in *The New York Times* that said the company was profitable was correct. At first, he hemmed and hawed. "It depends on how you look at GAAP accounting." But then he allowed: "We're growing very fast, and we're funding the growth of the company through revenue and the operations of the business as opposed to financing."

And the scale of those operations is significant. Beyond the 200 staffers and prime Valley office space, explains cofounder and chief of engineering Moskovitz, Facebook has multiple server facilities. The company is also about to invest what COO Van Natta says is "many millions of dollars" on more infrastructure.

So how does Facebook make its money? Advertising and sponsorships, mostly. Apple (NASDAQ:AAPL) was an early backer, sponsoring a site for iTunes enthusiasts. JPMorgan Chase and Southwest (NYSE:LUV), among others, pay for similar programs. "Flyers," the online version of the paper ads that students use to publicize events, also provide a very modest source of revenue. And there is a nascent-but-growing local advertising business. The big money, though, comes from an ad-placement alliance with Microsoft in which the software giant will place banner ads on the site through 2011. It mirrors a deal MySpace inked with Google last year. (MySpace reportedly got \$900 million over three years. Facebook hasn't released the value of its program, and neither party will comment on the terms.) Facebook also just inked a deal with Comcast (NASDAQ:CMCSA) to create and Webcast an episodic show based on user-generated video content. Called "Facebook Diaries," the series will be shown on both Facebook and Ziddio.com, Comcast's video-uploading site, as well as through Comcast's video-on-demand service.

As everyone remembers from the heady sock-puppet days of Web 1.0, you hatch an idea, build it into a company, and concoct an exit strategy--that's the key to taking the business to the next level and rewarding early-stage investors for their money and employees for their hard work. And there are two basic formulas: Sell to a bigger company, or file an initial public offering. With all the talk about valuations and acquisitions, not to mention the pressure of investors and employees with stock options, exit has to be on Zuckerberg's mind, right?

"The word--it applies a certain frame to thinking about things," he says, decompressing after a long day of meetings. "If you sell your company, that is the exit. That's just not how we think about it."

He pauses, then says with a sigh, "Okay, you have a Viacom, News Corp., and Yahoo. So you compare and think, This [site] is social, sure, but we're a technology company. What's in it for us? How will this work?" The companywide focus is on innovation and engineering, and the commitment to optimizing the user experience, he says. The goal is not to create a media company. It is not about selling movies. "There are ways that you could do it, but right now, we're focused on building this. And if you look at the stats we have, it's been a good decision so far." But eventually? "At some point, it probably makes sense to do something. But we're in no rush."

One clue to the company's future plans comes from early investor Thiel, who has mentored Zuckerberg through the last year's swirl of acquisition talks and rumors. Bottom line, Thiel asserts, "it's much more valuable than anybody on the outside thinks." He points to the growing user base and page views as evidence. "The people who understand the power are the users. The people who wanted the company don't understand the power and don't want to pay enough for it. So we're not going to sell." He adds, "I think the MySpace sale was a giant mistake. The Flickr sale to Yahoo--a giant mistake." A better idea, he believes, is to focus on the technology, which he says is the Facebook team's great strength, and continue to grow the company. He points to a laundry list of benchmarks that they'd all like to see. "Can we get to 35 million users this year?" Dominating another sector beyond the college crowd would be key. "If we were to see that in the high school space, that would be very significant."

But Thiel is aware of a ticking clock of sorts, determined by a Securities and Exchange Commission rule. "Once we get to 500 shareholders, we'll be forced into a situation where you have to give full financial disclosure," he says. (Facebook employees have shares as part of their compensation packages.) Most companies go public at that point. "But our current bias is not to do it any sooner."

What seems most likely is some version of a publicly traded Facebook, one that might emulate the quirky Dutch-auction IPO that Google filed in 2004. It seems like a natural fit; Facebook admires the minimalist sensibilities of Google's design, its focus on engineering, and the "do no evil" philosophy that, theoretically, at least, informs its business. Best of all, if handled properly, an IPO keeps the founders firmly at the helm, just like Sergey Brin and Larry Page at Google.

And an IPO would seem to be a good fit for Meritech Capital Partners, which participated in the last round of financing for Facebook a year ago. "Certainly most of our companies go through liquidity in the public markets," says Meritech founder Paul Madera. "Public markets seem to want to pay more than acquirers these days." If Facebook got a very large offer, they'd have to consider it, he says. "But today, any offer around a billion would be way low."

But Zuckerberg maintains that nothing is happening quickly. "It's a really big change if you go public--all the regulations and stuff, so it's not something that you do lightly."

"Okay," Zuckerberg says, "you have a Viacom, News Corp., and Yahoo. So you compare and think, This is social, but we're a technology company. What's in it for us? How will it work?"

For now, the company is on track to double its engineering team of 50 this year (check out the first step in the application process at [facebook.com/jobs_puzzles](https://www.facebook.com/jobs_puzzles)) as well as its 50-person customer-service group, headed by Tom LeNoble, who ran global service operations for Palm (NASDAQ:PALM) and customer

service for walmart.com (NYSE:WMT) and MCI (NYSE:VZ). His reps are mostly from top-shelf universities. (By my estimate, there's \$5 million worth of tuition handling customer service at Facebook.)

New users keep flooding on board--100,000 signed on in a single day this past February. The college markets in Canada and the UK have been growing almost 30% a month (Prince Harry and his girlfriend are Facebook users, according to breathless reports in the British tabloids), and nearly 28% of all users are now outside the United States. And slowly but surely, the site is adding older folks: 3 million users are age 25 to 34, 380,000 are 35 to 44, and a pioneering 100,000 users are currently eligible for Medicare. With stats like that, you can certainly see public-market investors getting excited.

Thirty-six months ago, Zuckerberg was a college sophomore cruising out to California on summer break. Now he approves everything from new hires to the activities of every advertising partner and runs the board meetings of a very-much-established company. Zuckerberg was even invited to speak at Davos this year. How did it go? "It was great," he says, leaning forward conspiratorially. "I wore shoes."

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