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Happy Thanksgiving!



## “Tip of the Month”

### Protecting Your Founder Stock Post-Investment

You are the proud founder of a hot startup, which is now flourishing. Investors are lined up and ready to offer the capital needed to take your business to the next level. Keep an eye on what will happen to your rights and control of the company after the close of an investment round. Be ready to negotiate founder-favorable terms to include in the relevant formation and financing documents. These terms may include the following:

1. *Aggressive Vesting with No Cliff.* Corporate stock is often subject to “vesting,” that is, the designated periods in which the recipient earns rights to the grant of equity in the company. A four-year vesting period is common. The granted stock is issued in equal amounts at the end of the recipient’s first four years with the company.
2. *Vesting provisions often include a “cliff” period.* This is the minimum amount of time one must remain with the company for any amount of stock to vest and not otherwise be forfeited. Founders are increasingly able to negotiate vesting terms that are better than the standard “four-years with a one-year cliff.” Terms can be as low as “three-years (or fewer) with no cliff.” Be ready to negotiate aggressive vesting terms to protect your stock.
3. *Accelerated vesting conditions.* Founders can also protect their stock by including provisions that accelerate the vesting period in the event of termination or demotion.
4. *Limitation on Investor Control.* Founders might also negotiate limitations on investor voting control. For example, founders can try to limit or even prohibit investor voting blocks on acquisitions and on future equity financings. This way, founders can keep the ability to decide whether and when to sell the company or to raise more capital.
5. *Limit Investor Protective Provisions.* Protective provisions are special veto rights sometimes given to investors to allow their final say on whether the company can or cannot do something, even over the objection of the shareholders. Keep these terms reasonable.
6. *Board of Directors.* Directors oversee the officers who are responsible for managing the company. As a founder, you are probably a director already. Be sure to keep this position. This will ensure you can stay informed and influence the company’s direction.

These are just some of the ways founders can protect their rights and interest in their company. If you would like more information on ways to protect founder stock following an investment round, or if you would like assistance in drafting or negotiating formation or financing documents, give one of our experienced attorneys a call at (603) 668-1971 or contacting us by email at [mailbox@biz-patlaw.com](mailto:mailbox@biz-patlaw.com). We are always happy to help.

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