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Facebook's Complicated Ownership History Explained

Facebook's tangled founding story is about to get more complicated, thanks to a man named Paul Ceglia.

Anyone who has seen *The Social Network* knows about Eduardo Saverin and the Winklevoss twins. Facebook co-founder Saverin was forced out, sued Facebook and settled for a 5% stake of the company. Tyler and Cameron Winklevoss contracted Zuckerberg to build a Harvard-based social network for them, but when Mark Zuckerberg launched "TheFacebook.com" instead, the twins sued. That case was also settled, though the twins have been trying hard to rescind it in court.

But there's more to Facebook's legacy of lawsuits than the movie mentioned. Last year, Ceglia claimed he and Zuckerberg signed a contract giving Ceglia 50% of Facebook. Most legal experts dismissed Ceglia's lawsuit as outlandish, but it has resurfaced this week with evidence that promises to make this a messy affair.

So what exactly happened at Harvard in 2003 and 2004? Why have so many people claimed an ownership stake in Facebook? Who is Paul Ceglia, and does he actually have a case?

To answer that, we need to explore Facebook's complicated ownership history.

Eduardo Saverin

Until 2009 Saverin wasn't even acknowledged as a co-founder. It took a lawsuit and a settlement to make that happen.

Both sides dispute the details of the case, but here are the basics. In 2003, Zuckerberg (then a sophomore at Harvard) approached Saverin (a junior) about TheFacebook.com. He asked Saverin to become his business partner and to put down $15,000 for the servers needed to run the site. In return, he'd get about 30% of the company.

When Facebook took off in 2004, Zuckerberg and another co-founder, Dustin Moskovitz, decided that they had to move to Silicon Valley. They got a place in Palo Alto and started coding. Saverin had an internship with Lehman Brothers in New York. According to *Business Insider*, Zuckerberg asked Saverin to take care of the paperwork, to get funding and to figure out a way to make money.

But Saverin was slow to make decisions and slow to sign off on the paperwork. Eventually, his role was taken by entrepreneur Sean Parker, who quickly secured a $500,000 investment by PayPal co-founder Peter Thiel. Zuckerberg was able to reduce Saverin's stake in the company from 30% to less than 10% in short order. His equity was diluted from that point onward.

As detailed in *The Social Network*, Saverin eventually sued Facebook. The matter was soon settled. Saverin got about 5% of the company (worth more than $2.5 billion today) and signed a non-disclosure that has essentially kept him quiet since.

Tyler and Cameron Winklevoss

Zuckerberg just can't seem to get rid of the Winklevoss twins.

In 2003, the Winklevosses and their business partner Divya Narendra approached Zuckerberg about their new project, HarvardConnection, a social networking site for Harvard students. Zuckerberg allegedly entered into a verbal contract with the Winklevosses, promising to help build the site in return for equity.

Meanwhile, Zuckerberg was deep in the development of TheFacebook.com. Between November and 2003 and February 2004, he communicated with the twins through a series of 52 emails and several in-person meetings. Zuckerberg launched TheFacebook.com in February 2004 and, two days later, the Winklevosses learned of the site in *The Harvard Crimson*. A few days later, the Winklevosses and Narendra sent Zuckerberg a cease-and-desist letter.

While HarvardConnection eventually launched a few months later, as ConnectU, it failed to gain traction. ConnectU's founders filed a lawsuit against Zuckerberg in 2004, prompting a legal battle that dragged out for years. In February 2008, the two sides finally settled. Facebook acquired ConnectU's assets in exchange for 1,253,326 shares (worth around $180 million today) and $20 million in cash.

That wasn't the end, however. In March 2008, the ConnectU founders filed another lawsuit, attempting to rescind the settlement. They argued that Facebook misled them over the true value of the stock. The twins also sued their law firm, Quinn Emanuel, for malpractice. That's not all: Wayne Chang, founder of a file-sharing service called i2hub that had partnered with ConnectU, sued the twins for 50% of the Facebook settlement.

It's a confusing tangle of lawsuits, but the bottom line is that the Winklevoss twins settled their case with Facebook years ago. Their recent attempts to change that settlement are falling flat. A U.S. judge ruled this week that the settlement still stands. The twins, of course, are appealing that ruling.

What About Paul Ceglia?

Now for the question that has been causing headlines this week: did Zuckerberg potentially sell a 50% stake in Facebook for $1,000?

That's the notion that Ceglia, owner of a wood pellet fuel company, put forth in a lawsuit filed last July. In the suit, he claimed that he and Zuckerberg had an agreement in which Ceglia would receive 50% of Facebook for a $1,000 investment, in addition to 1% of the company each day until a site called "the face book" was completed. Since the project was allegedly 34 days late, Ceglia says he was entitled to 84% of the company.

The story sounded outrageous on the surface, especially as Ceglia had waited a full six years before speaking up. Furthermore, Ceglia is a a convicted felon.

This week, however, the lawsuit resurfaced. Ceglia refiled his case with prominent law firm DLA Piper and said he has produced email conversations that support his claims. The lawsuit now claims that Ceglia offered Zuckerberg $1,000 to work on a project called StreetFax, as well as $1,000 to fund "the face book." The suit claims the two met in Boston and signed a contract with a witness present.

Allegedly, Zuckerberg and Ceglia discussed details such as the site's domain name and business model. The suit says Zuckerberg mentioned the Winklevoss twins in November 2003, telling Ceglia that he had "stalled them for the time being." Eventually, according to the suit, Zuckerberg told Ceglia he thought that 1% of equity for each day of delay was unfair, and the two agreed to split the project 50/50.

Things allegedly blew up in April 2004, two months after Facebook's blockbuster launch. Zuckerberg is supposed to have told Ceglia he was thinking of taking the server down and wanted to give Ceglia his money back. Ceglia responded negatively, claiming that Zuckerberg was pulling "criminal stunts." The DLA Piper lawsuit asks for 50% of Zuckerberg's stake as compensation.

Facebook insists that the emails and contract are fabricated. In an email to *Mashable* a Facebook representative said:

> "This is a fraudulent lawsuit brought by a convicted felon, and we look forward to defending it in court. From the outset, we've said that this scam artist's claims are ridiculous, and this newest complaint is no better."

Next Steps

Facebook is seeking to dismiss this case, but the emails — fraudulent or otherwise — may be compelling enough for the case to move into discovery. It's at this point that Facebook will be able to look at the evidence, including Ceglia's emails and hard drives. If they can show that there was any tampering with the evidence, the case will be thrown out. But if not, the company may be forced to dish out money for yet another settlement, just to make Ceglia go away. DLA Piper, one of the world's largest law firms, has agreed to take on the case — which is a sign that this dispute could be stuck in the courts for a long time.