

Capitalisation Table

A record of ownership that shows the founders' and investors' percentage of ownership, any reserved shares, equity dilution and the value of equity in each round of investment to date.

Purpose

The cap table will help you decide about how much of your ownership percentage you are willing to reduce as you sell new shares to new shareholders.

Note: It is okay to be diluted by new investors because if they invest at a higher valuation in the next round, the price per share will increase despite the reduction of the ownership percentage of current investors.

Important Component

The number of shares allocated for employees should be sufficient to avoid undesirable dilution later on. The current rule of thumb is 20% allocation to the employee option pool.

However, the market knows Unicorns (with valuations above \$1billion) with option pools as little as 10% and as large as 30%.

Key Terms - Classifications of Shares

Authorized

Maximum amount of shares that a company can ever issue.

Unissued

Shares that are authorised but not yet issued to anybody.

Reserved but unissued

Shares which are not yet issued but are set aside for certain purposes, such as options for employees ('option pool'), or issued convertible securities for angel investors.

Treasury shares

Issued shares that belong to the company itself.

Issued and outstanding

Shares issued to shareholders.

