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Startup Mechanics

Formation

Equity

Fundraising

Hiring

Doing Business

★ Formation

→ Creates a separate legal entity.

{ Will pay its own taxes
be responsible for its own assets, liabilities }

Startup = entity = Company

→ When to form company.

↳ Not too soon, not too late

{ Idea phase }

→ Generating significant amount of IP

→ You are ready to start charging
(Comp or bank account)

→ Look for registering company.

★ Equity

Allocation

Purchasing

Cap Table

Vesting

→ Stock purchase agreement usually for cash.

Funder 1	3,000,000
" 2	3,000,000
" 3	3,000,000
Total issued	9,000,000

Cap Table

★ Vesting

⇒ Earning the right to permanent ownership of the shares over time.

⇒ Standard vesting = 4 years w/ 1 year cliff

★ Fundraising

Priced Round

SAFEs

Dilution

Vesting

→ Priced Round { Shares are sold for same price }

→ Non priced round

or

Convertible round

{ Investor gives money now but shares are given in future }

or

SAFE

→ Simple Agreement for Future Equity

→ Convert to shares in future.

→ Cap sets valuation upper bound for future calculation

⇒ Dilution is inevitable.

★ Hiring

Contractor

→ Consulting Agreement

Employee

→ IP Assignment Agreement

★ Paying Contractors

→ Time based / Milestone based payment.

★ Paying Employees

→ Taxes are withheld and paid to agencies.

→ Use a payroll service.

★ Employee equity

→ Incentivized to work together to increase value of the company.

→ Be generous

→ Have vesting

→ Stock plan - issue shares or options

→ Communicate # of shares and % of total issued shares.

Preferred Shares

→ Investor gets this.

→ Liquidation Preference

Common Shares

→ Founders gets this.

