BOB GILLESPIE • CAP TABLE EXPERT

10 Cap Table Mistakes Founders Make

An essential checklist to protect your equity and avoid costly errors.

Table of Contents

Mistake #1 No Founder Vesting

Issuing founder shares without vesting is one of the most dangerous mistakes early-stage companies make. If a co-founder leaves early in the company's life but keeps 100% of their equity, it creates massive problems. Investors won't fund companies with "dead equity" sitting on the cap table, and remaining founders are unfairly diluted by someone who's no longer contributing.

How to Fix It:

Implement a standard 4-year vesting schedule with a 1-year cliff for all founders. This means shares vest monthly over 4 years, but only after completing the first year. Use an 83(b) election within 30 days of receiving restricted stock to minimize tax impact. Document everything in a formal vesting agreement.

Mistake #2 Misunderstanding Fully Diluted Ownership

Many founders calculate their ownership percentage by dividing their shares by currently issued shares, ignoring the option pool, outstanding SAFEs, and convertible notes. This leads to nasty surprises during fundraising when they discover their "40%" is actually 28% on a fully diluted basis. Investors always calculate on a fully diluted basis.

How to Fix It:

Always calculate ownership on a fully diluted basis: (your shares) / (all issued shares + reserved option pool + all convertible securities assuming conversion). Use cap table software or work with an expert to maintain an accurate fully diluted cap table. Update it after every financing event, option grant, or SAFE/note issuance.

Mistake #3

Improper SAFE Stacking

Issuing multiple SAFEs with different terms (various caps, discounts, or mixing pre-money and post-money SAFEs) creates a complex conversion scenario that founders don't fully understand until it's too late. When these convert during your Series A, the dilution can be far worse than expected, especially if you have uncapped SAFEs or very low valuation caps.

How to Fix It:

Model every SAFE conversion scenario before issuing. Use consistent terms across your SAFE round when possible. Always include both a valuation cap AND a discount rate (typically 20%) to protect early investors while limiting downside dilution. Work with a cap table expert to run proforma scenarios showing exactly how much dilution each SAFE creates at different Series A valuations.

Mistake #4 Option Pool Dilution Surprise

Investors typically require a 10-20% option pool before money comes in, which means founders (not investors) bear 100% of that dilution. Many founders don't realize this until term sheet negotiations, discovering their expected 20% dilution from the round is actually 35% after the option pool increase. This is especially painful if you already have a partially used option pool.

How to Fix It:

Create a detailed hiring plan for the next 12-18 months and calculate the exact option pool needed. Negotiate option pool size based on your actual hiring plans, not the investor's request. If possible, split pool expansion between pre-money and post-money to share dilution. Consider post-money SAFEs which treat option pools differently than pre-money SAFEs.

Mistake #5

Missing 409A Valuations

Granting stock options without a current 409A valuation exposes your company and employees to serious tax problems. The IRS requires that option strike prices equal fair market value. Without a proper 409A, you risk options being treated as taxable income immediately, massive penalties, and failed fundraising due diligence. Getting a 409A retroactively doesn't fix past grants.

How to Fix It:

Get a 409A valuation before granting any options. Update it every 12 months or after any material event (fundraising, major product launch, significant revenue change). Use a reputable valuation firm - cheap 409As can fail IRS scrutiny. Budget $2,000-5,000 for early-stage valuations. Never grant options without a current 409A in place.

Mistake #6 Verbal Equity Promises

Promising "2% equity" to an early employee or advisor without proper documentation creates legal and financial nightmares. Was that 2% pre-money or post-money? Is it subject to vesting? What happens in a down round? These verbal promises become disputed claims during fundraising or acquisition, killing deals and creating expensive legal battles.

How to Fix It:

Document every equity grant immediately with proper paperwork: stock option agreements for employees, restricted stock agreements for founders, or advisor agreements for consultants. Never promise a percentage - promise a specific number of shares and explain how that translates to current percentage (and how it might change). Use standard FAST agreements for advisors. Update your cap table the same day you make any commitment.

Mistake #7 Confusing Pre-Money vs Post-Money SAFEs

Pre-money and post-money SAFEs seem similar but create dramatically different dilution outcomes. Pre-money SAFEs mean your Series A option pool dilutes the SAFEs (better for you), while post-money SAFEs mean the option pool dilutes you (better for SAFE holders). Mixing both types creates complex conversion math that most founders get wrong.

How to Fix It:

Understand that post-money SAFEs are more founder-friendly for the SAFE round but can create confusion in Series A. Use exclusively one type or the other - don't mix them. Model the conversion carefully with a cap table expert before your priced round. If you have pre-money SAFEs, factor them into your Series A pricing negotiations to ensure you're not giving up more than intended.

Mistake #8 Not Planning for Future Rounds

Founders often focus only on their current financing round without modeling future dilution. After a Series A, B, and C, plus option pool increases, founder ownership can drop from 60% to under 20%. Without proforma modeling, founders reach their Series C and realize they no longer control their company or haven't retained enough equity to stay motivated.

How to Fix It:

Create a proforma cap table modeling 3-4 funding rounds at realistic valuations and dilution amounts (15-25% per round). Understand your likely ownership at exit. Consider your target outcome - if you want to own 15% at a $100M exit, work backwards to ensure you retain enough through each round. Negotiate anti-dilution protection if appropriate. Plan option pool sizes across multiple rounds.

Mistake #9 Messy Cap Table During Fundraising

A cap table with dozens of small angel investors, mismatched paperwork, unclear vesting schedules, or unresolved equity disputes sends massive red flags to institutional investors. They'll spend weeks in due diligence trying to untangle it, often walking away from the deal entirely. Clean cap tables signal professional, organized founders.

How to Fix It:

Consolidate small angel investors through an SPV (Special Purpose Vehicle) in early rounds. Maintain meticulous records: every stock certificate, every option grant, every amendment. Use cap table software (Carta, Pulley, AngelList) from day one. Clean up any discrepancies before starting fundraising - it's 10x easier to fix issues before investor due diligence begins. Have your cap table audited by a professional before each fundraising round.

Mistake #10 **Ignoring Liquidation Preferences**

Liquidation preferences determine who gets paid first (and how much) in an exit. Accepting multiple liquidation preferences (2x, 3x) or participating preferred stock can mean investors get all the proceeds in a modest exit, leaving founders with nothing. A $50M acquisition might net you $0 if your investors have $60M in liquidation preferences.

How to Fix It:

Only accept 1x non-participating preferred stock in normal market conditions. Understand participating preferred means investors get their money back PLUS their pro-rata share of remaining proceeds. Model liquidation waterfalls for different exit scenarios ($20M, $50M, $100M) to see where the break-even points are. Push back hard on anything above 1x preference or participation rights - these terms dramatically change your economics.