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Entertaining Returns

Is There a Case Against Facebook?

Published: Tuesday, 13 Jul 2010 | 4:24 PM ET

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A number of lawyers reminded me today that whenever a startup is a huge success, people inevitably come out of the woodwork to claim their piece of the pie.



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Facebook **already settled one of those lawsuits** and now it's dealing with another.

But this suit, in which **Paul D. Ceglia claims he owns 84 percent of Facebook**, was filed with an unusually long delay.

It's been more than seven years since Ceglia claims to have signed a contract with Facebook CEO Mark Zuckerberg and the statute of limitations for business contracts in New York state is six years.

New York State Judge Thomas Brown issued a temporary restraining order to Zuckerberg, restricting Facebook and Zuckerberg from selling or transferring assets. The "Order to Show Cause" **was delivered to Zuckerberg on Thursday** at the **Allen & Co. media confab**.

Ceglia claims he signed a contract with Zuckerberg on April 28, 2003, to develop and design a website. In the contract Ceglia agrees to pay \$1,000 in exchange for a fifty percent stake in the product plus an additional one percent for every day between January 1, 2004 and the date it's completed.

Facebook released a statement saying, "We believe this suit is completely frivolous and we will fight it vigorously." Facebook tells me that the judge's order does not impact the web site's business. The company also tells me it has filed to transfer the case to Federal Court and have the restraining order removed.

There are a number of obvious questions: Why would Ceglia wait so long to file his suit?

Columbia University Law Professor Victor Goldberg says that this is the first hurdle for the case to overcome.

Other attorneys have questioned what else Zuckerberg was getting from Ceglia in addition to the \$1,000, an amount of money that would have been chump change for the student who drew tens of thousands of dollars in the following year from his bank account.

There are also some inconsistencies in the timeline. The contract Ceglia provides, allegedly signed in April, says "it is for the continued development of the software, program and for the purchase and design of a suitable website for the project Seller has already initiated that is designed to offer the students of Harvard University access to a website (sic) similar to a live functioning yearbook with the working title of "The Face Book." But Zuckerberg didn't create the predecessor to Facebook, FaceMash until fall of that year. And he didn't register the name for Facebook until nine months after the alleged contract was signed.

Ceglia is currently subject to an unrelated temporary restraining order. In December New York Attorney General Andrew Cuomo accused Ceglia of defrauding customers of his wood pellet fuel company. Cuomo alleges that Ceglia took more than \$200,000 in payments and failed to deliver products or refunds.

I've called Ceglia and his lawyer and haven't heard back. The case hasn't impacted the value of Facebook shares trading on [SecondMarket.com](#) — there's just as much interest in the company's stock as ever.

What's the most likely outcome?

Pryor Cashman partner Jeffrey Johnson tells me that if the case isn't thrown out because of the statute of limitation issues, then Facebook could end up giving Ceglia a tiny piece of the company — and by **tiny** he means one tenth of one percent. Johnson suggests that if the alleged contract is found valid, Ceglia's ownership of the company would be based on the value of the company back in 2004.

Questions? Comments? MediaMoney@cnbc.com

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