

# Institute for Entrepreneurship

## Venture Jumpstart Program

### Worksheet 2: Ownership Agreement – Issues to Discuss

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#### **Ownership Agreement: Issues to Discuss**

1. Form of Company – Will the company be an LLC, S Corp, C Corp, etc.
  - a. The company is an LLC, Troop Ltd, registered in Colorado.
2. Owners
  - a. Who are they?
    - i. Me and Mar (head of marketing)
  - b. How much does each own?
    - i. Mar owns 6.5% (through vesting), I own 93.5%
  - c. How did/will each Owner acquire their share of ownership (investment of cash, payment over time, contribution of personal property, or is it a non-cash consensus decision on the share each owns)?
    - i. Mar will acquire his shares if he completes his task which is helping us with the marketing strategy of the app.
    - ii. The developers will acquire their share of ownership depending on how long they work with us.
  - d. How is the company's initial Operating Capital being provided (equity investment by Owners, loans, LOC)?
    - i. Currently it is through bootstrapping. We plan to raise capital when we have product market fit.
3. Decision-Making by Owners
  - a. What decisions must be made/approved collectively by the Owners?
    - i. Annual Business Plan and Budget - While most of the plan and budgeting process may be handled by me and my team, the final approval typically rests with the owners, as they are ultimately responsible for the financial health and strategic direction of the business.
    - ii. New Ownership Offer - While my team and I may evaluate and negotiate new ownership offers, the final decision on whether to accept or reject such offers usually lies with the current owners.
    - iii. Management Team Assignment, Authority Limits, Compensation - Although I may handle the day-to-day management decisions, the owners typically have authority over appointing or approving management roles, setting authority limits, and determining compensation structures.



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- iv. Annual Financial Statements - While my team may prepare the financial statements, the owners typically have the responsibility to review and approve them, as they are legally accountable for the accuracy and integrity of the financial reporting.
  - v. Major Purchases, changes in Business - While my team and I may propose major purchases or changes in business operations, the owners usually have the final authority to approve or reject such decisions, especially if they involve significant financial or strategic risks.
  - vi. Profit distributions - While involving stakeholders and employees in profit distribution decisions can foster transparency and morale, the final authority typically rests with the owners, who may decide how profits are distributed based on various factors such as business performance and long-term objectives.
  - vii. Assumption of debt - Since assuming debt can have significant financial implications for the business, the decision would likely involve the owners, who are ultimately responsible for managing the financial health and obligations of the company.
- b. How will Ownership decisions be made (voting by amount of Ownership, percentage approval required)? - Highest percentage of vote approval
- c. What decisions may be made by the Management Team members individually or collectively without approval by Owners?
- i. Employment related decisions - Yes, this can be made without the approval by owners.
  - ii. Procurement (to limits of authority) - Yes, this can be done without the approval of the owners, depending on the service to be procured.
  - iii. Signing contracts - No, this cannot be done without the approval of the owners
  - iv. Assuming debt (to limits of authority) - No, this cannot be done without the approval of the stakeholders



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4. Transfer of Ownership
  - a. Are any transfers of ownership permitted? - Yes, transfer of ownership is permitted but every stakeholder must be aware.
  - b. How will transfers be approved? - Through contracts
5. New Owners
  - a. How will new owners acquire their share (purchase, in-kind contribution, award, options)? - Purchase and contribution
  - b. How will new owners be approved? - Through the acknowledgement of the stakeholders and signing of contracts
  - c. How will share value be determined for new buyers (book value, market value)? - Market value
  - d. May a non-employee own shares? Only if they've previously worked for the company.
6. Departure of Owners
  - a. May a former employee, disabled employee, retired employee, or heirs of a deceased employee continue to own shares? - Yes, as long as they don't sell their shares.
  - b. How will the company buy back shares (over time, with interest)? - Not sure yet.
  - c. Is there a minimum time of employment required for a departing Owner to sell back shares at an appreciated value (vesting)? - Not sure about this yet.
  - d. What becomes of shares in the case of Owner's divorce (can ex-spouse receive shares in settlement)? - This will be settled based on the number of shares allocated to the person involved.
7. Liquidation
  - a. How will liquidation be approved? - By selling the share back to the company.
  - b. How will company assets be distributed upon liquidation. - In a liquidation scenario, company assets will be sold off to settle outstanding debts and obligations. Any remaining assets are then distributed among the shareholders.
8. Taxes
  - a. How will the company's taxes be paid? - Taxes will be paid based on the profits made by the company.
  - b. If individual Owners pay tax on company profits, will a distribution be made to cover this cost? - Yes, a distribution will be made.



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9. **Company Organization and Operations (not typically included in the Agreement, but important to discuss and agree on among founders)**
  - a. **How is the company organized? - Each department will have an executive that reports to the CEO and each decision will be passed down to each executive. And the executives should be able to work together.**
  - b. **How will management decisions be made?- Management decisions will be made by the CEO.**
  - c. **How will financial records be maintained? - Financial records will be maintained by the accounting department.**
  - d. **How will expenses be approved and paid? Who may sign checks / make purchases? Sign offs will be made by the CEO.**
  - e. **How will owners and employees be compensated? - Share owners will be compensated with dividends and employees will be paid in salary and stocks.**

