



CO-FOUNDER QUESTIONS WHEN FORMING A STARTUP COMPANY

- 1. If you are issuing shares or ownership interests (LLC), how do you plan to allocate them?** Who gets what percentage of the company? Based on cash in? Sweat Equity or another formula?
- 2. What's your plan regarding decision making?** This may be related to the number of shares (or percentage of ownership). You can also have voting and non-voting. You will need to set up a Board of Directors ("Board") and you must determine what kinds of decisions will be made by that Board. Some areas may include capitalization, executive hiring/firing, share issuance (dilution) and election of officers and directors.
- 3. What happens if one of the Co-founders leaves the company?** In the growth phases of any startup, there may be times when one or more co-founders over time lacks satisfaction and loses commitment. What if the co-founder wants to relocate or take a more promising and stable job? What you don't want is a co-founder that is no longer fully engaged in the business or is hanging around out of guilt or boredom. Or picks up and leaves without having procedures in place to handle such a situation.
- 4. Can any of the Co-founders be fired? By whom? For what reasons?** It may be necessary to fire a co-founder. People get confused with being a shareholder in a startup and having an operating role. These two things should be thought of as separate and distinct. The company should have procedures in place if required to terminate the operating role of any co-founder.
- 5. What are the Co-founders' goals for the startup?** While this often can change with time, it's helpful to at least get a sense of what each of the co-founders wants to get from the company. Sometimes one co-founder may want to build a sustainable business that is spinning off cash and have it run forever, while another co-founder may have a goal to build the company rapidly and then exit out in a much shorter period of time.
- 6. Will this business be the primary activity for each of the Co-founders?** Too often co-founders find themselves having conflicts because of misunderstandings regarding the personal commitment of each Co-founder. Are the Co-founders expected to devote full time to the business from the start? Can they keep their day job until business reaches a certain



point? Can any of them be involved or working on another sideline business?

7. What parts of the business plan are sacred and unchangeable?

Are there elements of the business plan that the Co-founders do not want to see changed? This may be related to what product(s) are being built, what market(s) are being addressed or some other aspect of the business.

8. What contractual terms will each of the Co-founders agree to sign with the company? Will they sign a non-compete agreement? Will each of the co-founders be signing an employment contract with the company (outside of the shareholder agreement)? If so, what will the terms be for each Co-founder?

9. Will any of the Co-founders be investing cash (or “sweat equity”) into the company? If so, how will either of these be treated? Often, at the inception of the business, one or more co-founders may be investing cash or sweat equity into the company. If so, how will these forms of investment be treated? Will they be considered a loan or debt? Is it debt that can later be converted to stock? Does it allow the Co-founder to choose a different class of shares (Preferred) or a different percentage of ownership? Are there ways to equalize the ownership over time?

10. What are the payment arrangements? Can these be changed in the future? Risk tolerance varies by individual and should be considered when discussing compensation plans for the founders. If one of the founders is investing significant cash into the business, does that founder expect a different level of compensation?