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FREE RESOURCE

Founders' Agreement Basics: What to Decide Before Anyone Gets Equity



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Founders' Agreement Basics: What to Decide Before Anyone Gets Equity

Starting a business with a co-founder can feel straightforward at first. You trust each other. You're aligned on the vision. You're excited to build something together.

That early momentum is powerful, but it's also where many future problems quietly begin.

Most founder disputes don't happen because someone set out to do the wrong thing. They happen because important decisions were never clearly made, documented, or revisited as the business evolved. The phrase "we'll figure it out later" shows up in nearly every dispute story, and almost always right before things get expensive.

A founders' agreement is not about expecting conflict. It's about acknowledging reality: businesses grow, people's roles change, and clarity matters long before emotions get involved.

This guide walks through the core issues founders should think through **before equity is issued**, not after.

What a Founders' Agreement Really Does

A founders' agreement is a written understanding, often built into an operating agreement, shareholders' agreement, or partnership agreement, that defines how the business is owned, controlled, and governed. At a high level, it answers questions like:



- Who owns what?
- Who decides what?
- What happens if someone wants out or needs to leave?
- How are disputes handled before they become lawsuits?

Founders' agreements are less about legal technicalities and more about decision-making frameworks. When done well, they reduce ambiguity, preserve relationships, and give the business room to grow without constant renegotiation.

Equity vs. Control: These Are Not the Same Thing

One of the most common misconceptions among founders is that ownership percentage automatically equals decision-making power. It doesn't.

Equity answers: *Who owns the business?*

Control answers: *Who runs the business?*

You can have:

- Equal equity with unequal control
- Unequal equity with shared control
- Minority owners with veto rights
- Majority owners with limited authority

What matters is not just the percentage, but how authority is allocated.

Questions founders should resolve early:

- Who has authority over day-to-day decisions?





- What decisions require unanimous consent?
- What decisions require a majority or supermajority vote?
- Who controls hiring, spending, borrowing, or selling the business?

When these issues aren't addressed clearly, decision-making slows, resentment builds, and small disagreements turn into power struggles. Clarity here doesn't limit flexibility. It protects it.

Splitting Equity: Fair Is Not Always Equal

Many founders default to a 50/50 split because it feels fair and avoids uncomfortable conversations. But equal equity doesn't always reflect equal contributions, risk, or responsibility. Equity decisions should consider factors such as:

- Capital contributions
- Time commitment
- Experience or expertise
- Ongoing operational responsibility
- Personal risk exposure
- Whether contributions are front-loaded or ongoing

None of these require perfect precision, but they do require honesty.

Some businesses also consider **vesting schedules**, especially when:

- Founders are contributing services rather than cash
- One founder is full-time and another is part-time
- The business will evolve quickly in its early years



Vesting doesn't signal distrust. It aligns ownership with continued involvement and protects the business if someone exits early.

Control Gets More Complicated as the Business Grows

What works when there are two founders often stops working when the business adds employees, outside advisors, or investors. Early agreements should anticipate growth by addressing:

- Whether a board or a managing committee will exist
- How new owners are admitted
- Whether founders retain special voting rights
- How authority shifts as revenue or headcount increases

Ignoring future governance doesn't keep things simple. It just postpones difficult decisions until the stakes are higher.

Family and Business: Where Boundaries Matter Most

When family members co-own a business, the legal structure matters even more.

Family-owned businesses often assume trust will substitute for documentation. In reality, blurred boundaries create pressure points that spill into both the business and personal relationships. Key issues to address include:

- Who is allowed to work in the business
- How compensation is determined
- Whether ownership can be transferred to spouses or children



- How family disputes are handled differently (or not) than business disputes
- What happens in the event of divorce, death, or incapacity

Clear agreements protect not just the business, but the family relationships behind it. Without them, disagreements about money or authority often become personal far faster than anyone expects.

Exit Planning: Everyone Leaves Eventually

One of the most uncomfortable founder conversations is also one of the most important: How does someone leave?

Exit planning isn't pessimistic. It's realistic. Founders leave businesses for many reasons:

- Career changes
- Burnout
- Health issues
- New opportunities
- Conflicting visions
- Retirement
- Sale of the business

Agreements should address exit scenarios **before** emotions are involved. Common exit questions include:

- Can a founder sell their interest freely?
- Does the company or other owners have a right of first refusal?
- How is the value of the business determined?



- What happens if a founder is terminated?
- What happens if a founder dies or becomes incapacitated?

When these issues aren't addressed, exits often become disputes not because anyone intended harm, but because expectations were never aligned.

Why “We’ll Figure It Out Later” Almost Always Fails

Delaying these decisions feels easier in the moment. Everyone is optimistic. The business feels fragile. You don't want to “jinx” things. But here's the reality: later rarely gets easier.

When issues are postponed:

- Stakes are higher
- Money is involved
- Emotions are stronger
- Leverage is uneven
- Positions are entrenched
-

Agreements created during conflict are almost always worse than those created during cooperation.

The best time to make hard decisions is when relationships are strong and goals are aligned, not when the business is under pressure.

Founders’ Agreements Are Not One-Size-Fits-All

Templates and online forms can be tempting. They're fast. They're cheap. They feel “good enough.” The problem is that founders' agreements aren't



about filling in blanks. They're about **asking the right questions.**

Every business has:

- Different risk tolerance
- Different growth plans
- Different founder dynamics
- Different family considerations
- Different long-term goals

A thoughtful agreement reflects those realities. A generic one rarely does.

The Real Value of Getting This Right Early

A strong founders' agreement does more than prevent disputes. It:

- Speeds up decision-making
- Reduces uncertainty
- Builds confidence with banks, investors, and partners
- Protects relationships
- Makes future growth smoother
- Creates stability when circumstances change

In many ways, it's one of the most important planning tools a business can have, yet one of the most commonly overlooked.

Clarity Is a Competitive Advantage

Businesses don't fail only because of bad ideas. Many fail because of internal friction, misaligned expectations, and unresolved authority issues.



Clear agreements don't guarantee success, but they remove obstacles that quietly derail otherwise strong businesses.

If you're building something with others, it's worth slowing down long enough to make sure everyone is truly aligned on paper, not just in conversation.

Ready to Talk Through Your Situation?

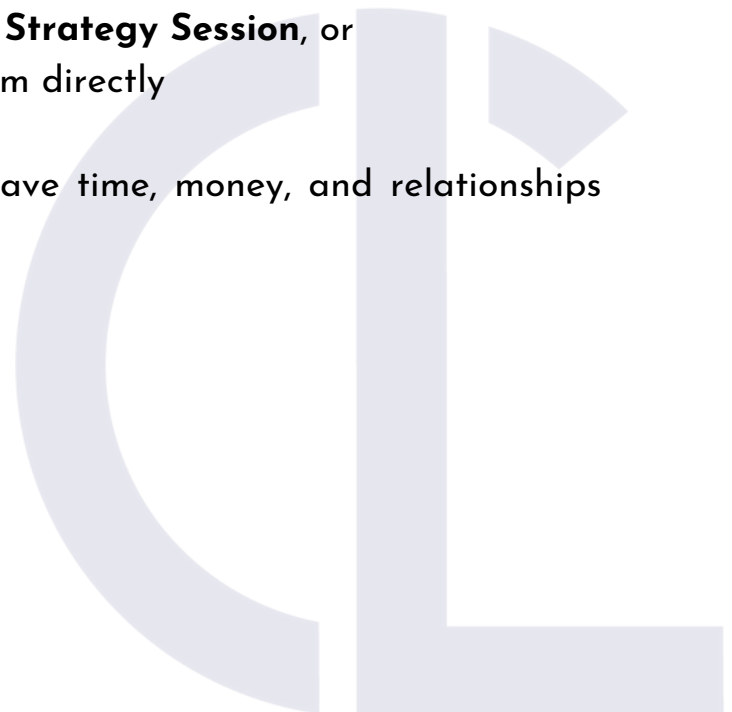
If you're starting a business, restructuring ownership, or realizing that "we'll figure it out later" has arrived sooner than expected, now is a good time to get clarity.

Cormican Law works with founders, family-owned businesses, and nonprofit leaders to help them think through ownership, control, and planning decisions before they turn into problems.

To start the conversation:

- Visit our **website** to schedule a **Legal Strategy Session**, or
- Call **210-610-1483** to speak with the firm directly

Getting these decisions right early can save time, money, and relationships later.





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