

CHAPTER 01

What Exactly Is a Cap Table — and Why Should You Lose Sleep Over It?

Let me start with a simple truth: **the cap table is the scoreboard of your company.** Every investor you ever take money from, every employee you give options to, every co-founder who joins or leaves — it all lives on the cap table. If you do not understand it, other people will make decisions about it on your behalf. That is not a position you want to be in.

The full name is **Capitalization Table.** It is a spreadsheet — later a software tool — that lists every single person or entity that owns a

piece of your company, how many shares they own, what type of shares those are, and what percentage of the company that represents.

FIFTH-GRADER ANALOGY

*Imagine you and your best friend baked a giant pizza together. You cut it into 10 slices. You own 7 slices. Your friend owns 3 slices. That pizza is your company. Those slices are shares. The cap table is just the piece of paper that says: "Hindol owns 7 slices. Priya owns 3 slices." Simple. Now imagine more and more people want a slice. That is startup fundraising. And the pizza does not get bigger when you give slices away — your slice just gets smaller. That is *dilution*.*

Before we touch a single number, you need to master four terms. These are the building blocks. Everything else rests on them.

AUTHORIZED SHARES

The maximum number of shares your company is legally allowed to create. Think of it as the total number of pizza slices you are permitted to cut. You set this number when you incorporate. It does not mean you have sold them. It is the ceiling.

ISSUED SHARES

Shares that have actually been created and handed to someone — a founder, an investor, an employee. These have been "issued" out of the authorized pool. Issued shares are a subset of authorized shares.

OUTSTANDING SHARES

Issued shares that are actually in someone's hands right now, actively counting toward ownership. This is the number you use for all ownership percentage math. If issued shares were repurchased or cancelled, they are no longer outstanding.

RESERVED / UNISSUED SHARES

Authorized shares that have not yet been issued to anyone. They sit in reserve — often earmarked for a future employee stock option pool (ESOP) or future investors. They exist on paper only.

THE FUNDAMENTAL RELATIONSHIP

Authorized Shares

= Issued (Outstanding) Shares + Reserved / Unissued Shares

10,000,000 Authorized

= 7,500,000 Outstanding + 2,500,000 Reserved for ESOP

Now here is an important nuance. **Authorized shares do not affect ownership percentages directly.** They are just the legal maximum. What matters for dilution math is the *fully diluted share count* — which we will get to in a moment. For now, just know: **authorized is the ceiling, outstanding is the reality.**

Day Zero: The Founders' Shares

Our company is called **NovaSpark, Inc.** — a B2B SaaS company selling AI-powered workflow automation to mid-market businesses. You are the CEO and founder. Your co-founder, Priya, is the CTO. Today is the day you incorporate in Delaware.

Your lawyer asks: "How many shares do you want to authorize?" The most common answer for a startup is **10,000,000 shares** (ten million). This is a standard number. It gives you plenty of room to issue shares to founders, employees, and investors without having to go back and authorize more too soon.

F **Founding — Day Zero**
Incorporation · Delaware C-Corp · No valuation yet · No outside money

You decide to issue shares to the two founders. You take **5,000,000 shares** (50% of authorized). Priya takes **3,000,000 shares** (30% of authorized). You reserve **2,000,000 shares** (20%) for a future Employee Stock Option Pool — because you know you will need to hire engineers and you will want to give them equity.

Authorized Shares:	10,000,000
Issued to Founder (You):	5,000,000
Issued to Co-Founder (Priya):	3,000,000
Reserved – ESOP Pool:	2,000,000

Total Outstanding Shares:	8,000,000
Authorized but Unissued (ESOP):	2,000,000

(Outstanding = only what is in founders' hands right now)

Who Owns What?

Now we calculate ownership percentages. The formula is simply:
your shares ÷ total outstanding shares × 100.

OWNERSHIP PERCENTAGE FORMULA

You: $5,000,000 \div 8,000,000 = 0.625 = 62.5\%$

Priya: $3,000,000 \div 8,000,000 = 0.375 = 37.5\%$

Total: 100%

(ESOP shares are reserved but not yet issued – they don't count yet)

SHAREHOLDER	SHARE CLASS	SHARES HELD	% OUTSTAN
You (CEO / Founder)	Common	5,000,000	62.5%

Priya (CTO / Co-Founder)	Common	3,000,000	3
<i>ESOP Pool (Reserved)</i>	<i>Common (future)</i>	2,000,000	
TOTAL		10,000,000	

** Fully Diluted means: what would the ownership look like if every reserved share, option, warrant, and convertible note were converted to common stock today? It is the most honest picture of ownership. Investors always think in fully diluted terms.*

OWNERSHIP – FOUNDING DAY (FULLY DILUTED)



One Critical Thing: Vesting

Before we move on, I must tell you something that every founder gets wrong. **You should not own your shares outright on Day One.** You should vest them over time. A standard vesting schedule is **4 years with a 1-year cliff.**

WHAT VESTING MEANS

You earn your shares gradually over 4 years. Nothing vests in the first year (that is the "cliff"). On your one-year anniversary, 25% of your shares vest all at once (1,250,000 shares for you). Then each month after that, you earn 1/48th of the total. This protects the company. If Priya quits after 6 months, she does not walk away with 3 million shares. She walks away with zero. Investors

will refuse to fund you if founders are not on vesting schedules.

CHAPTER 03

The Seed Round: Your First Outside Money

It is 18 months later. NovaSpark has built a prototype, signed 3 paying customers, and is generating \$18,000 per month in Annual Recurring Revenue (ARR). You need \$2.5 million to hire engineers and a head of sales. You go out to raise a Seed round.

A venture fund called **Redwood Ventures** agrees to invest. Now the most important concept in fundraising appears: **valuation**.

Pre-Money vs. Post-Money Valuation

This distinction trips up every first-time founder. Let me be very direct about it.

THE PIZZA ANALOGY, AGAIN

*Your pizza (company) is worth \$8 today. A new partner wants to put in \$2 to join. Before they put in the money, the pizza is worth \$8 — that is the *pre-money valuation*. After they put in the \$2, the pizza is worth \$10 — that is the *post-money valuation*. Their*

ownership percentage is $\$2 \div \$10 = 20\%$. Your slice just got smaller, but the whole pizza got bigger.

PRE-MONEY VS POST-MONEY – THE FORMULA

Post-Money Valuation = Pre-Money Valuation +
Investment Amount

Investor Ownership % = Investment \div Post-Money
Valuation

NovaSpark Pre-Money Valuation:	\$10,000,000	
Redwood Ventures Investment:	\$2,500,000	
Post-Money Valuation:	\$12,500,000	
Redwood's Ownership:	$\$2.5M \div \$12.5M =$	20%

The Price Per Share Calculation

Now we need to figure out how many new shares to issue to Redwood. First, we calculate the price per share.

PRICE PER SHARE – SEED ROUND

Price Per Share = Pre-Money Valuation \div Fully Diluted
Shares Pre-Money

(We use fully diluted – including ESOP – because investors demand it)

Pre-Money Valuation: \$10,000,000
Fully Diluted Shares (pre): 10,000,000
Price Per Share: \$10,000,000 ÷ 10,000,000 =
\$1.00 per share

New Shares Issued to Investor

NEW SHARES ISSUED – SEED ROUND

New Shares = Investment Amount ÷ Price Per Share

\$2,500,000 ÷ \$1.00 = 2,500,000 new shares

(These are new Series Seed Preferred shares, not Common)

Important: Preferred vs. Common Shares

Investors almost never accept Common stock. They demand **Preferred Stock**. Here is what that means in plain terms.

COMMON STOCK

What founders and employees get. It is the basic ownership unit. In a liquidation, common stockholders get paid last — after all debts and preferred stockholders are paid. High risk, high reward.

PREFERRED STOCK

PREFERRED STOCK

What investors get. It comes with special rights: a liquidation preference (they get their money back first), often an anti-dilution provision, sometimes a board seat, and information rights. It is safer. Think of it as investor-grade stock.

LIQUIDATION PREFERENCE

If the company is sold, preferred shareholders get their money back before anyone else sees a dime. A 1x liquidation preference means they get 1x their investment back first. So Redwood's \$2.5M gets returned before founders see anything in a sale.

1x NON-PARTICIPATING

The most founder-friendly structure. Investors get their money back OR they convert to common and share in the upside — they cannot do both. This is what you should push for in a Seed round.

S Seed Round — 18 Months Post-Founding

\$2.5M raised · \$10M pre-money · \$12.5M post-money · \$1.00 / share · Series Seed Preferred

Now we also need to authorize more shares. The company currently has 10,000,000 authorized. Redwood needs 2,500,000 new shares. We still have 2,000,000 in the ESOP. So total needed is $10,000,000 + 2,500,000 = 12,500,000$. We will authorize **15,000,000 shares** to give us headroom. This requires a board vote and stockholder approval, but it is routine.

SHAREHOLDER	SHARE CLASS	SHARES HELD	% FULL
You (CEO / Founder)	Common	5,000,000	
Priya (CTO / Co-Founder)	Common	3,000,000	
<i>ESOP Pool (Reserved)</i>	<i>Common (future)</i>	<i>2,000,000</i>	
Redwood Ventures	Series Seed Pref.	2,500,000	
TOTAL		12,500,000	

The Dilution Math — Feel It in Your Bones

Before Seed: you owned 50% (fully diluted). After Seed: you own 40%. Your percentage dropped by 10 percentage points. That is dilution. But notice: **the value of your stake actually went up.**

DILUTION VS. VALUE – THE CRITICAL INSIGHT

BEFORE Seed: You own 50% of a company worth ~\$0 (no funding)

Real value of your stake: effectively \$0 (paper only)

AFTER Seed: You own 40% of a company worth \$12,500,000

Real value of your stake: $40\% \times \$12,500,000 = \$5,000,000$

You were diluted – but you are now worth \$5M on paper. Dilution \neq bad.

OWNERSHIP AFTER SEED ROUND (FULLY DILUTED)

You 40%	Priya 24%	ESOP 16%	Redwood 20%
You (CEO)	Priya (CTO)	ESOP Pool	Redwood Ventures (Seed)

CHAPTER 04

Series A: Real Money, Real Dilution, Real Board Seats

Two years after the Seed. NovaSpark is now generating **\$1.8M ARR**, growing 15% month-over-month. You have a team of 14 people. You have used **\$1.9M** of the Seed capital and you have 3 months of runway left. You have also granted **1,200,000 ESOP options** to employees (leaving 800,000 in the pool). Time to raise a Series A.

A top-tier VC, **Apex Capital**, leads the round. They want to invest **\$12,000,000**. Before they invest, they insist on a standard Series A term: **expand the ESOP to 15%** on a post-money basis. This is called the "**ESOP refresh**" and it is extremely common. It always happens before the money comes in — which means it dilutes the existing shareholders, not the incoming investor.

Step 1: ESOP Refresh (Pre-Money)

Apex says: "We want a 15% ESOP pool post-money, before our investment." Let us work through why this matters so much.

ESOP REFRESH MATH – SERIES A

Target: ESOP = 15% of post-money fully diluted shares

Post-money shares = pre-money shares + new shares to Apex + new ESOP shares This requires algebra. Let X = new ESOP shares to add.

Current shares (pre-A): 12,500,000

(incl. 800,000 remaining ESOP + 1,200,000 granted options)

Series A pre-money valuation: \$40,000,000

Series A investment: \$12,000,000

Post-money valuation: \$52,000,000

Price/Share (pre-A, after ESOP refresh):

$$\$40,000,000 \div (12,500,000 + X) = \text{price}$$

$$\text{New Apex shares} = \$12,000,000 \div \text{price}$$

Solving iteratively: total post-money = ~17,333,333 shares

ESOP needed (15%): $17,333,333 \times 15\% = \sim 2,600,000$ shares

Currently in pool: 800,000 shares

New ESOP shares to add: $2,600,000 - 800,000 = 1,800,000$ shares

These 1,800,000 new ESOP shares dilute YOU and PRIYA, not Apex.

Step 2: Series A Price Per Share and New Shares

SERIES A – PRICE PER SHARE

Pre-money shares (after ESOP refresh): $12,500,000 + 1,800,000 = 14,300,000$

Price per Share = $\$40,000,000 \div 14,300,000 = \2.797
per share

(Rounding to \$2.80 for simplicity)

New Series A Shares = $\$12,000,000 \div \$2.80 = 4,285,714$
shares

(Rounding to 4,286,000 for clean numbers)

Post-Money Fully Diluted: $14,300,000 + 4,286,000 = 18,586,000$ shares

Check: $\$52,000,000 \div 18,586,000 = \$2.797/\text{share} \checkmark$
(approximately)

A Series A — Month 30

\$12M raised · \$40M pre-money · \$52M post-money · ~\$2.80 / share · Series A Preferred · Apex Capital leads

SHAREHOLDER	SHARE CLASS	SHARES HELD	%
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You (CEO / Founder)	Common	5,000,000	
Priya (CTO / Co-Founder)	Common	3,000,000	
Employees (Granted Options)	Common (Options)	1,200,000	
<i>ESOP Pool (Remaining)</i>	<i>Common (future)</i>	<i>2,600,000</i>	
Redwood Ventures	Series Seed Pref.	2,500,000	
Apex Capital	Series A Pref.	4,286,000	
TOTAL		18,586,000	

OWNERSHIP AFTER SERIES A (FULLY DILUTED)

You 26.9% Priya 16.1% ESOP 20.4% Redwood 13.5% Apex 23.1%

You (CEO) Priya (CTO) ESOP Pool + Grants Redwood (Seed)
 Apex Capital (Series A)

26.9%

YOUR STAKE

\$14M

YOUR PAPER VALUE

\$52M

POST-MONEY VAL.

\$2.80

PRICE PER SHARE

Series B: Growth Mode, Higher Stakes

Eighteen months later. NovaSpark has hit **\$9.4M ARR**, with strong net revenue retention of 118%. You have 47 employees. The product is clearly working. You want to pour fuel on the fire — expand sales, build an enterprise tier, enter Europe. You are raising a **Series B of \$35,000,000**.

The lead investor is **Meridian Growth Partners**. Their term sheet comes in at a **\$120,000,000 pre-money valuation**. Again, before closing, they require a refreshed ESOP of 12% post-money. Let us do the math cleanly.

Series B Math

SERIES B — FULL CALCULATION

Pre-money valuation:	\$120,000,000
Investment (Meridian):	\$35,000,000
Post-money valuation:	\$155,000,000

Current fully diluted shares (pre-B):	18,586,000
ESOP remaining pool:	800,000
(employees used 1,800,000 more)	
ESOP refresh target: 12% post-money	

Solving: total post-B shares \approx 25,400,000

ESOP needed: $25,400,000 \times 12\% = 3,048,000$

Currently available: 800,000

New ESOP shares added: 2,248,000

Pre-B shares after ESOP refresh: $18,586,000 + 2,248,000 = 20,834,000$

Price per Share: $\$120,000,000 \div 20,834,000 = \5.76 per share

New Series B shares: $\$35,000,000 \div \$5.76 = 6,076,000$ shares

Post-B fully diluted: $20,834,000 + 6,076,000 = 26,910,000$ shares

Series B – Month 48

B

\$35M raised · \$120M pre-money · \$155M post-money · ~\$5.76 / share · Meridian Growth Partners leads

SHAREHOLDER	SHARE CLASS	SHARES HELD
You (CEO / Founder)	Common	5,000,000
Priya (CTO / Co-Founder)	Common	3,000,000
Employees (All Granted Options)	Common (Options)	3,000,000
<i>ESOP Pool (Remaining)</i>	<i>Common (future)</i>	<i>3,048,000</i>

Redwood Ventures	Series Seed Pref.	2,500,000	
Apex Capital	Series A Pref.	4,286,000	
Meridian Growth Partners	Series B Pref.	6,076,000	
TOTAL		26,910,000	

OWNERSHIP AFTER SERIES B (FULLY DILUTED)

You 18.6% Priya 11.1% ESOP 22.5% Seed 9.3% Series A 15.9% Series B 22.6%

You (CEO) Priya (CTO) ESOP Pool + Grants Redwood (Seed)

Apex (Series A) Meridian (Series B)

CHAPTER 06

The Journey in One View: What Just Happened to You?

Let us step back and look at your entire journey as CEO-founder across these three rounds. This is the most important table in this entire document. Study it carefully.

MILESTONE	YOUR % (FD)	COMPANY VALUE	YOUR PAPER VALUE

Founding Day	50.0%	~\$0	~\$0
After Seed Round	40.0%	\$12,500,000	\$5,000,000
After Series A	26.9%	\$52,000,000	\$13,986,000
After Series B	18.6%	\$155,000,000	\$28,830,000

Read that again. You went from owning 50% of nothing to owning 18.6% of a \$155 million company. Your stake is worth **nearly \$29 million on paper** — and it started as worthless paper. You gave away 31.4 percentage points of ownership. In return, you built something worth \$155 million and raised \$49.5 million to do it. **That is the deal you made. And it was a good deal.**

THE CORE LESSON OF THE CAP TABLE

Dilution is not the enemy. Unnecessary dilution at bad valuations is the enemy. Ignorance of your cap table is the enemy. Every percentage point you give up should buy you something of greater value — capital, talent, credibility, or connections. The founder who protects ownership at the cost of company growth ends up with a large percentage of a small, dying company. The founder who dilutes wisely ends up with a small percentage of a very large, valuable company. You want the latter.



THE SLICE SHRINKS

Your percentage goes down with every round. This is normal. This is expected. This is the deal.

THE PIZZA GROWS

But the whole company gets bigger with each round. A smaller slice of a much bigger pizza is usually worth more.



ALWAYS USE FULLY DILUTED

Never let anyone quote your ownership on an "outstanding only" basis. That hides the truth. Fully diluted is the only honest number.



PRICE PER SHARE TELLS THE STORY

From \$0.001 at founding to \$5.76 at Series B — that multiplier is how investors and employees measure value creation.

COMING IN THIS SERIES

PART 2 — ADVANCED TERMS

Anti-dilution provisions (broad-based weighted average vs. ratchet), pay-to-play clauses, pro rata rights, drag-along and tag-along rights, and Series C / Series D mechanics.

PART 3 — ESOP DEEP DIVE

Option grants, strike prices, 409A valuations, ISO vs. NSO options, cliff and accelerated vesting, and how employee equity actually works at exit.

PART 4 – EXIT MATH

Who gets paid what in an acquisition or IPO. Liquidation waterfalls, participating vs. non-participating preferred, and the dreaded "preference overhang."

CAP TABLE MASTERCLASS · FOUR-PART SERIES

Part 1 of 4: Foundation & Funding Rounds

Authorized Shares · Outstanding Shares · Seed · Series A · Series B ·
Dilution · Preferred Stock