Cap Table

Convertible Notes

A

Share Price = ($6M - $1M)/1M = $5/share
shares = $1M/$5 = 200,000
Total shares = 200,000 + 1M = 1,200,000
Accelerator's shares = 83%

If discount is added,
Share Price = 0.8 x $5/share = $4/share
shares = $1M/$4 = 250,000
Total shares = 250,000 + 1M = 1,250,000
Accelerator's shares = 80%

B

Share Price = $11M/1M = $11/share
shares = $11M/$11 = 1,000,000
Total shares = 1M + 1M = 2M
Accelerator's shares = 50%

If discount is added,
Share Price = 0.8 x $11/share = $8.8/share
shares = $11M/$8.8 = 1,250,000
Total shares = 1M + 1.25M = 2.25M
Accelerator's shares = 44%

C

shares after investment = (100,000/$11 x 0.8) = 11,363 → bad time to convert accelerator's notes
shares as per VC = (100,000/$5) = 20,000 → good time to convert the accelerator's notes

Cap Tables

C

1. Founder 1:	$ 213,333
2. Founder 2:	$ 142,222
3. Accelerator Investor:	$ 444,444
4. Series A Investor:	$ 2,000,000

D

1. Founder 1:	$ 533,333
2. Founder 2:	$ 355,555
3. Accelerator Investor:	$ 1,111,111
4. Series A Investor:	$ 500,000

A Tough Decision

The management should negotiate the offer and try to reduce the crazy employee's stake in exchange for other things e.g. insoluble assets etc. Finally, the investors may not be able to earn back their original investment if the deal goes through.