

Cap Table Mastery: What Founders Get Wrong About SAFEs, Notes, and Dilution

Startup Fundamentals | March 2026

Most founders I work with understand their cap table at a surface level. They know how many shares they own. They know roughly what percentage that represents. But the moment SAFEs start stacking or a Series A term sheet hits their inbox, the real complexity shows up. And by then, it is often too late to fix the decisions that created the problem.

SAFEs Changed the Game. Most Founders Have Not Caught Up.

Post-money SAFEs have become the standard seed financing instrument. They are fast, cheap, and founder-friendly on the surface. But there is a critical difference between a post-money SAFE and its pre-money predecessor that most founders miss: with a post-money SAFE, the investor's ownership percentage is locked in at the cap. All future dilution hits the founders, not the SAFE holders.

That means if you raise three separate SAFE rounds at different caps, the dilution from each one stacks on top of the others. By the time a Series A investor runs your fully diluted cap table, your ownership may be significantly lower than you expected. I have seen founders walk into Series A conversations thinking they own 70% of their company only to discover the real number is closer to 45%.

The Conversion Math That Catches Founders Off Guard

Here is where it gets tricky. SAFEs do not appear on your cap table as equity until they convert, which typically happens at your first priced round. Until that moment, they sit in a gray area. You know they exist, but their exact impact depends on the valuation at conversion.

The problem is that most founders are not modeling conversion scenarios. They raise a SAFE at a \$10M cap, then another at a \$12M cap, maybe a third with a discount instead of a cap. Each instrument converts differently. The math interacts in ways that are not intuitive, especially when you add an option pool increase that the Series A investors will almost certainly require.

The option pool shuffle is one of the most commonly misunderstood dynamics in venture financing. VCs typically ask founders to expand the employee option pool before the Series A closes, and that expansion comes out of the pre-money valuation. Translation: it dilutes the founders and existing investors, not the new Series A investors. If you are not modeling this in advance, you are negotiating blind.

Convertible Notes Add Another Layer

Some founders have both SAFEs and convertible notes on their cap table. Notes carry interest that accrues over time, and that accrued interest converts into additional shares at the priced round. It is not a huge amount in most cases, but it adds complexity to the conversion waterfall. And if you have notes from one round and SAFEs from another with different terms, the interaction between them requires careful modeling.

I have seen deals where the conversion math took weeks to finalize because nobody had modeled the interaction between multiple instruments with different caps, discounts, and conversion mechanics. That kind of delay costs you leverage and can spook investors.

What You Should Do About It

First, build a conversion model before you raise, not after. Know what your cap table looks like under different Series A valuation scenarios. If you are using Carta or Pulley, run the conversion modeling tools. If you are on a spreadsheet, have your attorney or a financial advisor build out the scenarios.

Second, keep your SAFE terms as uniform as possible. Every time you introduce a new cap or new terms, you add complexity. Complexity creates confusion, and confusion creates leverage for the other side of the negotiating table.

Third, do a cap table audit before you start fundraising. Not during. Before. Make sure every SAFE is accounted for, every convertible note is tracked with its interest accrual, and your option pool is sized appropriately for your hiring plan.

Your cap table tells the story of your company's ownership. If that story is messy or unclear, it raises questions about everything else. Get it right early, and the rest of the fundraising process gets a lot smoother.

About This Piece

This article is adapted from "[Cap Table Mastery - SAFEs, Notes and Planning for Dilution](#)", originally published on [klehr.com](#). It has been updated and rewritten for this site to reflect my current thinking.

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