The cap table, or capitalization table, is one of the most important pieces of paper your company owns.

Clint: Walk us through a cap table. What are the key components and why is this so important?

Jason: The cap table is massively important because it's the ledger of who owns the company. If you sell the company, this determines who gets paid what. If you are trying to figure out who can vote and how much power they have, this is how much of the company they have and these are the amounts of votes they have.

It's key to know who holds your company. For one, it's just good to know because if you need a vote from someone, you may decide, "Oh, I can go to these three people. I don't need to go to 12 people to get the vote I need." It's also extremely important because no venture capitalist will invest in the company unless they know who the other shareholders are. Maybe there is someone we've done business before and we don't want to.

Also, we need to be exactly sure what we are going to buy. If I give you three or four million dollars, I need to know that I am getting "X"% of the company. The only way to know is if you keep a good cap table.

Now the good news is that it is relatively easy to keep. The other good news is that your lawyer should be paying attention to this too. The lawyers will actually issue me what is called an appendion which is basically an insurance certificate that says, "Yes, Jason. This cap table is correct."

So it's very important that your lawyers are getting all copies of option grants. Any time you give a warrant out, any time you do these activities, make sure your lawyer is in the loop so that we know who owns what of the company.

Clint: How often do you find that entrepreneurs screw up the cap table?

Jason: Only about all the time. There have been a couple of cases where they haven't screwed it up. In the early stage, it's easy, right? It says, "Mom and dad own 10%, I own 50%, Jill owns 'blah' and Jack owns 'blah'."

But then it gets a little more complicated. You deal with a debt provider who says, "Well, I'd like a warrant for a couple percentage." Then you do a commercial deal and they want something. Then you have an angel investor come in and then you do a convertible note.

You have all these things and suddenly it gets a little more complicated than you want to pay attention too. It's not particularly interesting, although it's very important. So there are a lot of screw-ups but most of the time, you can fix things up and figure out what exactly happened in hindsight.

Student: What happens if there is someone on your cap table that you don't want there? Is there any recourse for getting them off the cap table so that you will invest?

Jason: Well, the easiest recourse is to offer to buy their shares. Say, "Dane is on my cap table. I don't want Dane on my cap table. Foundry doesn't want Dane on the cap table," and maybe you arrange a way to buy Dane's shares. That's the normal way.

There are evil ways which is that you talk to me and say, "Jason, I'd like you to do a massively diluted financing." In other words, you'll give me $100,000 and buy 99% of the company. It will effectively dilute Dane out of the company but that dilutes all shareholders as well.

But if you and Dane start a company and you both own 50% and you want Dane out of the company, potentially you could do a deal with someone who would wash him out and then we would re-grant you your options. Of course, there will be some lawyers involved in this. This is not a zero-sum game or an easy game to play but I've seen it done a few times before.

Student: Why isn't there a standardized cap table out there? Why does everybody do their own thing?

Jason: Because lawyers like to bill, and therefore they would like to have their own special unique way of punishing their clients. I really don't know. There should be, but there just hasn't been. Everyone has their own way that they like to be tortured by Microsoft Excel, apparently.