Pie Slicer users may purchase a print version with $10.00 off the retail price.

Visit: www.blpnt.co/UqrqC

And use coupon code: P9QZKW8G
This book belongs to:

Working for this company (the Pie):

With a fair-market salary of:
Our Pie uses the following numbers in the Pie Slicer calculations:

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(This will make more sense once you’ve read the book!)
Fair & Square

Fair, because everyone receives what they deserve—no more and no less. Square, because everything is accounted for.

My Promise

If, after reading this book, you don’t feel that it contains not just good advice, but the greatest advice on the subject that you have ever received, I will happily refund your money and apologize for wasting your time.

Mike@SlicingPie.com
My Butt-Covering Disclaimer

If anything in this book sounds like legal advice — it’s not. If anything in this book sounds like financial advice — it’s not. I’m not a lawyer and I’m not an accountant and I’m not a certified financial advisor.

I’m just a guy who wants you, and your teammates, to get what you deserve from your startup. No more and no less!
Preface

My mission in life is to make sure that every entrepreneur on the planet gets what they deserve from their company.

We live in a world where entrepreneurs and early-stage company participants get taken advantage of so frequently that we hardly notice. Bad equity deals are the rule, not the exception. Fairness is rare. The intent for fairness is there, but the practice of fairness is not. Fair & Square provides an outline for an equity model that allows people to align their intent of being fair with their ability to actually pull it off.

I never anticipated the positive impact that my first book on this subject, Slicing Pie, would have on entrepreneurs who previously struggled with how to divide up equity in their startup company. I have been humbled by the positive feedback I’ve received from readers and I’ve enjoyed meeting them at Slicing Pie events all over the world.
Most importantly, however, is that I’ve learned more about how the model works for them and how I can help them implement it in their own companies. I keep track of feedback and I try to incorporate it into articles I write, speeches I give, and new versions of the book. Although the basic model has not changed, I have tried to clarify or add detail to the best way to implement it.

This book, *Fair & Square*, is intended to be a practical guide for the implementation of the model for teams based on the best practices I have learned from real actual users. It is also a user guide for the online Pie Slicer tool on SlicingPie.com. I go into detail about using the Pie Slicer in Chapter Seven, but I also provide tips throughout the book. If you are using the Pie Slicer you might want to read Chapter Seven first. If you’re not using the Pie Slicer you can skip the tips and Chapter Seven.

The model described in this book is the *same* model described in *Slicing Pie*; it’s just a more streamlined explanation. If you want more back story on the development of the model, or more commentary on why I designed it the way I did, you should read *Slicing Pie*. Or, if you want to read some case studies of how it’s implemented, read *Slicing Pie*. In other words, *Slicing Pie* is a more comprehensive guide.

Lastly, if you want a quick overview of why entrepreneurs *need* the model, read *Get Them Gators*, which makes the case for dynamic models, but does not explain implementation. These books
can be ordered on Amazon.com or from your local bookstore or you can buy six-packs on SlicingPie.com. However, if you want to cut to the chase and understand how to implement a dynamic equity fund, *Fair & Square* is for you.

If you have already read my other books on this subject, you will notice that I don’t refer to the model as a “Grunt Fund” in this book. That is because the term is difficult to translate into other languages. One translator suggested the translation, “Pig Money,” which doesn’t work, so I’m writing for a more global audience. In this book, I’ll refer to the model as the “Slicing Pie Method” or “Slicing Pie Model.” Yes, it’s a little more boring, but hopefully, it will be easier to understand for foreign audiences!

Thank you, by the way, for being the kind of entrepreneur who values fairness over greed. If you are the kind of person who values fairness and teamwork, I’m confident that you are going to be a good entrepreneur. I’ve known entrepreneurs who have become rich by taking advantage of others, but they’ve paid the price in personal relationships and overall happiness. Taking advantage of the people who help you succeed is the same as stealing from the people you love—not a formula for happiness!

I wish you nothing but total success with your startup endeavors! Please let me know how things go!
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Introduction

The Slicing Pie Model, as outlined in the book *Slicing Pie: Funding Your Company Without Funds*, is a structure for dividing up equity, or profit interest, in a startup company among early participants including founders, investors, employees, advisors, partners or anyone else that provides contributions for which you cannot pay. It is best suited for startup companies that can be bootstrapped during the early stages of development, but it will work for any type of company. I’ve even heard about a couple who used it to determine the terms of their prenuptial agreement.

The Slicing Pie model is a universal, one-size-fits-all solution for bootstrapped startups. I realize this is a bold statement, especially in a world where, “it depends,” is commonly used. But, I make this statement because I believe the
model can be applied anywhere. When I designed the model my intent was to make it universal.

The model should be used until sufficient cash is available to pay participants for their contributions. This is usually when the company starts generating revenue or when the founders raise Series A investment. At this point the model will essentially “freeze,” and subsequent it will tell the managers how to divide up profits, if and when they are dispersed.

The Slicing Pie model mitigates the potential for disputes that often arise from a traditional fixed-split model. In a fixed-split model, equity is allocated at the outset of the venture, often in equal amounts, among founders (e.g., “50/50” or “25/25/25/25” or “51/49). It is not uncommon for such agreements to be poorly documented “handshake” agreements between overly optimistic founders.

The amount of each fixed split allocation is based on industry trends, guesses about future value, advice from well-meaning advisors or negotiation skills. Even if a fair allocation could be achieved using a fixed model, the allocation would cease being fair the moment something changes or unanticipated events occur. All startups go through change.
Disagreements with fixed-split allocations commonly arise when members of the team are added or subtracted, or the work product of individual participants differs from what is initially anticipated. At the core of the complaints is a general feeling of unfairness, mistrust, and greed as participants, lacking an objective measure of fairness, attempt to get the highest possible share for themselves, even if it’s at the expense of other participants. Such disputes can lead to unnecessary legal expenses, unpopular payoffs or buyouts of various employees, and a deterioration of working relationships that may lead to the demise of the company. Most corporate and startup attorneys are all too familiar with such disputes.

At first, fixed splits will appear easier to implement than the Slicing Pie Model. The hard part about fixed splits isn’t implementing them; it’s unwinding them when you realize you made a mistake. Fixing a fixed split model can be extremely complex legally, financially and emotionally. You’re much better implementing the Slicing Pie model and spending the rest of your efforts on building your business instead of fighting with team members.

The Slicing Pie Model provides a means to avoid such disagreements by providing a universal framework for both the
allocation of equity or profit interests in the company and the recovery of outstanding slices in the event of an individual’s separation from the company.

The allocation framework tells you how to give slices to individuals as they make contributions to the company. It is a dynamic model, meaning that it changes over time. This means that at any given time all participants will have exactly what they should have, regardless of changes in the strategy or the team. With fixed allocations, it is impossible to have a fair split—each person always has too much or too little.

The recovery framework tells you what to do when someone leaves the company. In some cases, the company will be able to recover outstanding slices for no or low cost, in other cases, the person leaving will be entitled to keep their share or sell it back at a fair premium. It depends on the nature of the separation. The recovery framework ensures that each participant understands the consequences of their decisions as it relates to ongoing participation in the firm.

An absentee owner is someone who owns equity or profit interests in your company, but is no longer actively involved. It is best to avoid this situation, if possible. The recovery
framework provides a means for buying out ex-employees if and when appropriate.

A Moral Agreement

Although the Slicing Pie Model can be part of a legal contract (you will find contract templates at SlicingPie.com), at the core of the model is a moral agreement. It’s about doing right by the people who help you succeed. When implemented as outlined herein, it provides a structure for fair play, favors no one person over another, and makes sure everyone receives what they deserve.

In my experience, most people want to treat others fairly; but, they may not know exactly how, given the limitations of conventional wisdom and practice. The Slicing Pie Model is the how. It will help the people who mean well to do well.

Of course, greed can be a powerful force that sometimes causes people to act in unscrupulous ways. A person may act within the law to capture value for himself at the expense of others, but just because something is legal doesn’t mean it’s fair.

Some people are so overcome by greed that fairness doesn’t seem to matter at all. Perhaps you will be able to avoid
these people in your career as an entrepreneur. It’s not always easy; but even if you find yourself in an uncomfortable situation, the Slicing Pie Model can help. Applying the model will tell you the extent to which you are being taken advantage of so you can make better decisions about what to do next.

A person’s willingness to apply the Slicing Pie Model could be an indicator of their intent to be fair. If I find someone who doesn’t want to use this model, I don’t join their startup, nor do I ask them to join mine. Don’t get me wrong, I’m not saying this model is an absolute measure of a person’s character, and I realize that a person’s unwillingness to collaborate using this model doesn’t mean they are a greedy or immoral person. But why add the risk? Startups are already risky.

**Startup Risk**

A “share” of equity or profit interest in a new venture determines how much of the returns a person is entitled to if and when the company generates a return.

Traditionally, entrepreneurs try to base shares on what they think will happen in the future. Sometimes they try to project or anticipate the future value of the company and base a
participant’s share on the financial model. Or sometimes a potential partner or employee will make promises about future participation and the entrepreneur will base shares on what they say. Often they will consult well-meaning attorneys, investors, venture capitalists, and other entrepreneurs to see what others have given out to different positions. Unfortunately, the future is impossible to predict in spite of our best efforts, promises are often broken and even the best advice probably doesn’t reflect the nuances of your business. All traditional models of equity splitting, no matter how thoughtful, are guesses at best.

A better way is to consider risk. In finance, risk & return go hand-in-hand. When an individual, or a team of individuals, embarks on a new venture; they are accepting risk. The risk they are accepting is the risk that they will never get paid for their contributions of time, money, ideas, relationships and anything else consumed by the company in the process of realizing its vision. Anyone who accepts this risk deserves a slice of the pie that reflects this risk relative to other participants who also accepted risk.

If a person takes no risk, they don’t deserve any return. If a person takes 100% of the risk they deserve 100% of the return. If two or more people share in the risk, they each deserve a
portion of the return that properly reflects that risk relative to the other person. If one person risks $100 and another person risks $1,000 the person who risked $1,000 has taken more risk relative to the person who risked $100. If the other person also risked $1,000 then both people risked the same relative to one another.

If one person took 90% of the risk and the other took 10%, it wouldn’t be fair to split the return 50/50. Splitting the return 90/10 is more appropriate. If the two people accepted the same level of risk, it would be appropriate to provide the same return. If this isn’t obvious now, I hope it will be by the time you finish reading!

The good news is that, unlike the future, the amount of risk each participant is accepting when they make a contribution is very specific and measurable. It is equal to the amount that they otherwise would have been paid by someone else for the same contribution. This amount, also known as “fair market value” or “opportunity cost”, is easily observable in the marketplace.

The fair market value of a year of a person’s time, for instance, is equal to their salary for a similar job at a company that had the means to pay. So, if you forego that salary to work for a startup (doing similar work), you are risking that amount
of money. The opportunity cost of working for a startup is equal to the amount of money you would have earned elsewhere doing a similar job. Similarly, the fair market value of office space is equal to the amount of money the landlord can charge for that space. So, if the landlord allows you to use the office space at no cost, she is risking the amount of money she would have otherwise received from someone who had the money to pay.

People risk whatever they contribute to the startup effort. Every contribution is what it is. This means that nothing magic happens just because you make a contribution to a startup. The only difference is you’re not getting paid your fair market rate. For instance, you may spend weeks working on a problem before you come up with a brilliant solution. The minute that you come up with the solution doesn’t magically become more valuable than all the other minutes you spent on the job any more than the pencil you used to write down the idea doesn’t become more valuable than any other pencil.

Because fair market value is so easy to observe, it can be used as an important component for the calculation of ownership or other interest in the income generated by a startup.
company. Using easily observable values means we don’t have to guess.

The only reason a rational person would be willing to join a startup and accept this risk is if they believe that their ultimate compensation will far exceed the amount they would have otherwise been paid. Unfortunately, the chance of this actually happening is very low and the risk of receiving nothing is very high. Startups are extremely risky.

In light of the fact that startups are so risky, the other major component used in calculating ownership or other interest in a startup, besides fair market value, is a multiplier that will reward an individual for taking that risk.

A Slice of the Pie

The way an individual reaps the benefits of a company’s financial return is through their individual entitlement to a slice of the Pie. In many cases, this would imply equity ownership in the company (and I promote the model as such), but it does not have to. As long as an individual receives distributions of cash in proportion to their slice of the Pie, they should be happy, regardless of the underlying ownership structure.
For instance, if I own 100% of the equity in a company, but you, as my partner, contribute (risk) 19% of the contributions necessary to make the company worth something, you would be entitled to 19% of the Pie. So, when the company distributes profits, you should receive 19% of the money. Or, if the company sells, you should receive 19% of the proceeds. Beyond that, the underlying ownership isn’t important as long as you receive the payout you deserve. This is known as profit interests and may be an acceptable option for your company.

Equity can imply decision-making control over the company, so issuing actual equity in the company will complicate the individual roles people play. Founders wishing to maintain decision-making control of their companies can keep the equity until such time as issuing equity becomes necessary. Think of “Pie” as a Promise to Issue Equity rather than actual equity in this scenario.

Your team can decide whether to issue actual equity shares or profit interest in the company. Both scenarios will have legal and tax implications that I will address later. There are a number of Slicing Pie lawyers who can help you figure this out.
Slices

A “slice” is a unit of measure that reflects the risk taken when contributions are made. Slices will allow you to calculate equity or profit interest. It’s not the same thing as a share, which is a legal unit of ownership.

The Pie Slicer Application

Throughout this guide, I will refer to the online Pie Slicer Application and how to use it to keep track of your equity split. More detail about the getting started is in Chapter Seven. You do not have to use the online tools to be successful. As long as you keep track of what’s going on in your company you will be fine.

Boxes like this one will provide information about how to get the most from the Pie Slicer application. If you’re not using the Pie Slicer you can skip these boxes!
Summary

Today, the most common type of equity split is a “fixed” split. This means that chunks of equity are doled out to participants at the outset of a venture in anticipation of their future contribution.

Fixed splits are based on unobservable information like future value or they are based on industry “standards” and negotiation skills. All fixed splits become unfair the moment something changes leading to disagreements among early participants that can escalate and possibly destroy a company.

The Slicing Pie model is a framework for the fair allocation and recovery equity or profit interest based on the fair market value which is easily observable information. The fair market value of a contribution is the amount of money that the contributor would have been paid by someone else for the same contribution in a given market. This, combined with a risk multiplier, gives us everything we need to calculate a perfectly fair split among all participants in a startup.

At the heart of the Slicing Pie model is a moral contract. It is about doing right by those who help you succeed.
Chapter One:

**Allocation Framework**

The allocation framework consists of a basic set of calculations that define the number of slices received in exchange for various contributions based, in part, on the fair market value of the contribution and, in part, on a multiplier for cash and non-cash inputs.

Non-cash contributions include time, ideas, relationships (that turn into customers, suppliers, employees or investors), pre-owned equipment or supplies and some resources such as office space. Cash contributions consist primarily of unreimbursed expenses and, of course, cash.

Using the calculations from the allocation framework, an individual’s contributions are converted to slices and their
portion of the company is calculated on a *rolling* basis using the following formula at any given time:

\[
\text{Individual Share (\%)} = \frac{\text{Individual Slices}}{\text{Total Slices of all Participants}}
\]

The formula ensures that equity or profit interest allocation remains fair, in spite of changes the firm might encounter. As time goes by, work is done, people come and go, sales are made, and business is conducted. The number of slices in the model, therefore, is always changing.

You may be uncomfortable with the dynamic nature of the model at first. Once you get your head around how this works, you will see the importance of the dynamic model and its ability to ensure fairness. I promise that if you use this model you will always have what you deserve. You may not have what you *desire*, but you will certainly have what you *deserve*.

The dynamic model takes into account the inherent volatility of a startup environment whereas a fixed split makes the false assumption that the future can be known or accurately predicted or that everyone always does exactly what they say
they are going to do. Under *all* circumstances, a dynamic model is going to be fairer than a fixed model.

**Calculations**

To convert an individual contribution into slices, you simply multiply the fair market value of the contribution (less cash payments) by the cash or non-cash multiplier. You subtract cash payments, if any, because cash payments reduce the amount of risk taken. If you pay 100% of the fair market value you shouldn’t have to provide equity at all because you have eliminated the risk.

Although it’s possible for team members to disagree on fair market value, I will outline best practices below. In spite of potential difficulties, fair market value is much less subjective than a typical startup valuation, which is based on future events.

**Multipliers**

I recommend a non-cash multiplier of two (2) and a cash multiplier of four (4). These numbers are set based on my personal experience with the model and they are important.
Resist the urge to change them! The multipliers make the model work. Without them, you will be less successful in achieving a fair split.

Multipliers assign a risk premium for the contributions. For non-cash contributions, the risk premium is twice what you put in. For cash, it’s four times the contribution. Cash is given a higher premium because it’s much harder to save money than it is to earn money. The multipliers recognize the difference in scarcity between cash and non-cash contributions. Most (not all) people have more time than money.

Sometimes people think that the multipliers should change over time to reflect the possibility that risk goes down over time. Early contributions, they argue, are riskier than later contributions so the risk multiplier should go down over time.
I completely understand the logic, but in practice startups are much too volatile to definitively ascertain a level of risk. Risk may appear to go down as traction is gained and revenue is generated. If a major customer cancels, however, risk may go up. Similarly, if a company grows so fast that they can’t provide a meaningful level of service risk could go up.

Startups have so many ups and downs that trying to predict risk at any given time is futile. In the Slicing Pie model you have to measure what you can measure. Because of this I keep the multipliers constant.

Lastly, the multipliers will protect the company and the individual contributors from decisions one may make that adversely affect the other. I’ll cover this in more detail in the chapter about the recovery framework, but just keep in mind that the multipliers effectively act as a retention program for the company and a severance program for employees. They are a key part of why the Slicing Pie Model works so well for so many companies.
Although I don’t recommend changing the multipliers, some people do it anyway. Because of this, you can change the multipliers in the Pie Slicer. For best results, make sure your cash multiplier is more than your non-cash multiplier and that your non-cash multiplier is higher than one.

To change the multipliers, go to Settings → Pie Settings and look for the Non-Cash and Cash Multiplier Settings.

Any changes you make to any settings will impact future contributions only; it will not recalculate the existing Pie.

Summary

A “slice” is a fictional unit of measure that allows entrepreneurs to allocate a percentage of the pie based on observable values instead of guesses about the future. Slices reflect what someone would have been paid for the same contribution to another company that could pay and a multiplier that reflects the high risk of never getting paid at all. A company uses slices when it can’t pay cash.

There are two steps to allocate equity, or profit interest, in your business. First, convert contributions to slices:
Slices = Fair Market Value x Multiplier (Cash or Non-Cash)

Because cash is more difficult to come by than other types of contributions, I recommend a cash multiplier of four \( (4) \) and a non-cash multiplier of two \( (2) \).

Next, apply this formula which will tell you an individual’s contribution relative to other contributors.

\[
\text{Individual Share (\%)} = \frac{\text{Individual Slices}}{\text{Total Slices of all Participants}}
\]

The model is dynamic so it adjusts over time to make sure that at any given time, everyone always has what they deserve no matter what changes.
Chapter Two:

**Cash Contributions**

A cash contribution is a contribution that consumes an individual participant’s actual cash, usually in the form of an unreimbursed expense or cash expenditure from the company account. A cash contribution can also be tangible property with cash value like equipment or supplies. The formula to determine slices is as follows:

\[
\text{Slices} = \text{Fair Market Value} \times \text{Cash Multiplier}
\]

If you’re dealing with actual cash, then the fair market value is equal to the amount of cash *spent*. If the cash hasn’t been spent, it’s not at risk if it’s just sitting in the bank. Slices are only allocated when the cash is spent.
The Well

It is usually not a good idea to make a habit of paying expenses from a personal account if it can be avoided (more later on unreimbursed expenses). Founders, friends, family, and angel investors can contribute cash to a company savings account. I call this account “the Well”.

The Well is a pool of funds from which payments can be made. Managers can use the money for whatever they need to, subject to the restrictions of the investor, if any. You can pay salaries or rent, for instance, with money you draw from the Well.

Money in the Well does not receive any slices when it is deposited. Instead, slices are given when the money is spent. Remember, slices represent risk in a startup. If cash is sitting in a savings account, it’s not really at risk because managers could simply return the money to the investor. It is at risk only when it is spent or otherwise tied up. For instance, your landlord may require a security deposit. Money in your landlord’s account is at risk.
When money is drawn from the Well and put into a company checking account to pay bills, it converts to slices for each Well participant in proportion to their current ownership of the Well money. Because it converts to slices at the higher cash multiplier, managers are always mindful not to overspend. This is a good thing because it helps them focus and be smart with money. This, like all aspects of the model, aligns the interest of the investors and employees.

**Pie Slicer**

Add money to the Well by clicking *Add Funds to Well* in the top left of the Pie Slicer.

If one team member was responsible for securing the cash investment, they may be entitled to a Finder’s Fee. More on this later...

For example, Julie and Chuck want to help Anne start a cinnamon roll shop and they each put $10,000 in to a company savings account for a total Well of $20,000. Anne needs $1,000 to cover the current month’s expenses so she transfers the money to the company checking account. Because both Julie and Chuck have 50% ownership of the cash in the Well, $500 is attributed to
each of them and they each receive 2,000 slices of Pie (cash times four). The following month, Anne draws an additional $4,000 from the Well. Julie and Chuck each receive 8,000 slices. Anne is careful only to draw what she actually needs so she doesn’t have to give up too many slices. Julie and Chuck know that she has an incentive to be smart with their money.

Now the Well has $15,000 left. Suzanne is an investor who gives her another $15,000, so now the Well is $30,000. Suzanne owns 50% and Julie and Chuck each own 25%.

Anne buys an oven that costs $10,000. $5,000 is attributed to Suzanne so she receives 20,000 slices. Julie and Chuck each receive 10,000 slices for their $2,500 contribution or 25% of the total.

---

**Pie Slicer**

| Draw money from the Well by clicking **Draw Funds from Well** in the top left of the Pie Slicer. |
| The Well will automatically allocate the slices to team members in proportion to their ownership of the money in the Well at the time it is drawn. |
| If the Well balance reaches zero, all slices will have been allocated for that “round.” |
The Well helps managers keep money on hand, but protects the Pie from being “swamped” by too much cash. Cash converts to slices only when it is consumed.

Slicing Pie Attorneys can provide a simple Well agreement for people who contribute to the Well. Visit SlicingPie.com and look for “A La Mode” under the Book tab.

The Well agreement is basically a loan agreement for money that goes into the company savings account where it will stay until it is used. When cash is drawn from the savings account the amount of the withdrawal is treated as a payment towards the balance on the loan. At the same time, the money converts to slices in the Pie.

Unless required by law, there is no interest on the Well agreement. When people put money into the Well, their intent isn’t to make loans with loan interest. If they are, they should ask for a traditional loan. Adding interest to a Well agreement is splitting hairs and not necessary to keep the model fair.

**Unreimbursed Expenses**

The most common cash contribution from employees is an unreimbursed expense. This can be money spent on just about
anything for the firm that does not get reimbursed from the company account (Well).

Examples:

- Norvin pays $2,500 for the cost of an attorney to write a customer contract and does *not* get reimbursed from the company account. Norvin would receive 10,000 slices.
- Anson pays $350 for a train ticket to take a company trip to Amsterdam and does not get reimbursed from the company account. Anson would receive 1,400 slices.
- Merrily uses her credit card to buy a client a $40 dinner and only gets reimbursed $10 from the company account. Merrily would receive 120 slices (($40-$10) x 4).
- Anne pays $30 a month to take the train to the offices of her startup company and does not get reimbursed. Anne *would not* receive any Pie.

Notice that, in the last example, Anne does not receive any Pie even though she incurred an expense that was business related and it was *not* reimbursed. This is because her expense was a commuting expense and it is not customary to reimburse
commuting expenses. Most employers—at least in the USA—don’t reimburse expenses associated with getting to work so the startup shouldn’t give Pie. Similarly, if Anne buys lunch for herself, she can’t ask for Pie either. Generally speaking, if it’s not customary to cover an expense for employees in your country or local market, you don’t have to provide Pie.

To be clear, when employees use their own money to pay for things on behalf of the company and do not get paid back, this is an unreimbursed expense. The money they use does not go into the Well because it is spent on a specific item. The Well is used to hold larger amounts of money for future expenses. Money in the Well could be used to reimburse employees in which case the owners of the Well would receive slices, not the employee.

Employees and other contributors should keep track of expenses and save receipts so they can accurately report their expenses.

At first, it might feel strange to provide slices for small, seemingly insignificant expenses, but over time these things can add up. It’s not fair to ask someone to cover business expenses. Unless employees are rewarded for their contribution they will begin to resent their job and morale will suffer.
Loans and Credit Cards

Sometimes, an individual uses personal credit to secure a loan on behalf of the company or puts expenses on their credit card. If the individual is making the payments on the loan, the money is treated as cash when the money is spent. If the loan is a lump sum for general purposes, it becomes part of the Well and slices are given when the money is drawn out. If the loan is used to buy something specific, the money is spent and converts immediately to slices.

However, if the loan is being paid back by the company, instead of the individual, the individual does not receive any slices. Yes, the individual is taking risk for securing the loan with personal credit, but because they aren’t personally making the payments, they don’t receive any slices. At first, this may seem unfair, but it’s not.
If someone gives you money and expects you to make regular payments, they are giving you a loan. It does not matter where the money comes from, all that matters is that the nature of the transaction is a loan. The individual would be within her rights to ask for interest on the loan, but they do not deserve a slice of the Pie. If they did receive a slice of the Pie, they would, in effect, be double-dipping from the Pie. The person providing the loan would be receiving Pie and the person paying or providing the cash to pay the loan would be receiving Pie. This just doesn’t work.

So, loans and credit card expenses are treated as cash (4x) if the individual who provided the loan is making the payments. If the company is making the payments—with or without additional interest—no slices are granted.

When cash-money is spent on behalf of the company, and the individual who provided the cash is not paid back the fair market value of the cash is equal to the cash spent.

**Fair Market Value = Amount of Cash Spent**
Supplies & Equipment

Many companies require supplies and equipment to get into business. A T-shirt company needs printing presses and dryers. A hamburger stand needs a grill and spatulas. A tech company needs computers. A zoo needs cages and at least a couple of nice llamas.

If these things are purchased for the company and the person who purchased them was not reimbursed from the company account, the fair market value would be the price they paid.

\[ \text{Slices} = \text{Price Paid} \times \text{Cash Multiplier} \]

However, in many cases, people may have equipment that they acquired some other way. Someone may keep llamas as pets, for example, and provide some for the start-up zoo. Or perhaps someone has an old truck that the startup can use for deliveries. Transferring ownership of a pre-owned asset into a company isn’t the same as spending cash. It’s a non-cash contribution. Therefore, it represents a different level of risk and
slices are at the non-cash rate. If the supplies or equipment is *less than a year old*, the model uses the purchase price.

**Slices = Price Paid x Non-Cash Multiplier**

If the supplies or equipment is *more than a year old*, the model uses the resale price. You can find the current resale price fairly easily by looking on eBay.com, Craigslist, or industry classified listing for similar supplies or equipment.

**Slices = Resale Price x Non-Cash Multiplier**

It’s important to note that when slices are received, the supplies and equipment becomes the property of the company. This means that if the person who contributed the equipment leaves the company, they can’t take the stuff with them. The company owns it.

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**Pie Slicer**

The Supplies screen and the Equipment screen are the same in the Pie Slicer. Users will be asked the amount paid or the fair market value and the age of the contribution so it can apply the appropriate rule.
In many cases, personal laptops or cellphones used in building the company would not be treated as contributed equipment and people who own them would not receive slices. The company, therefore, would not own these items and departing employees could take them when they leave.

Similarly, small amounts of supplies brought from home may not warrant slices. Use your best judgment, a person probably doesn’t deserve slices for bringing a tape dispenser and some old pens to the office.

Cash contributions or tangible contributions will have special treatment in the event of separation, which I will cover in detail in the chapter about recovery.

Summary

A cash contribution is a contribution that consumes an individual’s cash. Because cash is harder to come by than time (for most people) it gets a higher multiplier than non-cash contributions.

Slices are allocated when the cash is spent, because unspent money is not at risk and slices represent risk. The Well is a tool that can be used to hold unspent money until it is
needed for expenses. When money is transferred out of the Well the Well owners get slices in proportion to their ownership of the cash in the Well.

When an individual takes on personal debt for the company they receive slices when the money is spent as long as they are paying the payments on the loan. If the company is paying the payments no slices are allocated.

Unreimbursed expenses or purchases of new equipment and supplies for the company are treated as cash contributions. When slices are provided, the company takes ownership of these assets.

Contributions of pre-owned equipment and supplies are treated as non-cash contributions and use the non-cash multiplier.
Chapter Three:

**Non-Cash Contributions**

A non-cash contribution is pretty much anything that an individual contributes without an outlay of cash. Time is an example of a non-cash contribution. There are no direct expenses associated with the time I spend working on a startup. Similarly, there are no direct costs associated with introducing the company to a qualified prospect I might know.

Many startups can be built with mostly non-cash contributions—often referred to as “sweat equity”. A tech startup, for instance, may be able to be created without spending a dime. In fact, the real beauty of the Slicing Pie Method is its ability to fairly account for non-cash contributions and use slices to reward the people who made them. Most companies,
however, will require a mix of cash and non-cash contributions to be successful.

To convert non-cash contributions into slices, use the following calculation:

\[
\text{Slices} = \text{Fair Market Value of Contribution} \times 2
\]

For this to work, however, you need to have a way of determining the fair market value of the contributions.

\textit{Time}

Most employed people do not receive equity as part of their compensation package and are perfectly happy as long as they feel they are being paid what they deserve. The “perfectly happy” price is the fair market value of their time as long as their work for the startup is similar to what they would do for someone else at a fair market rate.

For example, if a person is “perfectly happy” making $50,000 a year as a marketing executive, they should be willing to accept a similar amount for similar work at a startup (to be paid in Pie). However, if that person is leaving their job as a
marketing executive to flip burgers at a burger startup, the fair market rate would be the rate at which the person would otherwise be paid to flip burgers at a similar establishment. Big companies, like McDonalds or In ‘N’ Out Burger, are likely to have a significant influence on the fair market rate for burger-flippers.

A Slicing Pie salary negotiation, therefore, is like any other salary negotiation. A manager should ask herself, “If I could pay cash for this person’s services, how much would I pay?” A potential employee should ask himself, “If this company paid me and did not give me equity, how much would I be perfectly happy to accept?” If there is overlap between these two numbers, a deal can be struck; if not, you can part ways as friends.

When the company eventually has enough money to pay people for their services, it can pay part or all of the salary and reduce, or eliminate, the allocation of slices. This isn’t the same things as buying back slices; it just reduces the amount of additional slices the person would deserve going forward. For instance, if you paid $20,000 of a fair market salary of $50,000, the person would be risking $30,000. The more cash you pay the less risk the person takes and the fewer slices are allocated for
the time she contributes. If you pay 100% of her fair market salary she would contribute zero slices.

Once you agree on the fair market salary for your job, you will want to convert the annual salary into an hourly rate. Do this by dividing the entire amount by 2,000, which is roughly the number of working hours in a year (40 hours times 50 weeks). I assuming at least two weeks of vacation time.

On a side note, I recommend an open vacation policy. This means people can take as much time off as they need as long as their work is getting done. This not only treats people like adults who can manage their own time, but also it avoids the problem of managing slices for paid time off.

The Pie Slicer will automatically do the hourly calculation. Enter the unpaid portion of the annual salary on the Team Member settings page.

In most cases, the amount of time people spend on the startup varies dramatically. It is not uncommon for some founders to spend 80 hours a week while others spend less than 10 as they juggle startup work with their day jobs. It is for this
reason that you have to create an hourly rate. Participants will simply track the hours they spend working to determine the fair market rate of their contribution of time:

**Fair Market Value of Time = Hours x Hourly Rate**

You can also calculate a Slices Per Hour which will show you how many slices you contribute with every hour you contribute:

**Slices Per Hour = Hourly Rate x Non-Cash Multiplier**

This is the part of the program that some people find concerning (sometimes). The first thing that people don’t like about this calculation is the thought of tracking their time. Most people, including me, don’t like tracking their time. However, few things will give you better insight into what is going on with your startup company than a time report. If you don’t know what people are spending time on, then you probably don’t have a good handle on your business.

Most time-tracking systems, including the online Pie Slicer, will ask for notes on what was done during the time
logged. Your time log reports are an *excellent* coaching tool for helping people better manage their time and become more productive.

Not long ago, I spoke to an entrepreneur who was frustrated with his company’s inability to generate revenue—a common complaint among startups. Because he was using the Slicing Pie Model, he had fairly detailed records of his time. A quick review of the reports showed that very little of the teams’ time had been spent on selling. Most of their time had been spent on development, customer service, research and other administrative tasks. They turned their attention to getting out and selling and within a few weeks they had some new customers. Without a good understanding of how time was being spent, this guy may still be scratching his head.

The next thing that people worry about with regard to time tracking is the *productivity* of the time spent. People are afraid that an unscrupulous coworker can simply log a bunch of hours and not do any work.

Time reports will not only tell you what someone is focusing on, but how productive they are. If someone is taking a lot of time to do simple tasks, you have a *management* issue with that person; it is not a flaw in the Slicing Pie model. If you have a
chronic time-waster, you may have grounds for termination with cause (more on this later). In the Slicing Pie Model time tracking, therefore, discourages time-wasting rather than encourage it.

On the flip side of the productivity concern is the concern that time doesn’t equal value. And, people with more experience may be more productive than less experienced people. Remember that a contribution is what it is. Time spent on a startup does not magically make it more valuable. You are expected to perform at the same level for a startup that you would be for a real job. More experienced people usually have a higher hourly rate, which encapsulates their skills and expertise. You pay more for good employees because they can produce more for less money. You also pay more for good employees because they are supposed to come up with more great ideas than other employees.

The next major concern I hear about time tracking is the concern that there is much more to building value in a company than simply logging hours. That is true, but without time-tracking you will never understand one person’s contribution relative to another. One person may work full time and another a few hours per week. Unless you want to guess what each person is doing you should keep track.
You don’t have to account for *every* minute of *every* day. You and your team can decide how much granularity you will accept. Some teams may be comfortable with a monthly entry that says “120 hours: did stuff,” other’s may want more detail. I personally like to know what people did with the time they spent.

If you still have a problem with time tracking, then you’ll have to figure out some other way to accurately measure the fair market value of a person’s time. I’ve heard lots of ideas; so far, none works as well as time tracking!

**Pie Slicer**

When time is logged in the Pie Slicer, the user will have the option to choose a Project to which the time was dedicated. Project names are set up under the Pie settings menu.

*Raises and Bonus Payments*

If you have an employee that has lots of good ideas, they will be more valuable to your company and may deserve a raise, just like they would if they were working for a company that was paying them.
Similarly, it’s okay to negotiate a bonus if bonuses are typical for the type of position you are hiring for. Marketing executives may expect a bonus, but burger flippers may not. A good bonus program should be tied to company performance. A bonus program may not make sense for a company that isn’t making money.

**Pie Slicer**

To pay a bonus in Slices using the Pie Slicer, select the “Other” option from the Add Contribution pull-down menu.

*Contractor Time*

Startups often engage contractors and freelancers to work on specific projects. The hourly rate of a contract or freelance employee is likely to be much higher than their fair market salary. An individual who might be able to secure a job for $40,000 per year or $20 per hour might easily command $50 per hour as a freelance employee. This is normal because they have to make a living on fewer hours (to accommodate hours spent selling and admin work). Also, employers get the benefit of
avoiding things like employment taxes (sometimes), benefits, and other expenses associated with long-term employees.

The fair market rate for these people is their hourly rate. However, it is fair to negotiate a buyout for the company so that the managers can avoid an absentee owner (this is someone who owns part of your company, but is no longer involved). I recommend a payment schedule that increases the buyout price to 200% of the base price. This means that if you can pay them, you do pay them; but if you can’t, you would owe them slices.

You would maintain the right to buy back the slices if you suddenly came into the money, according to the following schedule:

<table>
<thead>
<tr>
<th>Month</th>
<th>Buyout</th>
<th>Month</th>
<th>Buyout</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100%</td>
<td>7</td>
<td>155%</td>
</tr>
<tr>
<td>2</td>
<td>109%</td>
<td>8</td>
<td>164%</td>
</tr>
<tr>
<td>3</td>
<td>118%</td>
<td>9</td>
<td>173%</td>
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<tr>
<td>4</td>
<td>127%</td>
<td>10</td>
<td>182%</td>
</tr>
<tr>
<td>5</td>
<td>136%</td>
<td>11</td>
<td>191%</td>
</tr>
<tr>
<td>6</td>
<td>145%</td>
<td>12</td>
<td>200%</td>
</tr>
</tbody>
</table>
At the end of a year, you can buy them out for twice what they would have billed a regular client for their work. After that, the buyout option goes away for any billings more than a year old. You may still be able to come to an agreement, but you shouldn’t force them to sell.

**Fair Market Value of Time = Hours x Rate**

To be clear, the fair market rate that will be used to calculate slices is the calculation above, not the buyout price. Think about it this way, a normal employee charges an annual rate and gets the benefit of being able to keep his slices (subject to termination rules). A contract employee charges a contract rate and, in exchange for a higher rate, is subject to a buyback. At the end of a year the company can’t force a buyback.

If the contractor is going to be working with you over an extended period of time, it would be better to negotiate a fair market salary and include them as an employee, rather than a contractor. Because contractor rates are so much higher than full-time rates it’s not fair to the other employees. Use contractors for limited engagements.
Add the contractor as a regular contributor and add set the salary by annualizing the hourly rate, which is Hourly Rate x 2,000. The contractor’s slices will be added to the Pie. When, and if, you buy them out, you can simply delete their contribution under the contributions tab.

To delete or edit contributions, find the contribution under the contributions tab and right-click your mouse over it to reveal the Edit and Delete options.

Ideas

It is not uncommon for people who have ideas to think they are entitled to a big chunk of equity just for having the idea. The instinct to want to benefit handsomely from “your baby,” is real and it’s very common. In the context of fairness, however, slices are only given when risk is taken and risk is a function of fair market value. The most common way to compensate an inventor of an idea in the open market is through a royalty on revenues. Inventors, authors, and musicians routinely collect royalty checks as compensation for their ideas.
Royalties generally apply to “the” idea that is the idea upon which a company is founded. Ideas generated “on the job” usually don’t get royalties. If you work for a company, coming up with great ideas is part of your job.

The Slicing Pie Model uses the fair market value of unpaid royalties to calculate slices.

\[
\text{Fair Market Value of Ideas} = \text{Royalty Rate} \times \text{Revenue}
\]

This assumes, of course, that the revenue generated can be directly attributed to the idea. If my publisher sells one of my books, for instance, I receive a royalty. If the same publisher sells a book from some other author, I don’t. I might enjoy receiving a royalty on other people’s intellectual property, but that wouldn’t be fair. In fact, knowing that it’s not fair would take all the fun out of it, so I wouldn’t actually want the royalty from someone else’s book. Fair is more fun.

Not every idea deserves a royalty. The idea has to enable a business to generate revenue and create a competitive advantage. For this to be true, the idea has to be good and unique enough that it creates some sort of “ownable” intellectual property, usually in the form of a patent or copyright. Starting a
hamburger stand might be a good idea, but it’s not unique enough, in itself, to create a sustainable competitive advantage. In the case of a hamburger stand, the execution may create a sustainable advantage, not the idea.

If, however, you invent a single-polarity magnet that can create unlimited energy, you can probably secure a patent and the patent can create a sustainable competitive advantage. This idea, therefore, is the kind of idea for which the originator of the idea deserves slices.

In some cases, the time and money spent developing the idea before the company started could be translated into slices using the relevant calculations.

Set the Royalty Rate under the Pie Settings menu.

Relationships

A well-connected person can do wonders for a startup by bringing the right relationships. Relationships are so important to startups that people usually wind up *overpaying* when using
traditional equity splits because they are desperate. Similar to idea people, people with good relationships tend to want chunks of equity upfront. Like ideas, relationships are valuable when and if they generate revenue, investment or other financial benefit. In the Slicing Pie model, there are simple ways to calculate the fair market value.

A well-connected person who simply makes introductions may not deserve slices. But a person who can help convert them into value certainly does. Relationships turn into value when the lead to revenues, investments, or other formal relationships with the company.

Customers

When relationships turn into sales, the individual responsible for the sale is generally entitled to a sales commission on the revenue generated. Rates will vary by industry, but a commission of 5%-10% is typical. Pay the rate that is appropriate for your industry and make sure you pay the same commission to all salespeople.

Fair Market Value = Revenue x Commission Rate (%)
Not *every* person in your company will be entitled to a commission. A commissioned salesperson will usually receive a sales commission in addition to a base salary, which is often smaller than others in the firm at a similar level. Founders and other senior managers do not generally take a commission, for instance. Advisors usually don’t take commission either. In some cases, you can provide one commission rate on the initial sale and a lower commission rate on subsequent sales. Whoever is responsible for generating the revenue deserves the commission. If someone hands your sales person a business card from someone they met at a party and your sales person does all the work, your sales person deserves the Pie. Similarly, if someone introduces your sales person to a lifelong friend, but the sales person does the rest, the sales person still deserves the reward. Only offer slices to individuals who drive sales. A casual introduction probably isn’t good enough.
Commission rates are set under the Pie Settings options. The user or the Pie owner will have to enter the Revenue for that period in the Sales dialog box. The Pie slicer will calculate the slices in lieu of a paid commission.

It’s important to determine, in advance, when you are going to recognize the sale. Some companies may want to do it at the time of the sale. Others may want to wait until the cash is actually collected. I recommend entering sales on a monthly basis and only counting cash collected during the month. Unless you are disciplined about this process, you will run the risk of inaccurate allocations.

*Investors*

Similar to generating revenue, when someone’s relationship creates a new investment, that person would be entitled to a finder’s fee. But again, they should do more than just make an introduction; they should stay active throughout the process as needed.
A typical finder’s fee would be 5% for the first $1,000,000 and 2.5% for every million after that.

**Fair Market Value** = (First Million x 5%) + (The Rest x 2.5%)

You may run into legal issues with the finder’s fee. In some cases, only a registered broker can collect a finder’s fee. Check with a Slicing Pie-friendly attorney. Finder’s fees are much less common than sales commissions. If your company is uncomfortable paying the finder’s fee you might consider paying a one-time spot bonus or something similar.

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**Pie Slicer**

The **Add Funds to Well** screen gives the user the option of choosing the team member who should receive the fee. Only one fee per investment is allowed. The fee is paid in slices.

The Finder’s Fee is set in the Pie Settings options.
Partners & Vendors

It is not common (at least in the United States) to provide compensation for finding partners or vendors. For the most part, this is just part of the job we are hired to do.

In some cases, the partner or vendor will provide some sort of reward. For instance, a printing company might provide a sales commission to a contact who help them close a deal. It’s best to agree not to provide slices in exchange for relationships that turn into partnerships or vendors.

If a partnership or vendor produces a measurable savings over a previous solution, you can allocate a percentage of the savings (under 5%) to the person who helped find the vendor.

\[
\text{Fair Market Value} = \sim 5\% \times \text{Savings or one-time bonus or nothing}
\]

Employees

Sometimes, a relationship will turn into a new hire. In these cases, a referral fee may be appropriate. Choose an amount you are comfortable with and offer it to anyone who refers an
employee. Typically, you would wait at least six months before providing the slices so you will have time to make sure the employee sticks around!

$250 to $500 is a good place to start. Referral fees are quite common in the United States and can be a great way to reward current employees for participating in the recruitment process.

Fair Market Rate = Referral Fee/Bonus

Select “Other” from the Add Contribution menu to log bonuses and Referral Fees. In most cases, these will be treated as Non-Cash because the team member did not spend her own money.

Facilities

These days, there is plenty of unused office and warehouse space that startups can move into. Most startups are willing to put up with less-than-perfect conditions so there are lots of choices.

If someone contributes office or warehouse space, they would receive slices instead of rent. The fair market value is
equal to the amount of money the space would command on the open market if there was a willing tenant.

It’s important to note that the startup should only pay (in slices) for the space that is needed for the startup. If the landlord gives them 20 offices and they only need four, they should only have to pay for four.

**Fair Market Value = Market Rate Rent For Space Used**

**Summary**

The fair market rate of many non-cash contributions is observable in the marketplace. When people make non-cash contributions they are accepting risk that they will never be paid. This risk is equal to what they would have otherwise been paid by a company who has money to pay.

To calculate slices contributed from non-cash contributions, determine the fair market value of the contribution and multiply by the non-cash multiplier (I recommend two).
Unlike cash contributions, non-cash contributions do not incur out-of-pocket costs and are usually easier to come by. Therefore, they get a lower multiplier.

Additional Reading

You may already be in a startup with a fixed split. Have no fear! You can retrofit the Slicing Pie model to determine what your split should look like. For more information on how this works visit www.slicingpie.com/retrofitting-a-grunt-fund
Chapter Four:

Recovery Framework

After slices in the company have been allocated, it may be necessary for the company to recover some or all of it in the event of separation from employees. Absentee owners are individuals who own part of a company, but are no longer actively involved. This is sometimes referred to as “dead” equity. Professional investors tend to avoid investing in companies with too many absentee owners so the company needs a mechanism to recover shares from people who leave the company.

As you will see, the multipliers in the Slicing Pie model create consequences for individuals when they make decisions that adversely affect the company and vice versa. These
consequences provide protection for both parties and, in many ways, are the “secret sauce” that makes the Slicing Pie method so effective and fair.

The recovery of the slices is dependent upon both the nature of the separation and the nature of the relationship with the individual.

**Nature of the Separations**

There are four primary reasons an individual would separate from a company:

A. Fired for Good Reason
B. Fired for No Good Reason
C. Resigned for Good Reason
D. Resigned for No Good Reason
These terms, and their following definitions, are very similar to those commonly found in American employment agreements.

_Fired for Good Reason_

Being fired for good reason (sometimes called “for cause”) means the employee’s _behavior_ lead to a management decision to fire the person. Performance-related issues are the most common. If there is a performance issue, the individual must be given a chance to correct his behavior. I recommend _at least two warnings_ with a clear outline of the performance issue and what
needs to be done to correct it. It’s not fair to fire someone for performance-related issues without first giving them the chance to correct their behavior. After all, they may not know what they are doing wrong. Or they may not know the impact their behavior is having on the firm.

Other good reasons to fire someone would be stealing, sexual harassment, threatening coworkers, drug abuse, and other extreme behavior.

When an employee is fired for good reason, their decisions negatively impact the company. Consequently, he will lose any slices allocated from contributions except supplies, equipment and cash contributions which would be recalculated without the multipliers. Additionally, the company has the right (but, not the obligation) to buy back the equity in an amount of cash equal to the outstanding slices.

Lastly, the employee should agree not to compete directly with the company or cause the other employees to leave. It doesn’t matter if a non-compete or non-solicitation isn’t enforceable by law in your market, it’s not fair to be fired and then go work for a direct competitor or steal employees.

In this case, removing the multipliers has created a consequence for the employee. Knowing that this is the
consequence forces employees to think twice before slacking off and hurting the company, or choosing to engage in other negative behaviors.

If this seems harsh, remember that startups are fragile businesses and they can’t afford to have deadbeat employees who do bad things.

Fired for No Good Reason

On the flip side, if the employee is fired through no fault of her own (also called “without cause”), she gets to keep all her slices. The company can offer to buy the slices back in an amount of cash equal to the outstanding slices, but the employee should not be obligated to sell.

In this case, the company has to deal with the inconvenience of having “dead” equity or buy it back at a very high premium. Keeping the multipliers has created a consequence for the company, forcing the management team to think twice before letting someone go for no reason. This protects the employee from the decisions made by the management team that negatively impact their future.
I’ve heard, and experienced, equity horror stories where managers fire employees for the sole purpose of getting back equity. In many cases such transactions are perfectly legal, but being legal isn’t the same thing as being fair. If a management team terminates an employee through no fault of their own they should be prepared to face consequences that include compensating the employee for the risk they accepted by participating in the startup.

There are a number of reasons a person would be fired for no good reason, including a change in strategy, reduction in force, elimination of redundant positions, or “just because”. Most jobs (at least in the U.S.) are considered “at will”, meaning the company can fire anyone, for any reason, at any time.

The company can’t prevent the individual from going to work for a competitor, either. It’s not fair to fire someone for no reason and then limit their job prospects. This doesn’t mean the person can steal ideas and customers. But it does mean they can go join the competition. However, the company would be within their right to ask for a non-solicitation agreement which prevents the employee from hiring the company’s employees with a specified period of time (usually one year).
Resign for Good Reason

Sometimes, a company doesn’t outright fire someone, but they make decisions that essentially “push” an employee out. There are well-documented legal reasons why a person would be entitled to resign for “good reason” (also called, “for cause”) that are often found in employment contracts. The good reasons include:

✓ *Adverse change in title or responsibilities.* If the Vice President of Marketing was demoted to the Head Burger Flipper, the person would have a good reason to leave. They wouldn’t *have* to leave, but the role is clearly no longer what they signed up for. If they decide to stay, however, they can’t use this as a good reason later on.

✓ *Adverse change in compensation that does not affect other participants at the same level.* If the management team cuts the individual’s salary by significant amount, but does not take similar action against others at the same level.
✓ Relocation of the company more than 50 miles from its original location. The person may not be able to manage the commute. Extending the commute puts an unfair burden on the employee.

✓ Death or disability.

Leaving a company for good reason is essentially the same as being fired for no good reason. The employee gets to keep all his slices. The company can offer to buy the slices back in an amount of cash equal to the outstanding slices, but the employee should not be obligated to sell. He should not be asked to agree to a non-compete. Again, the multipliers impose consequences on the company, forcing them to be careful about the decisions they make that impact employees. But, they can ask for a non-solicitation agreement as described above.

Resign for No Good Reason

The last reason for separation is when someone quits for their own reasons unrelated to the firm. Perhaps they no longer believe in the company’s vision, perhaps they found a better job
somewhere else, or perhaps they won the lottery and want to retire. It may be a good reason for them, but not for the company. No matter what the reason, they are leaving a company that needs them and will have to suffer the consequences, which are the same as being fired for good reason. She will lose any slices allocated from contributions except supplies, equipment and cash contributions which would be recalculated without the multipliers. The company may buy back the slices if they have the money and a non-compete/non-solicitation agreement would be appropriate. This is the same consequence as being fired for good reason. If employees make choices that adversely impact the company, they have to suffer the consequences.

Loyal Employees

Sometimes, a loyal employee works hard, but has to resign to make ends meet. It’s true they may be leaving the company in the lurch, but taking back their equity may not seem like the right thing to do. In these cases, I recommend the person reduce their hours, but stay involved on a part-time basis. This will
allow them to keep their slices and allow the company to continue to benefit from their expertise.

You could also adopt a rule which states that any slices over a certain number of months stay in place in the event of resignation with no good reason. This will give good employees who have to leave an option to leave without losing everything. I think it’s important to have *some* consequences, but I understand that people’s personal lives may not always stay compatible with working with a startup. I provided a spot for this rule at the beginning of the book.

I do not recommend doing this for people who are fired for good reason.

**Buyout Price**

It’s not uncommon for the people who are bought out to be the only people who walk away with anything from the startup. This is because startups pay people who leave the company and then the company goes out of business leaving the people who stayed with nothing. This may be unavoidable.

The Slicing Pie Model will tell you the fair buyout price so you won’t overpay or underpay. The price will be the number of
outstanding slices times the currency rate. So, if the terminated participant has 1,000 slices and your fund is operating in dollars, the buyout price is $1,000.

When you buy someone out who was terminated for good reason or resigned for no good reason you are essentially paying them back for cash and tangible contributions. Their “investment” of time, money and other contributions didn’t pay off which is fine because it was their fault anyway.

However, when you buy someone out who was terminated for no good reason or resigned for good reason they get compensated for the risk they took. They are getting what they would have been paid on the open market times the multipliers. This provides a nice rate of return.

Traditionally buyout prices are negotiated when the employee leaves. This requires everyone to guess what the current price is and inevitably leads to arguments about valuation. The Slicing Pie buyout price does not imply a valuation, it simply implies compensation.
To remove a contributor, click the “X” to the upper right of their profile image. The Pie Slicer will ask you to specify the circumstances of their separation and apply the appropriate calculations.

Their slices will remain in the Pie until they are bought out.

To buy out a team member, click on the Summary tab. The Pie Slicer will show the buyout price next to the team member. Clicking the bubble will remove the individual and their slices from the Pie.

You may need to account for the transaction by adding the buyout expense to another team member or drawing funds from the Well. The Pie Slicer will not do this automatically.

**Claw Back**

As mentioned before, when someone resigns for good reason, or is fired for no good reason, the company can offer to buy them back at an amount equal to the outstanding slices that were calculated with the multipliers. This represents a very nice return on the individual’s investment of both cash and non-cash
contributions. Most people hope they will receive a lot more, but the multipliers provide a fair return, given the risk.

However, it’s not fair for the company to buy back the slices and then turn around and sell the company for a far better return. If a transaction takes place within a year of a buyout that would have led to higher return, the person should be paid the difference. This is known as “claw back” and it prevents the managers from firing everyone, buying back their slices at a one price, and then selling the company at a higher price.

If the person was fired for good reason or resigned for no good reason, the claw back would not apply. Talk to your Slicing Pie friendly lawyer about claw back.

Caveats

There are a number of important caveats that could impact the way people are treated on the way out the door. Remember, Slicing Pie is about doing right by the people who help you succeed and it’s important to clarify a few things to prevent one group of people from inadvertently taking advantage of others.
Advisory Board Members

Because advisors are usually successful people who may have acquired some wealth, they may have unusually high fair market salaries. So high, in fact, that it may not be practical to pay them such a high rate. I recommend capping their hourly compensation at 200 slices/hour and asking them to contribute at least ten hours before cutting them in. For this, they enjoy the benefit of being immune to termination as described above.

Unless there were extenuating circumstances, you wouldn’t be able to fire an advisor who took the capped hourly slices option. You would simply stop going to them for advice and they would simply stop earning slices. However, you would not be able to erase their slices if you fired them. So, when it comes to advisory board members, there is rarely such thing as termination for cause. Advisors would typically keep their shares with the multipliers.

However, if they told you they no longer wanted to work with you, this is the equivalent of resignation for no good reason and you could recover their shares.

If the advisor does not want the slices cap you have the option of giving them a rate that more accurately reflects their
market rate, but they wouldn’t enjoy the benefit of protection against termination.

Investors

Friends and family investors who put cash into the Well can’t really be fired either, even if they are contributing other things as long as their primary role is investment. They would keep their slices with the multipliers, no matter what happens. You could offer to buy them out with the 4x multiplier (which would be a nice return), but they shouldn’t be forced to sell.

Rent and Royalties

If a terminated participant is entitled to a royalty for their intellectual property they will continue to contribute slices unless the company pays the royalty in cash.
Similarly, if the terminated participant owns the facilities they will continue to contribute slices unless the company starts paying rent.

Summary

When an individual separates from a company, it may be in the company’s best interest to recover slices, if they can, to avoid having absentee owners, aka “dead equity.”

If the company makes decisions that adversely impact the future of an individual employee, the result will be employees who resign for good reason or who are fired for no good reason. Consequently, it is expensive to get slices back from them and the company cannot force a sale, nor can the company expect the employee to agree to non-competition. In these cases the employee would maintain all their slices in the pie and the company could offer to buy them back, but the employee should not be obligated to sell. Additionally, a claw-back provision should be included with any sale that allows the employee to benefit from the full price of the shares in the event the company is sold at a higher price within a year.
Conversely, if the employee makes decisions that adversely impact the future of the company the result would be termination with good reason or resignation without good reason. In these cases, the employee would lose their slices except those contributed with equipment, supplies and cash which would be recalculated without the multipliers. Additionally, the company should expect the employee to adhere to a non-compete agreement. If the company has the money, they can force a buyout without the benefit of the claw back provision.

In all cases, the company should expect the employee to adhere to a non-solicitation agreement which prevents them from luring the company employees away.
Chapter Five:

Freezing the Pie

The combination of the allocation and recovery frameworks provide a universal structure for awarding equity or profit interests in a bootstrapped startup. By agreeing to the rules, in advance, and holding all participants accountable to the rule, each participant is treated fairly with proper recognition of their contribution.

The Slicing Pie model is best suited for early-stage companies who don’t have much cash. As the company grows and develops, it will start generating cash and profits (hopefully). When that starts to happen, it can simply pay for everything it needs and the model will stop allocating new slices. It will, in effect, “freeze” and the ownership of the participants will no longer change. When and if the company
distributes profits, the model will tell you how much each person gets.

Here is how the freezing scenario will unfold:

Revenue

The Slicing Pie Model always aligns people’s incentives so that they make the right kind of decisions. Managers and employees will be aligned in their interests to get to cash flow breakeven as soon as they can so they can freeze their share. In a fixed split model it doesn’t really matter when the company gets to breakeven because it won’t impact shares.

As the company begins to generate revenue, the management team may choose how to reinvest the revenue into the company. This means they can use the money to pay for contributions, instead of using slices.

The best use of company funds is to use it to pay for things that would have otherwise consumed cash from the Well or used cash to reimburse employees for expenses. When cash from the Well or an employee is consumed, it converts to slices using the higher cash multiplier making it “expensive” relative to non-cash contributions.
When the out-of-pocket cash needs of the company are met, the management team can use what’s left to start paying for non-cash contributions such as rent, commissions, royalties and salaries. The amount paid towards the fair market rate for these contributions will reduce the number of slices allocated for that input. If the company pays 100% of the fair market rate for the contribution there is no need to provide slices.

At this point—when the company is paying for everything—the model will no longer allocate slices for contributions and the model will stop changing. It will stay frozen unless the company’s financial situation requires it to use more slices, instead of cash, in the future.

A frozen pie is a good thing. In fact, it’s the point of your work! This means the people who worked to get the company to breakeven and beyond will each have what they deserve to have and will, as you will see below, share in the profits of the company. When new members come on board you can pay them their market rate and you won’t have to feel obligated to give them slices at all.
Profits

When the company is paying 100% of its expenses it will generate profits. After the IRS takes their fair share, the company can either reinvest the profits into the company or distribute the profits to shareholders. When and if profits are distributed, the Pie will determine how much everyone gets.

Profit distributions are made after all other financial obligations have been met. This includes fair market salaries. This means that each participant will not only get their fair market salary, but also they will receive their fair share of the profits when and if the company decides to distribute profits. I hope your profits far exceed your fair market salary!

If someone joined the company after the company could afford to pay, they would get their fair market salary and would not get a portion of the profits. This is fair because they did not take any risk.

This can happen in perpetuity. Participants can continue to enjoy their fair market salary and a portion of the profits that properly reflect the contribution they made before the company could pay.
Recovery

Although no more slices are being allocated, the rules of the recovery framework will still apply. However, if you are using a “loyal employee” option as described above, an employee leaving for no reason might retain their equity depending on how long ago they earned it.

Buyback

In some cases, the company can offer to buyback slices from participants. When this happens individuals are paid by the company. One slice = one unit of currency depending on the currency your fund is using. When the company buys the slices the slices are removed from the pie and the model will self-adjust.

If the company uses company money to buy back an individual’s slices the slices will vanish from the money and the Pie will recalculate everyone else’s shares which means they will all have a higher percentage. When someone sells their slices back to the company they are getting a chunk of money and forgoing a share of future profits.
If another individual buys someone’s slices the slices will transfer to her and she will get the profit distributions, when and if payments are made. In other words, the slices do not vanish, they stay in the pie but belong to someone else.

Of course, more established companies may warrant a value that exceeds the Slicing Pie model value. In these cases, the fair market value should be used, not the Slicing Pie model value. Your company’s managers will determine whether they will allow one participant to sell slices to another. I personally think it’s okay (as long as it’s a legal transaction). I recommend that you avoid selling to people who are not actively involved in the company, however. This will create an absentee owner situation which isn’t great.

*Series A Investment*

If your company cannot get to profitability on its own, or if it needs money for growth, it will have to raise money from outside investors. Any investment that covers a part, but not all, of the company’s cash requirements is an angel investment and should be treated as a loan and included in the Well. However, when a substantial amount of money is raised that will meet the
cash needs of the company in the foreseeable future this is a Series A Investment. At this point, you can freeze the Pie and all participants will be subject to the terms of the Series A investors. These people will likely be professional investors with professional term sheets that outline all sorts of things.

One of the most important things the term sheet will outline is the valuation of the company. This will determine the underlying value of the shares. This has *nothing* to do with the number of slices in the pie and everything to do with how good your management team is at negotiating a healthy valuation. If you have good employees, provide good value, and (most importantly) have real traction showing a predictable marketing model, you should be able to negotiate a high price.

*Outgrowing the Slicing Pie Model*

For startup companies, slices represent the relative risk taken to form a company. For established companies with decent cash flow the nature of the risk is different. When people are getting paid their fair market rate they are no longer taking the same kind of risk. At this point, equity is no longer about risk, it’s
about providing an incentive and retention program for key employees.

In larger companies, the Slicing Pie model might have to give way to a more traditional incentive option program. The original shareholders’ ownership would change when this new program is implemented. It will depend on what your company does and what the owners and investors want to do. All the original shareholders should be subject to the same dilution terms as each other. It would not be fair to favor one over the other.

Summary

When the company generates revenue, it can use the revenue to pay for the things it needs. Paying for part of the cost will reduce the number of slices the model will allocate. Paying for all of the costs will eliminate the allocation of slices and the model will stop changing.

When revenue surpasses expenses, it will generate profits. The model will determine the distribution of these profits if the management team decides to distribute them.
If the company needs cash prior to breakeven it can raise enough money to meet its financial obligations in the foreseeable future. This is a Series A investment and the new investors will take equity based on the negotiated value. All participants in the company will be subject to the terms and conditions of the Series A investors.

The termination rules will stay in effect until the management decides to change them. As a company matures and pays salaries equity no longer represents risk. Option bonus programs can be used to provide incentives for employees (I’m working on another book to describe how this could work).

Additional Reading

If you are ready to raise money for your startup, or if you are ramping up sales revenue, you may want to check out another one of my books, Pitch Ninja which covers a method for delivering a very persuasive presentation. For more information visit [www.pitch.ninja](http://www.pitch.ninja)
Chapter Six:

Legal Issues

Most lawyers haven’t read my books on the Slicing Pie model (yet) and, therefore, aren’t well versed in the nuances of dynamic equity splits and may not feel prepared to properly document the agreements. In some extreme cases they may try to talk you out of it. Do not be discouraged! People all over the world have successfully implemented this method. There are ways to implement. Implementing the Slicing Pie model should be as quick and easy as a fixed split model. Nor should it cost more.

Documenting the Slicing Pie method is fairly straightforward because the rules are clear and details on each rule are provided in Slicing Pie. Several attorneys have created
agreement templates, which are available on SlicingPie.com under the “A La Mode” option on the “Book” tab.

Some of the most important legal considerations that must be addressed are tax-related. Tax laws vary from country to country, yet most systems will accommodate the Slicing Pie model as long as the proper filings and procedures are followed.

In the United States, the most popular entities for startups are LLCs and C-Corps. LLCs generally provide flexibility with regard to the distribution of profits and losses, making it a good structure for the Slicing Pie model, but C-Corps or S-Corps will work too.

Vesting

Vesting is a tool to protect companies from the problems caused by fixed equity splits. It allows companies to enter into a fixed split agreement, but maintain some recourse in case someone leaves or doesn’t work out. By implementing a vesting schedule, the company can remove an employee before their shares have vested. Or, if a person leaves they would forfeit the unvested portion of their shares. Vesting schedules are better than no vesting schedule, but they cause problems. For instance, an
unscrupulous employer can fire employees before they vest and keep their shares. Or, an unscrupulous employee can quit the day after their shares vest. This kind of thing happens all the time and it’s perfectly legal, but that doesn’t mean it’s fair. The Slicing Pie model is a much better way.

Because the model is dynamic and includes rules for both allocation and recovery, there is usually no need for time-based vesting schedules. However, in a C-Corp the Slicing Pie model determines vesting. In a C-Corp, restricted shares are issued at the outset of the company and 83(b) elections are filed by the recipients. The Slicing Pie model is used as a vesting schedule, where enough shares vest to keep the model in balance. Tax laws will vary, sometimes quite significantly, from country to country.

Profit Interests

As mentioned before, the Slicing Pie model can be used to dictate the distribution of profits or proceeds from a sale, regardless of the underlying ownership structure. I personally like the profit share option because it saves a lot of legal and tax headaches. In fact, I usually recommend using profit interests
rather than actual equity. If you issue equity you have to jump through a lot more legal hoops than you would if you used profit interests. For instance, adding a new member to your LLC might require an amendment to your operating agreement that would require signatures from all the other members. How much time do you want to spend preparing this paperwork and chasing people down for signatures?

Help for Lawyers

For attorneys with clients wishing to implement a Slicing Pie model, there is help available through SlicingPie.com. Please contact me, I am happy to provide anything you need to properly implement a Slicing Pie model for your client.

I’m in the process of working with attorneys in other countries to create localized guidelines. Links to these sites will be available on SlicingPie.com.

If you are an attorney and would like to become your country’s local expert, please let me know!
Summary

The Slicing Pie model is a new way of allocating equity or profit interest in a startup company. It provides a much more fair method than anything currently available, but because it is new, it may be met with some skepticism. The best implementations adhere closely to the recommendations in the book so the model can do what it is designed to do. When changes are made, it becomes more likely that traditional disputes will arise.

Most business lawyers and accountants are well-versed in traditional equity structures, but they may not have exposure to Slicing Pie model. Do not let this deter you from achieving fairness in your company. The Slicing Pie model can easily be documented for legal and tax issues. Visit SlicingPie.com for help finding a lawyer that can help you get the right agreements in place for you and your team.

Additional Reading

Slicing Pie-friendly lawyers are people who understand the value of dynamic equity models and are familiar with the mechanics of the Slicing Pie model. We list some of them on our web site. Visit
www.slicingpie.com/slicing-pie-friendly-lawyers to find some lawyers and get access to Slicing Pie legal agreement templates.
Chapter Seven:

**The Pie Slicer**

The online Pie Slicer is a web-based application that allows founders to track contributions and equity allocations for their team. It was developed because, even though I published an Excel spreadsheet, lots of people said, “You should create a tracking program.” In fact, several people have independently launched similar programs based on the Slicing Pie model. However, these programs may or may not reflect the actual calculations in my books and I wanted readers to have an application that is true to the model.

The rules and logic built into the Pie Slicer application are *exactly* as described in this book. This includes both the
allocation framework and the recovery framework. The calculations will also mirror the Excel spreadsheet.

I recommend using the model as described here, as any modifications are bound to make the model less fair.

However, some people choose to use a modified version of the Slicing Pie model. If you are someone who has chosen to modify the model, the Excel spreadsheet is probably the best place to start because you can make your own modifications.

If you want to use the model as outlined in this book the Pie Slicer application will work nicely. You can still modify a few things in the Pie Settings screen.

If you would like to download the Excel spreadsheet, visit SlicingPie.com and look under the “A La Mode” menu for the calculator.

Using the Pie Slicer

Like most online applications, the Pie Slicer is designed to be intuitive and self-explanatory. Help text is built into the program
and we will continue to upgrade and enhance the program, based on user feedback. It is an easy program to use.

However, without a base understanding of how dynamic equity splits work, the tool may not be fully adopted by the team. I wrote this book to help shed light on the interworking of the model and the importance of dynamic equity splits such as the Slicing Pie model. An electronic copy of this book (PDF) is included with your Pie Slicer subscription so each member can download their own copy. Subscribers have access to discounts on the print version as well.

My intent, however, is that you can enjoy this book and make use of its contents, whether or not you use the Pie Slicer application.

**User Roles**

There are four primary user roles in the application: Owner, Employee, Executive and Advisor. The Pie owner creates the Pie on his or her account and pays the monthly or annual fee. This person has “all access” to the tool and has the ability to view and edit all the settings, including salaries and Pie settings.
Pie owners can log contributions from all members and manage deposits and withdrawals from the Well. Below is an example of what a Pie owner will see in the program. Notice how they have access to the details of the Pie and the individual team members.

To add a team member, click the “Add Team Member” button in the upper left side of the screen. If the individual is already in our system, you will be notified.

Individuals have control over how their names appear on the site so you will not be able to edit their name after you add them.

Members of the team can log their own contributions through their own account. However, even if they don’t have an account, you can add contributions for them.

When users are added you can designate them as “Executives.” This will give them the same view into the Pie as the Pie owner, but they will not be able to change the settings for
anything except a few personal settings. Only Pie owners have the ability to change all the settings.
Pie Owner & “Executive” View
Pie owners can add new members to the team. When the new member is added, an email will be sent to the new user, who will be able to log into the Pie and track their own contributions. The team member account will not be able to view any information related to the Pie, except for their personal contributions. This view applies to Employees and Advisors. The main difference between an Employee and an Advisor is that the Advisor can’t be fired.

Below is screen shot of the same Pie as above, but viewed from the point of view of an individual contributor (Employee) rather than the Pie owner. Notice that the other team members do not appear and that the buttons are grayed-out for adding team members and managing the Well. This person’s access is limited to their own activities.
Participant View
Once participants have been added to the Pie, they can log their contributions as described below.

Logging Contributions

The Slicing Pie model requires people to log their contributions of expenses, equipment, ideas, supplies, facilities, sales and time. The Pie Slicer includes tracking for all contributions so it can properly allocate slices based on an individual’s contributions. This can be done with as often as you and your team sees fit. Individuals can sign-in and log their contributions at their convenience or the pie owner can do it for them. The Pie Slicer keeps track of all the contributions and when people last logged in so the Pie owner can provide a gentle reminder when necessary.

Many people cringe when asked to keep track of their time. They usually don’t mind tracking their expenses, but they don’t like tracking their time. You and your team can decide the level of granularity you will track using the Pie Slicer and the detail of the notes captured, but I don’t recommend trying to avoid this task altogether. Understanding how you and your
team spend your time is as important as keeping track of your expenses (maybe even more important).

The time-tracking tools in the Pie Slicer are basic and will allow your team to input their time, allocate the time to a specific project or category, and provide a description of what they did during that chunk of time. We tried to make it as painless as possible. We don’t like tracking our time either!

The Pie Slicer has some default projects built in. You can delete these and/or add your own. Under the settings menu, click on Pie Settings.

Multiple Pies

A user can participate in multiple Pies at one time. They can be invited to participate as an individual contributor or they can start their own Pie. The active Pie’s name will appear in the upper left side of the screen. Click the name to change Pies or start a new one. Pie owners have control over the Pie settings, can add users, and are responsible for the payment. Thank you, by the way, for your payment!
Individuals have control over their own information such as name and image, but only Pie owners can set the salary. Salaries are set per pie depending on what your role is. If you are the VP of marketing for one pie and the burger-flipper for another, your VP role will probably have a higher fair market salary.

**Tabs**

The tabs across the top provide the following functionality:

<table>
<thead>
<tr>
<th>Home</th>
<th>Brings the user to the main page with the Pie chart.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports</td>
<td>Access a variety of reports like your current cap table, a list of contributions and some other analytics</td>
</tr>
<tr>
<td>Settings</td>
<td>Access to the variables that can be changed by the Pie owner.</td>
</tr>
<tr>
<td>Help</td>
<td>Tips and information about the tool.</td>
</tr>
</tbody>
</table>

As mentioned above, individual users will only be able to view their own information whereas Pie owners and Executives will be able to see information for all participants.
Settings

The Pie Slicer has a variety of settings that impact how slices are calculated. Most of the settings are pretty self-explanatory but I will cover a few critical settings here.

Team Member Settings

Pie owners can invite team members by email and name. If the person is already in the Pie Slicer database (by email) the existing name and image will supersede the name entered when adding the individual. Individuals have control over their own name and image. Default images are “Grunts” which are fictional animals I created to represent a hard-working startup employee.

Once the individual contributor is added to the Pie, they can log contributions. The Pie owner can also log contributions on their behalf. The Pie owner can edit their salary. Changes to the salary will affect future calculations only; it will not go back in time and change past contributions. This is true for all changes made to settings.
When entering salary, input the fair market salary less whatever cash compensation is being paid from the company account. If you start paying more you should edit this field. The Pie slicer will automatically convert the salary to an hourly rate by dividing by 2,000 which is roughly the number of working hours in a year for a full-time job. In the U.S. a full time job is 40 hours per week and most Americans take off two weeks for vacation. Most countries have a similar number, although vacation time varies. As long as all the participants are using the same calculation for hourly rate there is no need to adjust this number.

Pie Settings

The Pie settings screen is where you set the parameters used in the calculations for your Pie. Below is a description of the impact the settings will make on your Pie. Changes to any of the settings will only affect future contributions, it will not affect past contributions.
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency</td>
<td>Use the primary currency that your company operates under. When calculating a buyout a slice will be converted into that currency on a 1:1 basis. The Pie Slicer will not consider exchange rates. Please note that buyout price is <em>not</em> the same thing as value. It is simply the fair price to pay someone to get their slices back when they leave.</td>
</tr>
<tr>
<td>Non-Cash Multiplier</td>
<td>This is the multiplier for non-cash contributions including pre-owned equipment and supplies. The default setting is 2. I don’t recommend changing this for reasons described earlier.</td>
</tr>
<tr>
<td>Cash Multiplier</td>
<td>This is the multiplier for cash contributions including equipment and supplies purchased for the company, unreimbursed expenses and cash. The default setting is 4. I don’t recommend changing this for reasons described earlier.</td>
</tr>
<tr>
<td><strong>Commission Rate</strong></td>
<td><strong>Royalty Rate</strong></td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>This is the rate (%) used to calculate commission on revenue generated by commissioned sales people. Not everyone will be entitled to a commission. Set the rate based on fair market rates for your industry. This can vary dramatically so you’ll need to do a little research to get the right number. The default is 10%.</td>
<td>This is the rate (%) used to calculate royalty payable to the owners of intellectual property behind the ideas that generate revenue. Royalty payments in slices will last as long as you use the model. When you outgrow the model you may decide to discontinue royalties. Investors will cringe at a perpetual royalty. Set the rate based on fair market rates for your industry. This can vary dramatically so you’ll need to do a little research to get the right number. The default is 5%</td>
</tr>
</tbody>
</table>
### Finder’s Fee

If your company wants to award a finder’s fee to people who bring in investments (not common) you can set two rates. One for the first $X$ amount of cash and one for the rest of the cash.

### Projects

Projects are used to see how time and resources are being spent. You can add or subtract projects.

### Reset Pie

Resetting the Pie will erase all transactions so you can start over.

---

Be sure to click “Save Changes” when you make changes!

### Calculations

The Pie Slicer will convert contributions to slices using the calculations described in this book. Below is a summary of these calculations:
<table>
<thead>
<tr>
<th>Contribution</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>(((\text{Fair Market Salary ÷ 2000}) \times \text{Hours}) \times \text{Non Cash Multiplier})</td>
</tr>
<tr>
<td>Expenses</td>
<td>((\text{Amount} – \text{Reimbursed}) \times \text{Cash Multiplier})</td>
</tr>
<tr>
<td>Supplies → New</td>
<td>((\text{Amount Paid} – \text{Reimbursed}) \times \text{Cash Multiplier})</td>
</tr>
<tr>
<td>Supplies → Less Than a Year Old</td>
<td>((\text{Amount Paid} – \text{Reimbursed}) \times \text{Non Cash Multiplier})</td>
</tr>
<tr>
<td>Supplies → Older Than a Year</td>
<td>((\text{Fair Market Value} – \text{Reimbursed}) \times \text{Non Cash Multiplier})</td>
</tr>
<tr>
<td>Equipment → New</td>
<td>((\text{Amount Paid} – \text{Reimbursed}) \times \text{Cash Multiplier})</td>
</tr>
<tr>
<td>Equipment → Less Than a Year Old</td>
<td>((\text{Amount Paid} – \text{Reimbursed}) \times \text{Non Cash Multiplier})</td>
</tr>
<tr>
<td>Equipment → Older Than a Year</td>
<td>((\text{Fair Market Value} – \text{Reimbursed}) \times \text{Non Cash Multiplier})</td>
</tr>
<tr>
<td>Sales</td>
<td>(reinterpretation of Eqn 8) ((\text{Sale Amount} \times \text{Royalty}) – \text{Cash Payment}) \times \text{Non Cash multiplier})</td>
</tr>
<tr>
<td>Facilities</td>
<td>((\text{Fair Market Value} – \text{Cash Payment}) \times \text{Non Cash multiplier})</td>
</tr>
<tr>
<td>Other</td>
<td>((\text{Amount} \times \text{Cash multiplier OR Non Cash multiplier})) (depending on choice)</td>
</tr>
</tbody>
</table>
The Well

The Well works as described above in the Cash Contributions chapter. Slices are allocated to individuals based on their ownership of the Well at the time the money was drawn.

When adding funds to the Well, the Pie Slicer will apply the Finder’s Fee calculation only if an individual is named as the Finder’s Fee Recipient.

Summary

If you are familiar with the Slicing Pie model as described in this book, the Pie Slicer should be fairly self-explanatory. The tool is designed to track contributions and apply the allocation and recovery calculations as described.

Pie owners have control over who is a member of the team, what information they can see and the settings that drive the calculations. The default settings are the recommended settings.
As far as I know, you are holding in your hands a description of the only equity model on the planet that isn’t based primarily in wild guesses about the future, rules of thumb and negotiation skills. Many of the people who provide traditional equity advice are incredibly smart, well-intentioned and have plenty of good experience. But they may lack a model, like the Slicing Pie model, that is based on observable values with mechanisms for maintaining fairness in spite of what changes. I believe that if they took a serious look at the Slicing Pie model they would see the value and never go back to old ways. This will create a better environment for entrepreneurs everywhere.
I spend time on Slicing Pie every day, even on vacation. I’m constantly writing, speaking and teaching whenever I get the chance (let me know if you would like me to speak at your company or organization). I want the model to be accessible as possible and I want to do everything I can to provide the tools people need to understand how it works. Below are a few resources that are available:

Books

_Slicing Pie_

_Slicing Pie_ is the first book I wrote on this subject and I consider it the definitive guide on fair equity splits. It is available at Amazon.com in print, Kindle and audio book. It can be ordered through most bookstores. You can buy six packs at [www.slicingpie.com/sixers](http://www.slicingpie.com/sixers). The book is available in Chinese and Dutch and more languages are in the works.
Get Them Gators

This is a short book that makes the case for why dynamic equity splits are better than fixed splits. If you share it with potential partners, employees and investors it will help you convince them to use the model. It is available for free on SlicingPie.com and as a 99-cent Kindle eBook on Amazon.

A La Mode

A section of SlicingPie.com contains letter templates, cheat sheets and case studies to supplement the book Slicing Pie. Content includes:

Slicing Pie Lawyers

Several attorneys have created template agreements for the Slicing Pie model. These templates are available for purchase at www.slicingpie.com/slicing-pie-friendly-lawyers and come with free consultations.
Tracking Tools

Besides the Pie Slicer tool described in this book, I also have an Excel spreadsheet you can download. Some people have posted Google Docs and Apple Numbers spreadsheets too. To download the spreadsheet visit: www.slicingpie.com/the-grunt-fund-calculator

Videos

I post videos of lectures, seminars and tools on YouTube and on SlicingPie.com.

Blog

I regularly post updates to my blog responding to reader questions or providing additional clarification on the model.
Workshops & Seminars

You can attend live in-person or online workshops & seminars about the Slicing Pie model. I’ve been all over the world. I post events open to the public at: www.slicingpie.com/events

If you are part of an organization that would be interested in sponsoring a live event please let me know. More information is available at: www.slicingpie.com/book-mike-to-speak

Games

I’ve developed two similar games that help people better understand the benefits of the Slicing Pie model and get comfortable with the mechanics of how they work. Both are free.

The Slicing Pie Board Game

Available at www.slicingpie.com/game, the game simulates the life cycle of a startup company. It requires you to print out a game board and game cards and find some dice and playing pieces (I use Legos), so it’s a little impractical for casual users, but I use it in my the classes I teach and students love it.
The Slicing Pie Card Game

Based on the board game, this game also simulates the life cycle of a startup. All the components of the game are available online so it’s easier to access and play. I use it for larger events and remote events. You can find everything you need at www.slicingpie.com/slicing-pie-card-game.

International Resources

I’m working with individuals in other countries to bring Slicing Pie to international audiences. These people have helped with translations, created meetup groups and identified local legal assistance.
Talk to Mike

I do my best to make myself available. You can schedule calls with me on www.slicingpie.com/about-mike. Please feel free to reach out to me with any questions, comments, or concerns.

Email: Mike@SlicingPie.com
Twitter: @GruntFunds
Facebook: facebook.com/mikedmoyer
LinkedIn: linkedin.com/in/mikemoyer/
Website: SlicingPie.com
        MikeMoyer.com

I look forward to working with you and I wish you the very best of luck with your startup!
About the Author

Mike Moyer is a professional entrepreneur who has started companies from scratch, joined start-up companies, helped others start companies, raised millions of dollars of start-up capital, and helped sell start-up companies.

He has worked in a variety of industries ranging from vacuum cleaners, to motor home chassis, to fine wine.

Mike has a MS in Integrated Marketing Communication from Northwestern University and an MBA from the University of Chicago. He teaches Entrepreneurship at both universities.

Mike is also the author of Get Them Gators, How to Make Colleges Want You, Pitch Ninja, and Trade Show Samurai. Mike lives in Lake Forest, Illinois, with his wife and three kids, and the Lizard of Oz.
Appendix

Changes from Original Slicing Pie Model

The Slicing Pie model developed over a number of years based on my personal research as well as my own trial and error. I tweaked the model until I was comfortable with it and then published the first version of the book in October of 2012. Since then, updates haven’t changed the core model, I’ve only tried to clarify and add more depth to how the model is understood. However, this book contains a few minor changes to the original model that are worth noting. The changes apply to the description in this book and the online Pie Slicer. The following
elements are different than described in Slicing Pie version 2.3 and earlier:

*Risk vs. Theoretical Value and the Term “Slices”*

In *Slicing Pie*, the calculations convert the value of contributions to what I referred to as “Theoretical Value” or “Relative Value.” In this book, I emphasize *risk* over value. The Slicing Pie Model is essentially a financing tool and I think the term “risk” is a better term in this context.

In this book and the online calculator, the value is expressed as “slices”, instead of a currency to underscore the difference between the at risk and the actual value of the input. Using a currency, such as dollars, made it seem like the amount somehow reflected an actual value.

It’s important to note that a company’s value is *not* equal to the sum of inputs. Early-stage startups are exceedingly difficult to value and efforts to do so are generally futile. When the term “slices” is used, instead of currency, people seem to have an easier time understanding that the number of slices is unrelated to the value of the firm.
Theoretical Value and Slices are the same and the results of calculations that use them are the same no matter what you call them.

Pre-Owned Supplies and Equipment

In the original model I did not recommend applying a multiplier to pre-owned supplies and equipment. I have updated my opinion and now think that the non-cash multiplier (2x) should apply. Risk is being taken and the individual deserves the risk premium.

In the recovery framework the multiplier would be removed and the cash value would be retained. My reasoning is that if someone was terminated for good reason or resigned for no good reason the company can’t keep their stuff without paying for it. Tangible property and cash are part of a person’s net worth. It’s not fair to reduce someone’s net worth just because things didn’t work out for them at your company.

Facilities

Similarly, in *Slicing Pie*, I wrote that the multiplier does not apply to rents on facilities. Originally, my feeling was that it
would be rare that a landlord would provide free or reduced rent to a startup company for a space that would otherwise be leased for cash. In most cases, the space is available because it can’t be leased. Therefore, the multiplier would not be fair. However, I’ve changed my mind on this point because I want the landlords to enjoy the benefits of the risk premium so they will be less likely to kick the startup out of the office when they find a cash renter. The Pie Slicer will apply the non-cash multiplier to rent. This change is similar to the change I’m recommending with regard to equipment and supplies. When risk of not being paid is accepted, the contributor deserves the non-cash multiplier.

In the recovery framework slices contributed in lieu of rents are lost in the event of termination for good reason or resignation for no good reason because they are intangible.

Non-Solicitation

A non-solicitation agreement prevents former employees from causing other employees to leave the company for other jobs. This means that if someone leaves a company he can’t go back and hire his former coworkers or even recommend them to others looking to hire. This agreement was omitted from Slicing
Pie only because I forgot about it. In this book, I recommend that all former employees agree to non-solicitation because I don’t believe it’s fair to other employees for former employees to lure away the best contributors. I don’t think the inclusion of this agreement affects the model in any way, but I think it’s important to bring the matter to your attention.

There are lots of little nuances that could be included, but one has to consider the value of splitting hairs. The goal is to create fair & square by treating everybody the same and accounting for all inputs. I’m confident that the model has done that even without the above changes!

Calibration and Partitioning

When I first published Slicing Pie, I had a number of inquiries from people who wanted to use a “hybrid” of the Slicing Pie model and a fixed split. There were two main motivators: 1) founders wanted to keep 51% so they could maintain control and 2) founders felt that early participants took on more risk than later participants. To address these issues, I included the concepts of Calibration and Portioning in later versions of Slicing Pie.
I have excluded these concepts from this book because they are not in the spirit of the Slicing Pie model. I don’t believe that anyone should be entitled to a chunk of equity just so they can maintain control (they can always use profit interests), or any other reason. I also don’t believe that risk necessarily goes down over time. I will likely remove or revise these concepts in later updates to *Slicing Pie* too.

Use the model, as described, and it will be the most fair equity model possible. Any changes will make it less fair.
The End

Thank you for reading!
I hope your life is filled with delicious Pies!
Special Thanks

Thank you to *Fair & Square* readers who provided, edits, ideas and constructive criticism during the development of this book!

Charles Haine
Ronald Hiller

If you would like to be on this list, please provide meaningful, constructive feedback to help improve this book.
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