BUILDING YOUR FOUNDING TEAM: FOUNDERS AGREEMENTS

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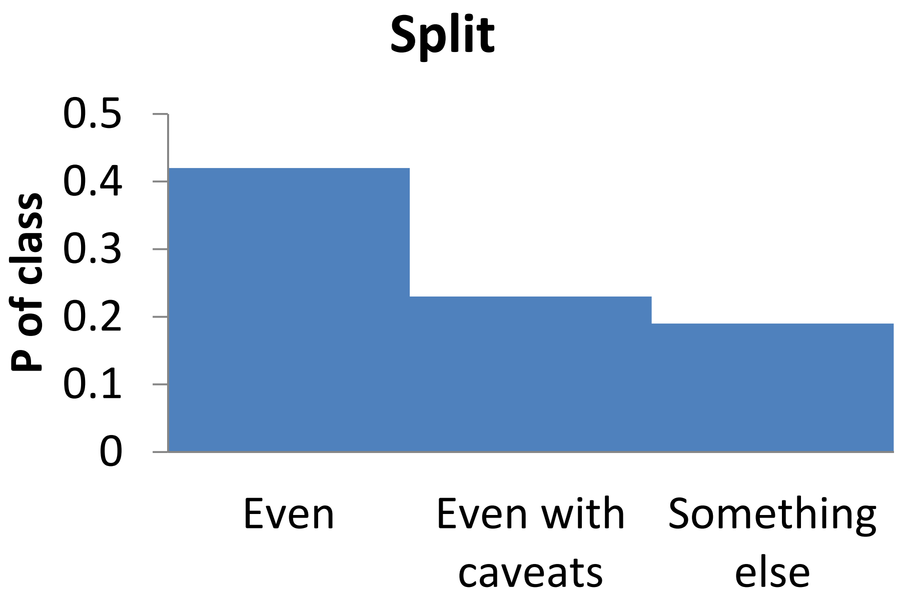
A mini-case

- Three friends in an MBA program come up with the idea for a startup together
- They each put $10,000 into the startup
- They each put the same work into getting the startup underway
- They agree to split into three roles: CEO, CTO, CFO

How should they divide equity?

Dividing equity

- What Wharton MBAs think



But what happens in the future?

- Changes in company direction
- New hires
- Changes in personal circumstances
- Inter-group politics

The problem is uncertainty about the future

- Listen to somebody else on uncertainty…

"There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we now know we don't know. But there are also unknown unknowns. These are things we do not know we don't know." – Donald Rumsfeld

Uncertainty and founders agreements

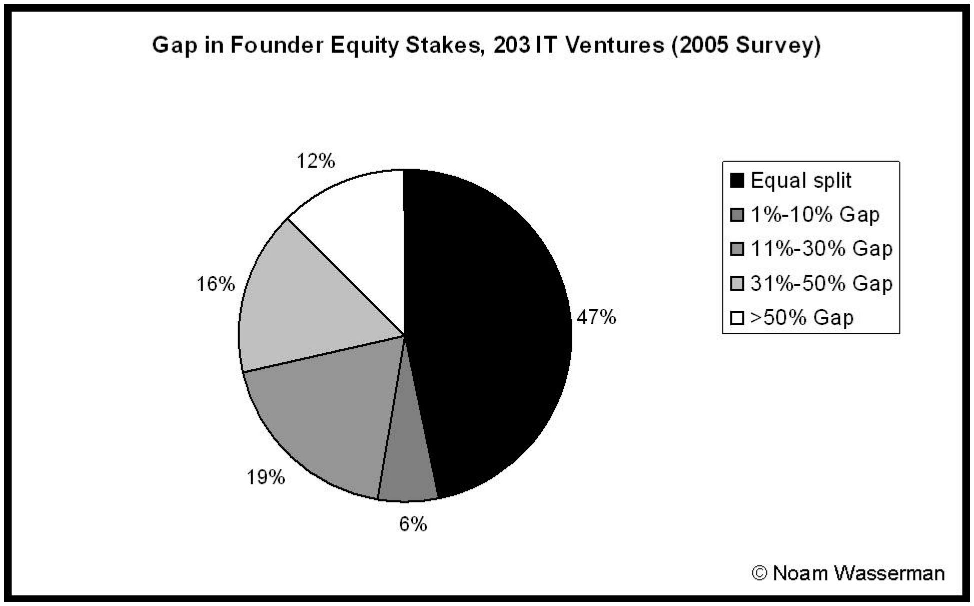
- Known knowns:
  - Standard provisions
- Known unknowns
  - Contingent provisions
- Unknown unknowns
  - Building trust
  - “Unequal equality”

Choices determine company survival

	6 mos.	12 mos.	18 mos.	24 mos.
Same $ invested	+	+	+	+
Heterogeneous exp'c	–	–		
Equal split	+	+	+	+
Equal & Raised round	–	–	–	–
Friends before				
Equal & Friends	–			

Noam Wasserman, Founders Dilemmas

Blind equal splits are not the way to go…



Dividing equity

- Think about known knowns, known unknowns, unknown unknowns
- Choices at founding have consequences
- Don’t just go with what is easy