OWNERSHIP AND DILUTION: THE CAP TABLE EXPLAINED

How to read and keep a cap table, and how your ownership changes each time you raise money.

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AT A GLANCE

- A **cap table** (capitalization table) lists everyone who owns part of your company and how much.
- **Dilution** happens when new shares are issued: your **percentage** goes down, even though your number of shares stays the same.
- Dilution isn't bad by itself. Owning a smaller share of a more valuable company can be worth much more.

Why it matters

Founders who don't track ownership can be surprised to find they own much less of their company than they thought, after SAFEs convert, options are granted and new rounds close. Investors will ask for your cap table early, and it must be accurate.

Example: Ana and Diego's seed round

Before the round

Owner	Shares	Ownership
Ana (founder)	5,000,000	62.5%
Diego (founder)	3,000,000	37.5%
Total	**8,000,000**	**100%**

They raise **$500,000** at **$0.20 per share**. Investors ask them to create an **option pool** of 1,000,000 shares for future employees, before the investment.

After the round

Owner	Shares	Ownership
Ana	5,000,000	43.5%
Diego	3,000,000	26.1%
Option pool	1,000,000	8.7%
Seed investors	2,500,000	21.7%
Total	**11,500,000**	**100%**

EXAMPLE

The seed investors bought 2,500,000 shares for $500,000 ($0.20 each). The post-money valuation is 11,500,000 × $0.20 = **$2.3 million**, and the pre-money is **$1.8 million**, which includes the new option pool. Ana's shares didn't change, but her ownership fell from 62.5% to 43.5%. At $0.20 per share, her 5,000,000 shares are worth $1.0 million on paper either way: she owns a smaller slice of a company that now also holds $500,000 in new cash to grow.

KEY POINT

When investors ask for an option pool **before** the investment, the dilution falls on the founders, not the new investors. That effectively lowers your pre-money valuation. Negotiate the pool size based on a real hiring plan.

What a cap table includes

- Common shares owned by founders
- Preferred shares owned by investors
- Options granted and the remaining option pool
- SAFEs and convertible notes not yet converted
- Warrants or other rights to buy shares

Step by step

1. **Start a cap table** the day you form the company, in a spreadsheet or cap table software.
2. **Record every issuance**: shares, options, SAFEs and notes, with dates and terms.
3. **Model each round before you sign**: what will everyone own afterwards?
4. **Model SAFE conversions.** See **R-14 SAFEs and Convertible Notes Explained**.
5. **Keep it matched to your legal documents.** Your lawyer should review it before each round.

Common mistakes

- **No cap table at all.**
- **Forgetting SAFEs and notes** in ownership math.
- **Promising ownership verbally** to advisors or early helpers.

- **An option pool bigger than you need.**

Your checklist

- ☐ Create or update your cap table
- ☐ Add every SAFE, note, option and promise
- ☐ Model ownership after your next round
- ☐ Check it against your legal documents
- ☐ Have your lawyer review before each round

Key words, explained

Word	What it means
Cap table	A list of who owns what in a company.
Dilution	Your ownership percentage shrinking as new shares are issued.
Option pool	Shares set aside to give employees as stock options.
Preferred shares	Shares, usually held by investors, with extra rights.
Fully diluted	Counting all shares, options and convertibles as if issued.

Where to go next

- **R-14 SAFEs and Convertible Notes Explained**
- **R-17 Reading a Term Sheet**
- **B-10 Co-Founder Agreements: Splitting Ownership Fairly**

IMPORTANT
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