CO-FOUNDER AGREEMENTS: SPLITTING OWNERSHIP FAIRLY

How to split ownership, use vesting, and agree on roles and exits before money or friendship gets in the way.

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AT A GLANCE

- If you start with partners, agree **in writing** on ownership, roles, decisions and what happens if someone leaves.
- **Vesting** means founders earn their shares over time, often over **4 years with a 1-year "cliff."** It protects everyone if a founder leaves early.
- Have the hard conversations now, while everyone gets along. Use **B-16 Co-Founder Conversation Worksheet** to guide them.

WATCH OUT

General information only, not legal advice. Have a lawyer put your agreement into the right legal documents for your business structure.

Why it matters

Co-founder disputes are a common reason young companies fail. A friend who stops showing up but still owns half the business can block every decision and scare off investors. Investors will ask about vesting and founder agreements before they invest.

Splitting ownership

There's no perfect formula. Think about:

- **Time:** who's full-time, who's part-time?
- **Role:** who does what, and how hard is it to replace?
- **Contributions:** money, equipment, customers, ideas, code?
- **Risk:** who's leaving a job, putting in savings?
- **The future:** who will carry the business for the next 5 years?

KEY POINT

An even split isn't automatically fair, and an uneven split isn't unfair. What matters is that everyone agrees, understands why, and puts it in writing.

How vesting works

EXAMPLE

Diego and Ana each own 50% of their company, with 4-year vesting and a 1-year cliff. Each has 500,000 shares.

- If Ana leaves after **8 months**, she's before the cliff, so she keeps **no** shares.
- If Diego leaves after **2 years**, he keeps **half** his shares (250,000), and the company can take back the rest.
- After **4 years**, both own all their shares.

Time with the company	Shares earned (of 500,000)
Less than 1 year	0
1 year (cliff)	125,000 (25%)
2 years	250,000 (50%)
3 years	375,000 (75%)
4 years	500,000 (100%)

After the cliff, shares usually vest a little each month. For LLCs, a similar idea can be written into the operating agreement.

What the agreement should cover

1. **Ownership** of each founder, and vesting
2. **Roles and titles**: who does what, and who decides what
3. **Time commitment**: full-time, part-time, and when that changes
4. **Money**: who puts in what, and whether founders are paid
5. **Decisions**: what needs everyone's agreement, and how ties are broken
6. **IP**: everything founders create for the business belongs to the business. See **B-08 Trademarks, Copyrights and Patents in Plain Language**.
7. **Leaving**: what happens to a founder's shares if they quit, are removed, become disabled or die
8. **Disputes**: how you'll resolve disagreements, such as mediation first
9. **Non-compete and non-solicit**: what a departing founder can and can't do, where allowed by law

Common mistakes

- **Handshake deals between friends.**
- **No vesting.** One departure can leave a non-working owner with half the company.
- **Splitting 50/50 with no tie-breaker.**
- **Waiting until there's a problem.**

Your checklist

- ☐ Complete the Co-Founder Conversation Worksheet (B-16) together
- ☐ Agree on ownership and vesting
- ☐ Agree on roles, decisions and time commitment
- ☐ Have a lawyer write it into your operating agreement or stock agreements
- ☐ Make sure everyone assigns their IP to the business

Key words, explained

Word	What it means
Equity	Ownership in the business.
Vesting	Earning ownership over time.
Cliff	The waiting period before any shares vest.
Buyback	The company's right to buy back unvested or departing founders' shares.
Tie-breaker	A rule for decisions when owners disagree equally.

Where to go next

- **B-16 Co-Founder Conversation Worksheet**
- **B-11 Operating Agreements and Bylaws Explained**
- **R-16 Ownership and Dilution: The Cap Table Explained**

IMPORTANT
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