MGT 816 · The Private Firm CFO — Session 4 · Case 1

FeedBurner: Founding Teams and Splitting the Pie

Four ventures · one team · what changed by the fourth

Wed Sep 16, 2026 · Prof. John Barrios · Yale SOM

Case 1 group memo due 1:00 pm · 80-minute session

How today runs

1. **Opening vote** — you are Costolo (2′)
2. **The four ventures** — mistakes → fixes (Q1 / Q3) (23′)
3. **Splitting the pie** — was the split fair? (Q2) (10′)
4. **Google vs. the C round** — structured debate (Q4) (17′)
5. **Debrief** — equity-split frameworks + vesting & 83(b) (15′)

Memo was due 1:00 pm · The three sections' vote tallies get compared on Canvas tonight.

Learning objectives

Diagnose the founding-team, hiring, financing mistakes across four ventures

Evaluate three equity-split methods — equal, Demmler, Slicing Pie

Explain founder vesting and the 83(b) election

Connect wealth, risk, and exit thresholds to the sell/hold call

Frameworks: the Three Rs · Rich-vs-King · the value S-curve.

Opening vote: you are Costolo

It's 2007. Google offers ≈ $100M cash. Your VCs want you to take the Series C and keep building. Which do you take?

A. Sell to Google

B. Take the C round

Hands up — commit before we discuss. We record the tally now and re-vote after the discussion.

All three sections' tallies get compared on Canvas tonight.

Four ventures, one team

Burning Door → **DKA** → **Spyonit** → **FeedBurner**

(friends) (merger) (sold) (the fourth try)

Rich AND King: money and control.

Discussion Q1: What mistakes did Costolo & partners make pre-FeedBurner?

Before FeedBurner — Burning Door, DKA, Spyonit. What went wrong?

Founding team	Hiring	Financing

Pick your box before you talk. Every answer lands in one of the three.

Harvest: founding-team mistakes — the Three Rs ★

The Three Rs	DKA	Spyonit
Relationships	Merged with near-strangers	Newcomer-founder tension
Roles	Undefined / overlapping	Unsettled who does what
Rewards	Misaligned equity expectations	“Who counts as a founder?” left open

Relationships, Roles, Rewards — where founding teams break.

Harvest: hiring mistakes

Specialist too early — a senior sales hire before product-market fit

Jack-of-all-trades overcorrection — generalists where depth was needed

Outsourced the wrong function — HR handed off too soon

Comp inequities — pay set ad hoc, resentment later

The lesson is stage-matching, not "specialists are bad."

Harvest: financing mistakes

No outside validation — no market check on the plan

Raising from weakness — forced the DKA sale

Timing — money sought after it was already needed

Term sheets get the full treatment in S11.

Discussion Q2: What did they do differently at FeedBurner?

Fourth company. Same four people. What changed?

Founding team	Hiring	Financing

Same three boxes — now the Best-Practices column.

Harvest: the FeedBurner founding team

Same proven team — fourth venture together

Predefined roles — CEO Costolo · COO Olechowski · CTO Lunt · Design Shobe

Trust built across three prior ventures

Equal equity — despite different roles (hold this for the split debate)

Four roles, four prior net worths, four opportunity costs — split even.

Harvest: FeedBurner hiring best practices

Waited for the A round to hire specialists

Balanced — two business, two tech

Best athletes / “stem cells” — adaptable early hires

Fired fast in sales — corrected quickly

Internal HR, outsourced finance — right function, right place

Harvest: FeedBurner financing strategy

Known VCs — courted before the money was needed

Terms negotiated from strength — full terms, not desperation

Early board with control retained

Exit decision rights held

Discussion Q2b: Was the FeedBurner split fair?

Four founders took equal shares — despite different roles, prior wealth, and opportunity costs. Fair? What would YOU have proposed?

What should drive a split — idea? capital? opportunity cost? role going forward?

Does equal buy something unequal can't?

Propose a rule, not a number.

Discussion Q4: Sell to Google or take the C round?

Google's offer, or the Series C?

2-min side caucus → 4 rounds of alternating 90-second arguments → 2-min open cross-fire → synthesis onto the T-chart.

Every round, at least one argument must name a specific stakeholder — a founder by name, the VCs' fund math, or the early employees. No “the company should.”

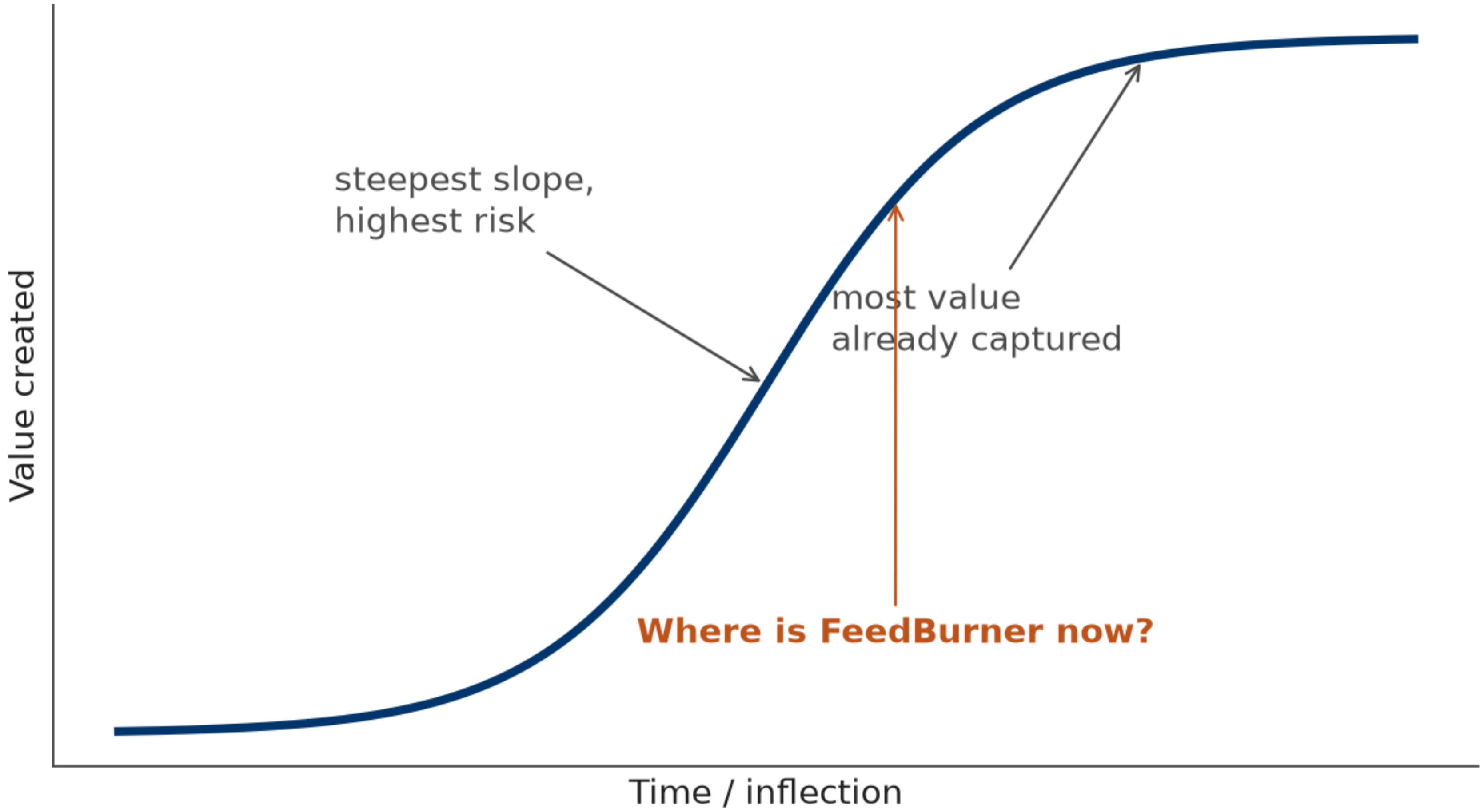
Left half of the room argues **Google**. Right half argues the **C round**.

Harvest: Google acquisition vs. C round — pros & cons

Sell to Google	Take the C round
Certain, life-changing liquidity now	Keeps the bigger-outcome option alive
De-risks founders with concentrated wealth	Matches VC fund math (needs the tail)
Employees get liquidity	Employees stay illiquid, betting on upside
Caps the upside	Re-exposes everyone to execution + market risk

Same offer, different answer per stakeholder — disaggregate before you decide.

The value-creation S-curve ★



The reveal: what actually happened

*June 2007: Google acquires FeedBurner for ≈ **$100M**, mostly cash.*

The four founders stay through the earn-out; Costolo becomes CEO of Twitter (2010–2015).

Easy to call after the fact. Score the reasoning you had before the reveal.

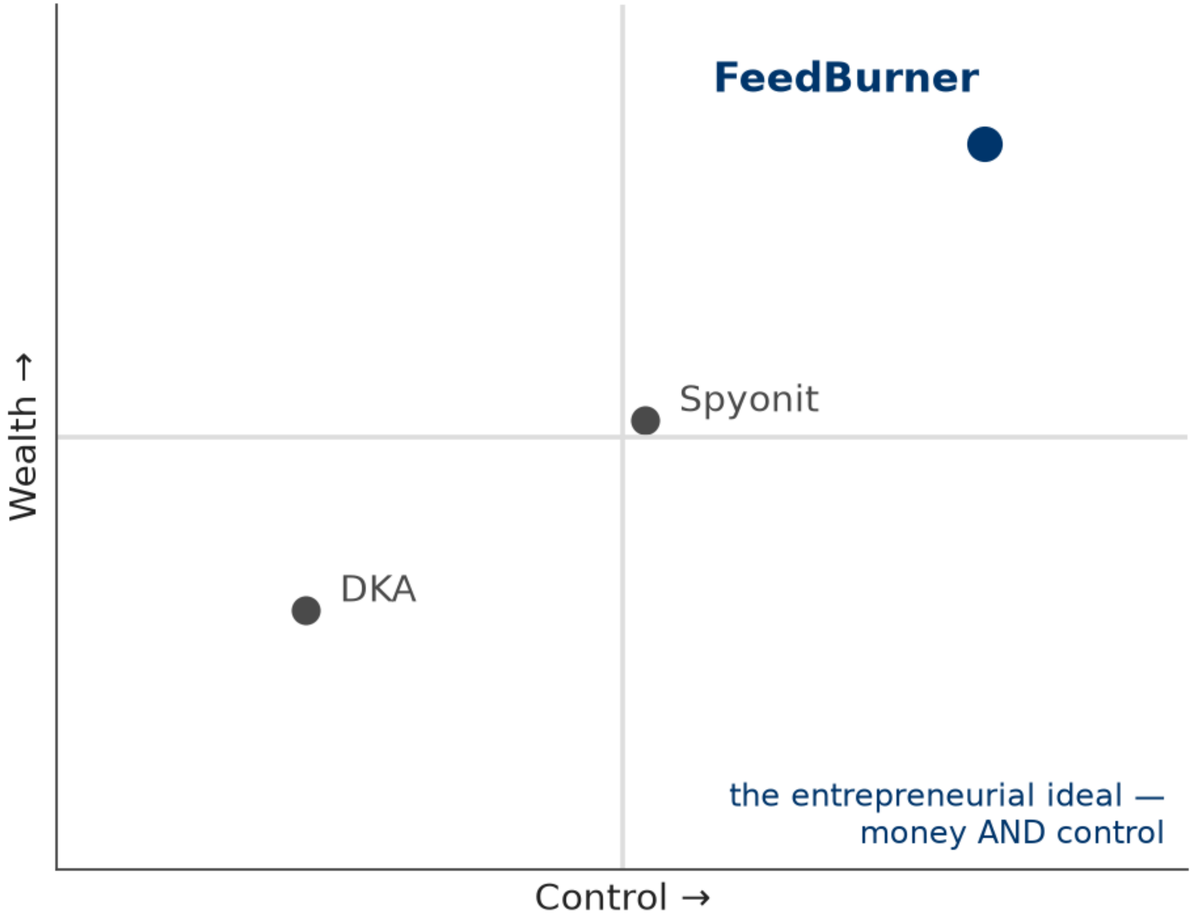
What do we think of Costolo's path?

From forced-seller to founder-in-control — reactive or strategic?

Were the first three ventures failures — or tuition?

What did the fourth team buy with what it learned?

Rich vs. King ★



Two axes: wealth and control.

Most founders trade one for the other.

By the fourth try, this team got **both**.

Re-vote: same question

Same question — Google (A) or the C round (B)?

	1:00	2:35	4:10
Pre			
Post			

All three sections' tallies post to Canvas tonight.

Debrief: Splitting the Pie

The rules you proposed, resolved.

Three ways to split the pie — and two prior questions ★

Three methods to split founder equity:

Equal	**Relative-contribution (Demmler)**	**Dynamic (Slicing Pie)**

Two questions come first:

Who counts as a founder — and who is excluded?

Split now, or wait?

Settle these two first — the method follows.

The 50-50 handshake: Zipcar's founding

Two co-founders, a car-sharing idea, a 50-50 handshake

One worked full-time; the other kept a day job

Contribution gap grew; tension followed

One co-founder was pushed out within a couple of years

Co-founder breakups are common — one or more usually don't stay.

Evidence (Hellmann–Wasserman, 511 ventures): teams that split equally, especially quickly, raised first rounds at lower valuations — mostly a signal about the team, not an effect of the split.

Demmler's Founder's Pie Calculator ★

Factors

- Idea
- Business-plan prep
- Domain expertise
- Commitment & risk
- Responsibilities (role going forward)

Step 1 — weight each factor 0–10 (relative importance; varies by business)

Step 2 — score each founder 0–10 per factor (past, present, future contributions)

Step 3 — weighted sum per founder ÷ team total = each founder's %

Share = Σ(weight × score) ÷ team total.

Exercise: score the FeedBurner Four

Pairs — 3 minutes. Using the factor weights below, compute the Demmler share for YOUR assigned founder (assigned by seating row). Weighted score = Σ(weight × score); share = your founder's weighted score ÷ team total. One percentage per pair.

Factor	Costolo	Olechowski	Lunt	Shobe
Idea	8	6	7	4
Domain expertise	7	7	9	6
Commitment & risk	8	8	8	7
Role going forward	9	7	8	5

These are my scores — disagree with them if the facts support it.

Factor weights (Idea / Expertise / Commitment / Role): 5 / 7 / 9 / 6

Why static splits break — the dynamic alternative

Fixed splits don't track changing contributions

Vesting alone lets a distant founder hold on through the clock

Performance vesting gets complicated — and gamed

Slicing Pie (Moyer): % equity = share of at-risk contributions

At-risk = time · money · ideas · relationships · assets (given without market pay)

Slicing Pie: pricing at-risk contributions — and when the pie freezes

At-risk contribution	Priced at
Time	Market-rate comp for the same work elsewhere
Money	Cash at face value
Relationships	Sales commission / finder's-fee equivalent
“The” idea	Royalty equivalent (founding idea only)
Assets	Resale value (or price paid)

Normalize into “slices”: your % = your slices ÷ all slices.

The pie freezes at breakeven or first funding.

Best practice: founders vest their own shares ★

Vesting = you earn your shares over time, not all at once

Norm: 4-year vest, 1-year cliff

Co-founders vest their common stock — in case one leaves early

VCs will demand it — do it first, reduce later re-vesting

The problem it solves: the co-founder who leaves in month six with 25%

The accounting: founder vesting = restricted stock ★

Founder vesting is restricted stock. Expense = grant-date fair value minus what the founder paid, recognized as the shares vest.

Date	Entry	Dr	Cr
1/1 (grant)	No entry for the award itself		
	(record any cash paid for the shares)		
12/31 (year 1)	Compensation Expense	$25	
	Additional Paid-in Capital		$25

Nothing booked at grant · $100 ÷ 4 = $25/yr, never remeasured · Founders who pay fair value: no expense

Full restricted-stock accounting incl. taxes → Monday (S05).

The 83(b) election for founders ★

Without the election: taxed on FMV as each tranche of shares vests

With the election: taxed once at grant on ALL shares

At formation shares are near-worthless → tax ≈ $0

Converts future appreciation to capital gains; starts the clock

File within 30 days — no extensions. Miss it and there's no cure.

Risk: no refund if you forfeit — but ≈$0 was at stake at formation.

Employees + the fine print → Monday (S05).

Most mistakes on the left board have one fix: a contract signed on day one.

Vesting + 83(b) + a deliberate split. Monday: what equity costs the employee, the company, and the IRS.

Takeaways for future CFOs ★

1. **Match hiring to stage** — specialists after fit, not before.
2. **Set roles and rewards expectations early** — the Three Rs.
3. **Don't overcorrect** a past mistake into a new one.
4. **Exits must weigh incentives and risk profiles** — disaggregate by stakeholder.
5. **Split deliberately; vest everyone; file the 83(b) in 30 days.**

Case 2 packet drops Monday · memo due Wed 9/30, 1:00 pm · S05 prep: FreshBites 409A minicase + Fabozzi Ch. 4 · PS1 due Wed 9/23.

Flex: If you were Costolo, what's next — and why?

You just sold to Google. What do you do next — and why?

Serial founder's choice: build again, invest, or operate?