

Friday, June 9, 2006

Shareholder Agreements for Start-Ups

If there is a single piece of advice I can give to anybody starting out down the entrepreneurial path with a few friends or partners, it is this: get independent legal advice before you sign your shareholder/partnership agreement.

This document will be the most important legally binding contract in your life, especially if you succeed. My first time through for me was a lesson in what not to do. We had a VC term-sheet before we even launched, so we had to incorporate quickly and we made some serious errors:

we grabbed the nearest lawyer instead of asking around for a good one.
he pushed what he called "a standard cookie cutter" agreement in front of us and assured us "it was fine for our purposes"
we didn't each seek outside legal counsel
we signed it

Years later, when serious money was involved and trouble inevitably followed, we each had a rude awakening when we took it to real lawyers (now that we could afford them) and found out what we had actually signed on for. ("Complete bag of shit" is how my lawyer usually referred to it).

This was a clear cut case of springing for a few extra bucks up front would have saved ten's of thousands down the road, not to mention months of grief. Fact was, I was too cheap and too timid to spend 500 bucks on a couple hours of competent legal time at the beginning. Had I done so, and then had the balls to return to the table and say things like "The shotgun clause needs to be reworked", "There's no easy way out of this" or "This thing handcuffs us together for life and I don't want that", for a bit of awkwardness, time and money we would have prevented enormous problems later.

I consider the first shareholder agreement I ever signed the most expensive (albeit educational) mistake I've ever made.

Posted by Mark Jeftovic in Venture Capital at 14:05

Good words, I has thinking about own bussines, but with no success, so still working in big company as some small worker like many others.

Anonymous on Oct 13 2006, 03:31

So, how does a person go about finding these "real" lawyers? is it based on their hourly rates, or should I be looking for some other indicator? What kinds of things did they tell you that should have been different?
thanks

Anonymous on Aug 7 2008, 15:37