Vesting of Founder's Stock

Source:
http://startuplawyer.com/incorporation/why-your-startups-founders-stock-should-vest-over-time

If your startup company launches with more than one founder and your startup plans to eventually be acquired or seek venture funding, your startup's founders stock should vest over time according to a vesting schedule.

Founding teams might not stay together. And having a missing founder or two with a nice chunk of your startup's common stock is not a scenario your startup wants when it comes time for an acquisition or venture capital financing.

So instead of the founders getting all their shares of common stock on Day 1, the founders get their stock according to a vesting schedule. The standard vesting schedule for startup companies is four years with a one year cliff and monthly vesting thereafter until the founders reach 100%. The one year cliff means that the founders do not get vested with regards to any common stock until the startup's first anniversary. Thereafter, the founders get vested every month at an amount equal to 1/48th of the their total common stock.

If a founder leaves before the startup's first anniversary, the founder leaves without any common stock. If a founder leaves after 15 months, the founder will have 31.25% of his common stock vested (25% after the first year, plus the 2.083% vesting each month for 3 months). Thus, the missing founder leaves the startup with much less shares than if the founders stock had vested immediately. This makes it easier to get the necessary approval (and other issues) to go forward with an acquisition or venture capital financing.

About The Author
Ryan Roberts is a startup lawyer and represents technology companies through all phases of the startup process, including incorporation, seed & venture financings, and exit transactions. Click here to learn more about his practice.