

LegUp Health Compensation Overview

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I started LegUp Health two years ago. The first and possibly hardest step was to create a small, repeatable business. We've accomplished that, and now it's time to focus on growth. The purpose of this document is to describe the partnership model I'm envisioning and to propose a compensation plan for everyone involved.

When I say, "Partners" I'm referring to the principals of the company. These are the people who will hold leadership positions and whose financial interests will be linked to the long-term success of LegUp Health. We'll need to hire many more people, but they won't be considered Partners.

Note: I expect us to make mistakes along the way. Some of the plans I lay out in this document won't pan out. My goal is to describe my vision and intent we can all align to it and iterate this concept together as we learn.

Initial Partners

Rick Lindquist - Strategy, product, marketing, finance

My main job will be to make sure that the company is sufficiently funded and is headed in the right direction. But, I'll also help iterate our product offerings and marketing tactics.

JD Cleary - Customer service, sales, business development

JD will be the main customer service, sales, and business development rep for the foreseeable future. As we hire customer-facing team members, JD will play a role in developing a system for training and managing them.

Everyone will be closely involved in high-level strategy. We will all have our specialties and responsibilities, but everyone will have a voice as we make the decisions that determine the direction of the company. I am ultimately in charge of making the final decisions, but I think of this as a partnership, and I want every Partner to be heavily involved in strategy.

Also, because the customer experience is so important to us, I'd like for everyone to spend some time each week on customer service. It doesn't have to be much, but it's important that there are no walls between us and our customers. JD will be the main customer service rep, but we all need to chip in.

For the foreseeable future, everyone will be working remotely from wherever they choose. As the company starts to grow beyond the Initial Partners, we will probably need to hire a number of team members to keep up with the growth. We'll worry about that when we get there.

Compensation

Most startups hope to return money to shareholders in a moonshot acquisition. That's not the plan for LegUp. We've created a unique compensation model to reward our people for both short-term and long-term value creation without having to sell the company or manage the complexities of a cap table.

If we fail, we want our people to feel they were paid fairly along the way. If we achieve modest success, we want our people to build their personal wealth. And if we have huge wins, we want our people to experience financial windfalls.

There are a few principles behind this plan:

- **Transparency** — We're all on the same team, and we're all expected to be leaders as the company grows. I don't want any secrecy between the Partners, and that includes compensation.
- **Aligned incentives** — Many startup companies end up in a situation where the employees don't want the same thing as the founders/investors. I want to make sure that what's good for me is good for the rest of the team so that you know you can trust me.
- **Reduced distraction** — Everyone involved is being offered a very generous deal that scales with the business so that no one should have any reason to feel under-compensated. This should allow Initial Partners to stop thinking about compensation and start thinking about all the things we can do to grow the business.
- **No exit** — I am in this for the long haul, and I only want to attract team members who share that same vision. We have no exit strategy, and we're not expecting to raise any VC money. This should be an incredibly fun and rewarding job for all of us, and there will be the potential for profit eventually, but there's basically no chance of a quick cash-out. Because of this, offering equity doesn't make sense. I know that it's expected that early employees at a startup will receive equity, but equity isn't any good if there's no opportunity to sell your shares. We plan to use profit sharing as an alternative to equity (details below).

Short-term compensation at LegUp is provided in the form of salaries. Our current goal is to get all Partners to \$[]K annual salaries. Until all Partners are making \$[]K per year in salary, we will structure creative cash compensation packages on a case-by-case basis.

Long-term compensation at LegUp is provided in the form of profit-sharing. We want to get the benefits of equity (employees feel a sense of ownership and share in the upside) and provide an incentive for employees to stay at the company. So, employees get notional "shares" that determine their profit-sharing amount. When an employee leaves, their shares "reverse vest" on a linear basis. (For example, if someone who worked here 5 years quit/got fired, he or she would gradually lose their share of the profit over the next 5 years). If there's a liquidation event, each employee's notional shares are treated like actual equity so they can share in the proceeds.

The plan I am proposing consists of four stages. As the company grows, we will advance from

one stage to the next.

Stage 1 - We take it one year at a time

This is the stage that we're currently in. We're not making enough to pay Initial Partners their market rates. This stage will be very ad hoc based on what we can afford. We'll have to reach temporary agreements with each Partner individually when they join full time. The goal will be to create annual compensation agreements with each Partner so that if we fail, each individual feels they were paid fairly along the way.

Stage 2 - We all have stable base salaries (\$[]K per year)

We'll enter this stage when we get each Initial Partner to a \$[]K per year salary. At this stage, there probably won't be much profit sharing available because we'll be investing all profit into growth. The goal of this stage is to make sure we're all taken care of and no longer need to renegotiate short-term compensation each year.

Stage 3 - We all share profit evenly (up to another \$[]K per year)

We'll probably stay at Stage 2 for at least a year or two, but at some point, the company will be making enough money that it doesn't make sense to invest it all back into the company. Once I decide to start distributing profit, Stage 3 applies until each Initial Partner is making \$[]K per year in addition to the salary from Stage 2. To be clear, any time I want to pay myself any money above the \$[]K salary that we all receive from Stage 2, I must also pay everyone else the exact same amount until everyone is making an additional \$[]K per year. The goal of this stage is to allow Partners to build their personal wealth.

Stage 4 - We all get shares in profits above \$[]K per year

Once we're all making \$[]K per year, all additional profit will be distributed according to a sharing arrangement that's not completely even. Profits will still be distributed like they are in Stage 3, but each person will have a certain number of shares, and they will receive a percentage based on the number of shares they have. For example, if we're distributing \$10M in additional profit beyond the profit from Stage 3 and you have 10K out of 100K total shares (10 percent), that means you'd get \$1M.

Shares

Here are the number shares for each Initial Partner:

- Rick: []
- JD: []

You probably noticed that these numbers add up to 85K instead of 100K. The reasoning behind this is that we will probably need to offer shares to future employees which will dilute the shares we all have. The starting numbers are meant to indicate the minimum percentage we expect to remain after dilution. (For example, if you have 10,000 shares, that's an indication that we don't expect to dilute your shares below 10 percent of the total, but you'd actually have ~11.77 percent to start out with.)

We have no idea how these shares will be diluted, these numbers are just meant to set expectations. My guess is that the next round of employees we hire may receive roughly [] shares each, but we'll have to make that decision later. The important thing is that everyone is playing by the same rules so what's good for me is also good for the rest of the Partners.

Because these shares refer to profit sharing and not actual equity, I will maintain 100 percent ownership of the company. As I mentioned above, we have no intention of selling any of that equity, but if we do, the proceeds will automatically be shared with everyone else based on shares. So if we sell the company for \$100M and you have 10 percent of the shares, you'll make \$10M.


In order to further protect you, there will be a reverse vesting period if you leave LegUp. This will allow you to continue earning profit for the work you put in for years after you leave (whether you quit, or you're fired) based on how long you work here. Here's how it works:

- When you leave the company, you stop receiving any base salary from Stage 1 and Stage 2, but you continue earning a percentage of the profit share from Stage 3 and Stage 4.
- Your profit share will decrease evenly each month after you leave, for however long you worked full-time at LegUp.

For example, let's say that JD has been working at LegUp for 10 years, and he's currently making \$1M per year (\$[]K from Stage 2, \$[]K from Stage 3, and \$[]K from Stage 4). He decides to leave LegUp so that he can start his own company. He stops earning the \$[]K from Stage 2 instantly, but if and when profits are distributed during the first month after he leaves, he still makes the full amount from Stage 3 and Stage 4. That amount decreases linearly each month over the next 10 years. So after 5 years (60 months), if and when profits are distributed, he'll earn \$[]K from Stage 3, plus half of whatever his normal profit share would have been from Stage 4. If the company sells at that point, he has half of his original shares, so he'd receive half of whatever he would have been paid if he'd stayed with the company. After 10 years, the last of his shares have un-vested, and he's no longer receiving anything from LegUp.

In case this isn't clear from the way this is structured, the plan is for all of us to work at LegUp for a long time, build it into a great company that we love working at, and get fat off the profits. The plan is *not* to work really hard for a couple of years and then cash out.

Related Documents:

-  LegUp Health - Employee Share Agreement - Generic