Lecture 18: Mechanics--Legal, Finance, HR, etc.

Kirsty Nathoo

Sam Altman: Kirsty and Carolynn are going to talk about Finance and Legal Mechanics for Startups. This is certainly not the most exciting of the classes, but if you get this right, this is probably the class that helps you avoid the most pain.

Thank you very much for coming.

Carolynn: Like Sam said, this lecture is about the Mechanics of the Startup. Kirsty and I are going to be talking about the basic legal and accounting issues that your startup may face in the very beginning.

I was watching Paul Graham's video and at one point he says, "Founders don't need to know the mechanics of starting a startup." And I thought, "Oh no! That's exactly what Sam titled this lecture."

What PG actually says is that founders don't need to know the mechanics in detail. It's very dangerous for founders to get bogged down in the details. That's exactly right. Kirsty and I can't give you the details in forty-five minutes anyway.

Our goal here today is to make sure that you do know better than to form your startup as a Florida, LLC.

Kirsty: As Sam mentioned, we were also worrying that this was going to be pretty boring for you to listen to an Accountant and a Lawyer talking. You've had some really amazing founders talking about really interesting things. But like Sam said, if you know the basics, you can get yourself set up in the right way, avoid pain, stop worrying about it, and then concentrate on what you actually want to do, which is make your company a success.

We refer to this term "startup" all the time. In the back of your head, you probably know a "startup" has to be a separate legal entity. We're going to talk a bit more about how you actually set that up and what that means.

You also probably know that a startup will have assets, IP, inventions, other things, and that the company needs to protect those. So we'll talk a bit more about that and about raising money, hiring employees, and entering into contracts.

There are a few other things that you need to talk about when setting up your company which ferret out a few issues amongst founders. Who's going to be in charge? How much equity is everybody going to own?

Carolynn: The first thing we're going to talk about is formation. Your startup is going to be a separate legal entity. You probably already know this but the primary purpose for forming a separate legal entity is to protect yourselves from personal liability. If your company ever gets sued, it's not your money in your bank account that the person can take. It's the corporation's.

Then the question is: where do you form one? Theoretically you have fifty choices, but the easiest place is Delaware. I'm sure you're all familiar with that as well. Delaware is in the business of forming corporations. The law there is very clear and very settled. It's the standard. The other thing is that investors are very comfortable with Delaware. They already invest in companies that are Delaware corporations. Most of their investments are probably Delaware corporations. So if you are also a Delaware corporation then everything becomes much simpler. There's less diligence for the investor to do. You don't have to have a conversation about whether or not to reincorporate your Washington into Delaware.

We had a company at YC about two years ago that was originally formed as an LLC in, I'll say Connecticut. The founders had lawyer friends there who said that this was right way to do it. When they came to YC we said, you need to convert to Delaware. The Lawyers in Connecticut did the conversion paperwork and unfortunately they didn't do it right. They made a very simple mistake, but it was a very crucial mistake. The company was recently raising money, a lot of money, and this mistake was uncovered. The company thought it was a Delaware corporation for a couple of years but in fact it was still a Connecticut LLC. I'll just say this: four different law firms were needed to figure that one out. Two in Delaware and one in Connecticut. One here in Silicon Valley. The bill right now is at five hundred thousand dollars for a conversion mistake.

What's the take away here? Pretty simple. Keep it really simple and familiar for yourself. The reason we incorporate all companies the same way at Y Combinator is because it's easy. Don`t get fancy. Save yourself time and money.

Kirsty: Once you decide that you're going to be a Delaware corporation, how do you actually set that up? It requires a few different steps. The first one is really easy. You literally just fax two pieces of paper into Delaware saying we're going to set up a corporation. All that does though is create a shell of a company. It doesn't actually do anything within the company. After that, you then need to complete a set of documents that approve the by-laws of the company. It creates a board of directors. It creates officers of the company. Delaware requires that someone has the title of CEO, President, and Secretary.

At this point, you also need to complete documents that assign any inventions or any code that you as an individual create so that the company actually owns that. Remember, at this point it's a really good thing to think about, "Am I doing this as an individual, or am I doing this on behalf of the company, which is a separate entity." You have to maintain that split in your mind.

There are services that can help you get incorporated. You can use a law firm, but there are also other online services that help. The one that we often use with YC companies is called Clerky. They are set up so that all that standard basic documents are used and they get you set up in a very vanilla way so that you can move on and keep focusing on what you need to do.

A note on paperwork. You're creating documents. These are really important documents that are going to be setting what the company does and what the company is. It's really important that you actually keep these signed documents in a safe place. It sounds so basic but we get so many founders saying, "Oh, these are just some documents." They have no idea what they are or where there are. So really, really make sure that you keep them in a safe place. Let's be honest, filing documents is not the glamorous part of running a startup. The times where this is crucial are going to be high stress times in the startup's life. It's likely when the company is raising a big Series A or if the company is being acquired. The company will have to go through due diligence and there will be lawyers asking for all this stuff. If you don't have it and you don't know where it is, you're making a stressful situation even more stressful.

The key thing here is keep those documents in a safe place. Keep them organized. It will make your life so much easier.

Carolynn: Now we're going to talk about equity. We're going to touch on a couple different things in this section. The first thing that we're going to talk about is equity allocation. If your company stock is high, how to divide the pie. You have to talk about this with your co-founders. Why is this important? If you're a solo-founder this isn't important. If you are a team of two or more, then this issue is absolutely critical.

The first thing that you need to know is that execution has greater value than the idea. What do I mean by that? A lot of Founder Teams give way too much credit and therefore a lot of the company's equity to the person who came up with the idea for the company. Ideas are obviously very important but they have zero value. Who's ever heard of a billion dollar payment for just an idea? Value is created when the whole Founder team works together to execute on an idea. You need to resist the urge to give a disproportionate amount of stock to the Founder who is credited with coming up with the idea for the company.

The next thing you want to think about is if the stock should be allocated equally among the founders. From our perspective the simple answer is probably yes. Stock allocation doesn't have to be exactly equal, but if it's very disproportionate, that's a huge read flag for us. We wonder what conversation is not happening among the Founder team when the ownership isn't equal. For example, is one Founder secretly thinking that this whole startup thing is temporary? Has one Founder overinflated the work that he or she has already done on the company? Or overinflated his or her education or prior experience? Do the founders really trust each other? Have they been honest with each other about their exceptions for the startup and for the future? When ownership is disproportionate, we worry that the founders are not in sync with one another.

Thirdly, it's really important to look forward in the startup. Said another way, all the founders have to be in it one hundred percent. Are they all in it for the long haul? If the expectation at your startup is that each Founder is in it one hundred percent, for the long haul, then everything that happened before the formation of the company shouldn't matter. It doesn't matter who thought of the idea, who did the coding, who built the prototype, or which one has an MBA. It will feel better to the whole team if the allocation is equal because the whole team is necessary for execution. The take away on this point: in the top YC companies, which we call those with the highest valuations, there are zero instances where the founders have a significantly disproportionate equity split.

Kirsty: You've had the conversation about to split the equity but then what? We talk to many founders who are actually surprised that they have do something in order to own this stock. They think that talking about it is actually enough. This is another situation where you have to think about you as an individual versus you as a representative of the company. And if you equate this to a large company, if you worked at Google and were told that, as part of your compensation package, you would be receiving shares, you would expect to sign something to get those shares. If you didn't, you would be thinking, "What's going on here?" It's the same thing with a small company.

In this case the document that you're signing is a stock purchase engagement. You as an individual buy the shares from the company. In any situation, if you're buying something there's a two way transaction. In this case you're getting shares in return for either a cash payment or for contributing IP or inventions or code to the company so that the company actually owns everything that you've done in the past. We also refer to that stock as being restricted because it vests over time. We're going to cover that next, in more detail. As a result of the stock being restricted and vesting, there's one very crucial piece of paper that we talk about until we're blue in the face to everybody because there's actually no way to go back and fix this. This is one of the things that has blown up deals in the past. We've seen companies who haven't filed what's called an 83(b) Election, and deals have blown up. I'm not going to go into detail about the 83(b) election, but it affects your individual taxes and it affects the company’s taxes. It can have a big impact. The main things here are sign the paper work, sign the Stock Purchase Agreements, sign the 83(b) Election, and make sure that you actually have proof that you sent that in. If you don't have the proof it just goes into a black hole at the IRS. Investors and acquirers will walk away from a deal if you can't prove that.

Carolynn: The next thing we are going talk about is vesting. I imagine that many of you are familiar with vesting, but just in case, vesting means that you get full ownership of your stock over a specific period of time. We're talking about the stock that Kirsty just said. You bought your stock of your company and you own it and you get to vote, but if you leave before this vesting period is over, then the company can get those unvested shares back. When your hear restricted stock, it means that the stock is subject to vesting. The IRS speak for this is, "Shares that are subject to forfeiture."

What should a typical vesting period be? In Silicon Valley the so called standard vesting period is four years with a one year cliff. This means that after one year, the Founder vests in or fully owns twenty-five percent of the shares. Then the remaining shares vest monthly over the next three years. Here's an example. Founder buys stock on Christmas day, let's say, and then quits the company on the following Thanksgiving. So before the year has passed. In that case the Founder leaves with zero shares, because the cliff period hasn't been met. If the Founder quits the day after the next Christmas, so a year and day later, he or she is vesting in twenty-five percent of the shares. In that case the one year cliff has been met.

What happens to the shares when a Founder stops working at the company? The company can repurchase those shares. In the example I just gave where the Founder quit a year and a day after purchasing the shares, seventy-five percent of the shares are still invested and the company will repurchase that full seventy-five percent of the shares from the Founder. How? They just write the Founder a check. That's how the Founder brought it. It's the same price per share that the Founder paid, so it's simply giving the Founder his or her money back.

So why have vesting? Why would founders do this to themselves?They're doing this to their own shares. The number one reason why vesting is important has to do with founders leaving the company. If you didn't have vesting and a founder leaves, a huge chunk of the equity ownership leaves with or her. Obviously that is not fair to the founders left behind. We're actually going to talk about this a little bit more when we get to the the "Founder Employment" slide. I will go into that in more detail.

The other reason to have vesting is the concept of skin in the game, the idea that founders need to be incentivized to keep working on their startup. If the Founder can walk away with his or her full ownership at any point and time, then why would you stay and grind away? Startups are hard.

Do solo founders need vesting? They do and the reason is because the skin of the game concept applies to solo founders as well. Investors want to see all founders, even solo founders, incentivized to stay with at the company for a long time. The other reason that solo founders should put vesting on their shares is to set an example for employees. You can imagine it would be inappropriate for a Founder to tell an employee that he or she has to have four year vesting on his or her shares but the founder doesn't think he or she needs any on their own shares. It's a culture point. A founder who has vesting on his or her shares then sets the tone for the company by saying, "We're all in it for the long hall. We are all vesting on our shares. We're doing this together."

Vesting aligns incentives among the founders if they all have to stick it out and grow the company before they get any of that company. Investors don't want put money in a company where the founders can quit whenever they feel like it and still have a big equity ownership stake in that company.

Kirsty: Moving on. We've now got a beautifully formed corporation in Delaware. Everyone has their stock. It's all in the plain vanilla standard paperwork. Then what? The next stage of a company's life is to raise money. We know that you already heard a lot from a lot investors and from founders in this set of classes. They've been talking about the tactics of how to raise money but what about the paperwork? What about when somebody actually agrees to invest?

In terms of logistics, in very simple terms there are two ways to raise money. Either the price is set for the money that comes in or the price isn't set. By price we mean the valuation of the company. Rounds can actually be called anything. People can name them whatever they want, but generally when you hear the term seed round, it mean that the price has not been set. Anything that's a Series A or Series B is something where the price has been set.

Not setting the price is the most straight forward, fast route to getting money. The way that this is done is through convertible notes or safes. Again, this is a two way transaction. It's a piece of paper that says, for example, that an investor is paying one hundred thousand dollars now and in return has the right to receive stock at a future date when the price is set by investors in a priced round. It’s important to note that at the time that paperwork is set, that investor is not a shareholder and therefore doesn't have any voting rights in the company. They will have other rights which Carolynn is going to talk about separately.

Of course investors want something in return for putting in money at the earliest, riskiest stage of the company's life. This is where the concept of a valuation cap comes in, which I'm sure many of you heard mentioned before. The documents for an unpriced round set a cap for the conversion into shares that's not the current valuation of the company. It's an upper bound on the valuation used in future to calculate how many shares that investor is going to get. For example, take an investor that invests one hundred thousand dollars on a safe with a five million dollar cap. If a year later the company raises a priced round with a valuation of twenty million dollars, then the early investor would have a much lower price per share. About a quarter. Therefore their hundred thousand dollars would buy them approximately four times more shares than an investor that was coming and putting in a hundred thousand in that Series A priced round. That's where they get their reward for being in early.

Again, this is a situation where you need to make sure you have the signed documents. Services like Clerky can help with that. They have very standard documents that most of our YC companies use to raise money.

A couple of other things to think about when you are raising money, um. Hopefully you got a really hot company that, that's doing great and it's really easy to raise money. But you should be aware that all these people throwing money at you does have some down sides. Um, so the first thing is to understand your future dilution. So, if you raise, let's say two million dollars on safes with a valuation cap of six million dollars, then when those safes convert into equity, those early investors are going own about twenty-five percent of the company. And that's going to be an addition to the investors that are coming in at that priced round who may want to own twenty percent of the company. So you're already at that point given away forty-five percent of the company. So is this really what you want? And you know the answer might be yes. Um, remember that some money on a low valuation cap is infinitely better than no money at all. And if those term that you can get then, then take that money. Um, but it's just something to be aware of and to follow through the whole process so that you can see where this is going to lead you down the road.

The other thing to keep in mind is that investors should be sophisticated. They have enough money to be able to invest. They understand that investing in startups is a risky business. We see so many companies say, "Oh yeah. My uncle put money in or my neighbor put money in." They've put in five or ten thousand dollars each. Often those are the investors that cause the most problems going forward because they don't understand how this is a long term gain. They get to the point where they're sitting thinking, "Hmm. I could actually do with that money back because I need a new kitchen." Or, "This startup investing is not actually as exciting as all the TV shows and movies made it out to be." That causes problems for the company. They're asking for their money back. Be aware that you should be raising money from people who are sophisticated and know what they're doing. The term that you'll hear that refers to these people are that they are accredited investors.

The main point here is keep it simple. Raise your money using standard documents. Make sure that you have people who understand what they are getting into and understand what you're getting into in terms of future dilution.

Carolynn: Ok. You're raising money. You understand what you're selling. You figured out the price. You got down the logistics that Kirsty just described. What you may find is that you don't understand some of the terms and terminology that your investors are using. This is ok, but you do have a burden to go and figure it out. Don't assume that just because you have agreed on the valuation of the price, that all the other stuff doesn't matter. It does matter. You need to know how these terms are going to impact your company in the long run. At Y Combinator, Kirsty and I hear founders say all the time "I didn't know what that was. I didn't know what I was signing. I didn't know I agreed to that!" The burden is on you to figure this stuff out.

We're going to go over four common investor requests. The first one is a board seat. Some investors will ask for seat on your company’s board of directors. The investor usually wants to be a director either because he or she wants to keep tabs on their money or because he or she really thinks they can help you run your business. You have to be careful about adding an investor to your board. In most cases you want to say no. Otherwise make sure it's a person who is really going to add value. Having money is very valuable but someone who helps with strategy and direction is priceless. So choose wisely.

The other things is advisers. They are so many people who want to give advice to startups. Few people actually give good advice. Once an investor has given your company money, that person should be a de facto adviser but without any official title and more importantly without the company having to give anything extra in return for the advice.

At Y Combinator, we've noticed that whenever a startup manages to garner a celebrity investor, the celebrity almost always asks to be an adviser. We have a company that provides on-demand bodyguard services. An NBA basketball player invested and asked to be an adviser and then asked to be given shares of common stock in exchange for adviser services. The service that this person had in mind was to introduce this company to other professional basketball players who might want to use an on-demand bodyguard. This celebrity just made a big investment, shouldn't he want to help the company succeed? Why does he need something extra? All investors who can help should do so. Asking for additional shares is just an investor looking for a freebie.

Next we're going to talk about pro-rata rights. Very simply, pro-rata rights are the right to maintain your percentage ownership in a company by buying more shares in the company in the future. Pro-rata rights are a way to avoid dilution. Dilution in this context means owning less and less of the company each time the company sells more stock to other investors.

This is a really basic example, but say an early investor buys shares of preferred stock and ends up owning three percent of the company once the financing has closed. The company raises another round of financing. The company will go to this investor who negotiated pro-rata rights and say, “Hey. We're raising more money. You're welcome to buy this many shares in the new round to keep your ownership at approximately three percent."

Pro-rata rights are a very common request from investors. They are not necessarily a bad thing, but as a founder you absolutely need to know how pro-rata rights work. Especially because the corollary to an investor having pro-rata rights to avoid dilution is that founders typically suffer greater dilution.

The final thing is information rights. Investors almost always want contractual information rights to get certain information about your company. Giving periodic information and status updates is not a bad thing. At YC we encourage companies to give monthly updates to their investors because it's a great opportunity to ask for help with introductions or help with hiring. That kind of thing. You have to be really careful about overreach. Any investor saying they want a monthly budget or weekly update, that's not ok.

The takeaway here is that just because the type of financing and the valuation has been negotiated doesn't mean that everything else is unimportant. You need to know everything about your financing.

Kirsty: Moving on to after you've raised money. The company bank account probably has more zeros in it then you've ever seen in your life. Then what? This is where you actually start incurring business expenses. Business expenses are the cost of carrying out your business. Paying employees, paying rent for an office, hosting costs, the cost of acquiring customers, that kind of thing. Business expenses are important because they get deducted on the company's tax return to offset any revenues that are made to lower the taxes that the company pays. On the flip side, if the company incurs a a non-business expense that is not deductible on the tax return, that can increase the profits of the company that have to pay tax on them.

Again, this is a separation issue. The company will have its own bank account, out of which the company's expenses should be paid. Um, again think about this from a, from a large company, if you were working at Google, you would not use a Google credit card to buy a tooth brush and tooth paste.

Remember that the investors gave you this money. They trusted you with a huge amount of money. They want you to use that money to make the company a success. It's not your money for you to spend how you please. Believe me, we've had some horror stories of founders who've take that approach. We had one founder who took investor money and went to Vegas. By his Facebook photos, boy did he have a good time. Needless to say he's no longer with the company. This is stealing from investors.

The concept of business expenses can get a little bit blurry, especially in the early days when you're working in your apartment twenty four hours a day. The way to think about it is, "If an investor asked me what I'd spent their money on and I had to give them a line by line break down, would I be embarrassed about any of those lines?" If you would, it's probably not a business expense.

The other thing to bear in mind is that you're busy running your company at ninety miles an hour, so you don't have to necessarily think about the book keeping and accounting at that point. However, it's crucial to keep the receipts so when you do engage a book keeper or a CPA to prepare your tax returns, they can figure out what are business expenses and what aren't business expenses. They're going need your help as a founder to do this. The way make your involvement as small as possible is to keep those documents in a safe place, so you can easily refer to them.

If you remember nothing else, do not go to Vegas on investors’ money. Spend that money wisely.

Carolynn: In this section we're going to hit a couple topics in this section. The first one is "Founder Employment." Why are we talking about founder employment? As we said already, the company is separate legal entity. It exists completely separately from you as founders. As prestigious as we think the title founder is, you're really just a company employee and founders have to be paid. Working for free is against the law and founders should not let their company take on this liability. You wouldn't work for free anywhere else, so why is your startup an exception? Companies have to pay payroll taxes. We had a YC company that completely blocked their payroll taxes for three years. It was huge expensive disaster and in extreme cases, people can actually go to jail for that. Fortunately not in this case, but it's bad. The moral of this story is set up a payroll service. This is something that is worth spending your money on. Don't go overboard on lavish salaries. Minimum wage. This is still a startup and you have to run lean.

Now I am going to mention founder break ups. First, what is a founder break up? In this context, I'm talking about one founder on the team being asked to leave the company. founders are employees, so that means your co-founders are firing you. Why are we talking about break ups in founder compensation? At YC we have seen a ton of founder break ups and we know that the break ups get extra ugly when the founders haven't paid themselves. Why? Unpaid wages become leverage for the fired founder to get something that he or she wants from the company. Typically that is vesting acceleration. The fired founder says, "Hey. My lawyer says you broke the law by not paying me. If you pay me and you give me some shares that I am actually not really entitled to, I'll sign a release and make all this ugliness go away." If you're the remaining co-founders, you're probably like, "Sounds like a good deal." Now you have a disgruntled person who owns a piece of your company and, even worse, the remaining workers are working for that ex-founder. They are building all the value in the company and the ex-founder who got fired is sitting there with all their shares going, “That’s right. Make it valuable."

The take away here is avoid problems by paying yourself. Paying your payroll taxes and thinking of your co-founders wages like a marital pre-nup.

Kirsty: As the founders, you are going to need to hire employees. Much has been said in previous classes about how to find those people, about what makes a good fit, and about how to make them really productive employees. When you actually find somebody, how do you hire them? What's involved? Employment is governed by a huge raft of laws. Therefore, it's important to get this right. It's again the nitty gritty stuff that, as long as you know the basics, you can probably keep yourself out of most situations. As soon as things get complicated, you need to get yourself involved with a specialist.

the first thing you need to do is figure out if the person is an employee or a contractor. There are subtle differences to this classification. this is important to get right because the IRS takes a big interest in this. If they think you got it wrong they will come after you with fines.

Both an employee and a contractor will require documents that assign any IP that they create to the company. That's obviously really important. The form of the document is very different for each type of person and the method of payments are very different. Generally a contractor will be able to set their own work hours and location and they will be given a project where there is an end result. How they actually get to that will not be set. They'll be using their own equipment and they won't really have any say in the day to day running of the company or the strategy going forward. A contractor will sign a consulting agreement. When the company pays them, the company doesn't hold any taxes on their behalf. That responsibility is on the individual. At the end of the year, the company will provide what's called a form 1099 to the individual and to the IRS, which they use to prepare their personal tax returns.

The opposite side of this is an employee. An employee will also sign some form of IP assignment agreement, but when the company pays them, the company will withhold taxes from their salary. The company is responsible for paying those taxes to the relevant state or federal authorities. At the end of the year the employee receives a W2 form, which will then be used to prepare their personal tax returns.

The founders need to be paid. So do employees. It isn't enough to just say, "Well, I am paying them in stock. That can be their compensation." They need to be paid at least minimum wage. In San Francisco, which has a slightly higher minimum wage than California as a whole, that works out to about two thousand dollars a month. It's not a huge amount but it can add up.

There's are other things that you need to make sure you have if you have employees. The first thing is that you're required to have workers compensation insurance, especially if you're in New York. The New York authorities that look after this will send really threatening letters saying, "You owe fifty thousand dollars in fines because your one employee that's being paid minimum wage has not paid the twenty dollars a month of workers compensation fees." It is really important that you set that up. The other thing that is important is that you need to see proof that the employee is authorized to work in the US.

Founders are not payroll experts and nobody expects you to be one. This is all about the basics. You absolutely must use a payroll service provider who will look after this for you. Services like Zen Payroll are focused on startups. They help you get this set up in the easiest way possible so you can go back and concentrate on what you do best. In the example that Carolyn gave just a few minutes ago, if that company had actually set themselves up with a payroll service provider, all of that heartache would have gone away because it would have been looked after for them. They were trying to save money by not doing it and look where it got them.

That's the key thing. Use a payroll service provider and make sure that you understand the basics of employment.

Carolynn: Somebody at YC once said, "You're not a real founder until you've had to fire somebody." Why is that? Because firing people is really hard. It's hard for a lot of reasons, including that founders tend to hire their friends. They tend to hire former co-workers or they get close to their employees because working at a startup is really intense. But in every company there's going to be an employee that doesn't work out and firing this employee makes a founder a real professional because he or she has to do what is right for the company instead of what is easy. Best practices for how to fire someone: number one, fire quickly. Don't let a bad employee linger. It's so easy to put off a difficult conversation but there is only downside to procrastination. If a toxic employee stays around too long, good employees may quit. If the employee is actually screwing up the job, you may lose business or users.

Number two , communicate effectively. Don't rationalize. Don't make excuses. Don't equivocate about why you are firing the employee. Make clear direct statements. Don't apologize. "We're letting you go," not, "I'm so sorry your sales didn't take off this quarter, blah, blah, blah." Fire the employee face to face and ideally with a third party present.

Number three, pay all wages and accrued vacation immediately. This is a legal requirement that we don't debate or negotiate.

Number four, cut off access to digital systems. Once an employee is out the door, cut off physical and digital access. Control information in the cloud. Change passwords. We had a situation at YC where one founder had access to the company's GitHub account and held the password hostage when his co-founders try to fire him.

Number five, if the terminated employee has any invested shares, the company should repurchase them right away. The takeaway here is that, surprising as this may sound, one of the hallmarks of a really effective founder is how well he or she handles employee terminations.

Kirsty: The basic tenant to all of this is keep it simple. Do all the standard stuff and keep it organized. Make sure you know what you're doing. Equity ownership is really important, so make sure you are thinking about the future rather than the three months of the history of the company. Stock doesn't buy itself, so make sure you do the paperwork.

Make sure you actually know about the financing documents that you're signing. It's not enough to just say, "I'll take your hundred K." You and the employees need to be paid. Everybody needs to assign IP to the company. If the company does not own that IP, there is no value in the company. If an employee must be fired, do it quickly and professionally.

We didn't mention knowing your key metrics. At any time you should know the cash position, you should know your burn rate, you should know when that cash is going to run out so you can talk to your investors. A lot of running a startup is following the rules and taking it seriously. It's not all the glamorous bits that we see in movies and TV shows. You do have to take that seriously.

Audience Member #1: How would you advise searching for an accountant and when in the process do you need one?

Kirsty: There are two different things. There is a book keeper and there is a CPA, an accountant. Generally book keepers will categorize all your expenses and CPAs will prepare your tax returns. In the very early days it's probably fine for the founders to just be able to see the bank statements and see those expenses coming out. Tax returns have to be prepared annually, so at some point in that first year of the company's life, some service is going to need to be engaged to do that. It's not worth the founders time to do it. There are services available like inDinero which try to make things as effortless as possible from the founders's point of view. You do need to get a CPA at some point because you need to file your annual tax returns for the company.

Audience Member #1: How do you find one?

Kirsty: Finding one is tough. The best is through recommendations. With any kind of specialist, a CPA or an accountant or a lawyer, it's always best to use people who are used to dealing with startups. Not your aunt who lives in Minnesota and doesn't actually know how startups work.

Audience Member #2: All things considered, what should be my budget for incorporating, for the lawyer, for getting the deal to buy for my effort seed rounds? And then for hiring the first employees. How much money should I set aside for that?

Carolynn: In terms of incorporation, don't spend a dime on that. You can do that online. Well, actually it does cost a little bit.

Carolynn: Incorporating online using a service like Clerky is inexpensive. In the hundreds, not in the thousands. You don't need a lawyer for that part. When you actually need to hire a lawyer depends on what business you are starting and how complicated it is. Do you have a lot of privacy policies, is HIPPA involved? You mentioned raising your seed round, how much money are you raising? Who are the investors? What kind of terms are in the term sheet? Sometimes that dictates whether or not you need to get legal counsel.

Kirsty: Services like Clerky can help if you are using very standard documents for the fundraising. There are very basic fundraising documents you can use that cost less than a hundred dollars, which can save you some legal fees.

Audience Member #3: Do you have any advice or comments on the complexity that comes with working with cryptocurrencies or cryptoequities?

Kirsty: Oh wow. That's a tough question to end with. Yes, there are some issues. Often banks struggle to deal with companies that are working with cryptocurrencies because they haven't quite figured out how to deal with that sort of thing yet. Generally a lot of it is very product specific.

Sam: Thank you very much!

Carolynn: You're welcome.