

## Understanding The Founders Agreement Is As Easy As 1-2-3

By [LawCanvas](#)

You and your co-founder both have the similar visions and objectives for your company. You've already agreed on the equity split and your mutual responsibilities. In addition, you've already worked together on prior projects, and there's seldom been any disagreements. You're comfortable with each other and have no doubt that you'll make a good team. Should you really prioritize creating a written arrangement?

Definitely.

### 1. What is a Founder's Agreement?

The Founders Agreement is a document specifying the terms between founding team members. It helps to articulate important issues including the ownership structure of the company, the vesting period of shares, or even what happens when founders resign. It helps to manage the expectations of the founders and gets everyone on the same page.

### 2. Why create one?

Talking about the end of the relationship right at the beginning is something people like to avoid. Few want to start off a relationship by discussing consequences of it not working. In the beginning you want to be positive and believe in the collaboration, and talking about potential failures can be both awkward and demotivating. However, even though you currently don't see any potential disagreements, things may change as you get your company up and running. Having a Founders Agreement to refer to can save you a lot of trouble and can be crucial for your company's future.

A verbal agreement is not enough, and a written document should be created instead. Our memories play tricks on even the best of us; after some time has passed one of you may have even forgotten about the initial arrangement. A verbal agreement can also be manipulated as to serve the purpose of one party. Its not easy to remember the exact wording of a verbal agreement. Hence, having it in writing prevents prospective disagreements about its content.

### 3. How can you go about creating one?

If you want to create a Founder's Agreement, there are a couple of options. You can either go to a professional, or you could try writing one on your own. What's important is that you address critical issues including:

*Ownership structure of the company:* The apportionment of shares between founders depending on their responsibilities and contributions to the company, the classes of issued shares and the rights attached to each class, and also the manner in which the shares are vested.

*Transfer of intellectual property rights:* Intellectual property rights and ownership of the business concept and related technology get transferred from the individual founders to the company.

*Resignation of Founders.* How individual founders can resign or be removed from the team in the event that the collaboration does not work out

Creating a Founders Agreement is similar to buying travel insurance. It might be a little bit of hassle, but on the off-chance that you fall ill on your travels you'll be glad you took the necessary precautions. Just as in travelling, this too applies to startups. It's wise to set out the terms with your co-founders at an early stage before the relationship gets more complicated.

***The LawCanvas app provides a Founders Agreement template for businesses, and allows you to easily customize the clauses for your company's use. We're helping businesses to save time on legal stuff so that they can get back to building products and delighting customers.***

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