Basswood Counsel

The Investor-Ready Playbook:

Cap Tables, Data Rooms & the Mistakes That Kill Deals

A strategic guide for founders moving from Angels & Grants to institutional capital

Vision | Foundation | Capital | Deal Killers | Takeaways

Meet The Team

Meg Charles

Meg, a seasoned attorney and strategist, guides tech and telecom companies through legal complexities, leveraging expertise and entrepreneurial spirit to drive innovation and growth in a dynamic landscape.

Gina Lee

Gina Lee is your trusted guide for U.S. tax law, corporate compliance, and estate planning, providing personalized, strategic counsel to help achieve your financial and personal goals with confidence.

Chris Klug

Chris is a trusted attorney with extensive experience in taxation, corporate planning, mergers and acquisitions, and estate planning. He guides clients through complex tax matters to deliver practical solutions.

The Vision

You are building something that matters. The world needs your company to exist.
But the world won't fund a great idea wrapped in weak infrastructure.

Investment readiness is not a pitch — it's a system. Today we build yours.

The Journey

Every section today maps to a stage of building a fundable, durable company.

ACT I	ACT II-A	ACT II-B	ACT II-C	ACT III
The Vision	**Foundation**	**Capital**	**Deal Killers**	**Takeaways**
Build something that matters — then protect it	Legal infrastructure that earns investor trust	Right tools, right stage, right terms	Name the dragons before they find you	5 Actions this week · 3 Things for Series A/B
Vision	**Foundation**	**Capital Strategy**	**Deal Killers**	**Takeaways**

LEGAL & STRUCTURAL FOUNDATION

Build the Infrastructure Before You Raise

Entity structure, IP assignment, cap table hygiene, and the data room — not legal formalities. The conditions investors require to write a check.

LLC or Corp? This Decision Shapes Everything

⚡ SAFEs Require a C Corp

Most SAFEs are structured for C Corps. Issue as an LLC and you're creating a structural mess investors will have to unwind — or won't.

S Corp = VC dealbreaker

S Corp prohibits preferred stock — exactly how VCs invest. S Corp + institutional investor = incompatible. Full stop.

C Corp unlocks QSBS

Section 1202: founders and early investors exclude up to $15M in capital gains from federal taxes. C Corp only. A real angel incentive.

↗ CONTRARIAN — Don't rush LLC-to-C Corp if funding exclusively via grants. An LLC can serve early founders longer than most advisors admit.

The Paperwork That Kills Deals Before You Even Pitch

IP Assignment	Every founder, co-founder, contractor, and employee must sign an IP Assignment. IP living with a person — not the company — is an immediate deal killer.
Founder Vesting	4-year vest, 1-year cliff is standard. A co-founder who leaves at month 11 with no vesting agreement takes a large equity stake — and you have no recourse.
409A Valuation	IRS-required before issuing employee stock options. Without it, employees face a 20% penalty tax. You may be liable. Cost: $1,500–$5,000. Penalty: catastrophic.
Form D Filing	Required SEC notice filing for private capital raises (SAFEs, convertible notes, preferred or common equity). Must be filed within 15 days of the first sale. Failure to file can jeopardize future fundraising under securities exemptions.

↗ CONTRARIAN — Priority: IP assignment and vesting first. Over-lawyering at pre-seed burns capital. The rest can follow.

Your Cap Table and Pitch Deck Must Tell One Story

Investors read both simultaneously. Any mismatch is a red flag.

Cap Table Non-Negotiables

- ✓ All SAFEs and convertible notes must appear
- ✓ Every equity holder needs a signed vesting schedule
- ✓ Advisor equity: max 0.1–0.5% with 2-year monthly vest
- ✓ Option pool: 10–20% before investors ask
- ✓ Use Carta, Pulley, or Capshare — not Excel

Data Room: Build Before They Ask

- ✓ Formation docs, bylaws, all board consents
- ✓ IP Assignment Agreements — everyone who touched the product
- ✓ 12–24 months P&L + projections
- ✓ All prior funding docs (SAFEs, notes, side letters)
- ✓ Sector compliance docs (HIPAA BAA, KYC, etc.)

↗ CONTRARIAN — Investors at pre-seed aren't expecting perfection. Five clean folders beat fifty messy documents.

Common vs. Preferred: Sharing Economics While Keeping Control

Common Stock

Issued to founders and employees. Carries voting rights. Last to receive proceeds in a liquidation. Price is set by the 409A valuation — far lower than preferred.

Preferred Stock

Issued to investors (angels, VCs). Carries economic preferences: liquidation preference, anti-dilution rights, sometimes dividends. May carry limited voting on major events.

Preserving Founder Control

Dual-Class Structure:
Class A (1 vote/share) for investors · Class B (10 votes/share) for founders. Allows investor capital without ceding board or vote control. Used by Google, Meta, Lyft.

Weighted Voting:
Founders retain super-voting shares that preserve decision authority even as equity dilutes through multiple rounds.

Board Seat Structure:
Negotiate board composition carefully. Common structure: 2 founder seats · 1–2 investor seats · 1 independent. Avoid giving investors a majority board before Series B.

When to consider this:
Dual-class is hardest to introduce late. If founder control matters long-term, structure it at incorporation — not when a term sheet arrives. Most relevant at Series A+.

↗ CONTRARIAN — Most early-stage founders give away voting control before they understand what they're giving up. Preferred stock economics ≠ preferred stock votes — negotiate each separately.

Legal & Structural Foundation

01	**Convert to C Corp**	before SAFEs, VC investment, or granting stock options
02	**Paper every IP relationship**	founders, contractors, employees — missing one is a time bomb
03	**Build the data room now**	the ask is not the time to start organizing
04	**Cap advisor equity at 0.1–0.5%**	with vesting and defined deliverables — always
05	**Structure share classes intentionally**	common vs. preferred, voting rights, dual-class if control matters long-term

↗ A great data room cannot save a bad business. Investors fund traction, then verify the documents. Don't let paperwork perfection delay finding customers.

Choose: Right Capital at the Right Stage and Pitch to the Right Investor

Not all capital is equal. Every equity dollar given up early is a dollar you can't give employees, co-investors, or an acquirer later. Choose deliberately.

NON-DILUTIVE CAPITAL

The Most Underleveraged Tool in the Room

Non-Dilutive Capital = funding with zero equity given up. You keep 100% ownership.

SBIR / STTR

Up to $2M in federal R&D grants. No equity. Peer-reviewed validation — investors treat SBIR awards as third-party proof of concept.

NYCEDC & Empire State Dev

NYC Accelerate, Life Sciences NYC, NYSERDA, StartupNY. This Fellowship is non-dilutive in-kind support worth real dollars.

Corporate Pilots

A paying enterprise customer is the purest non-dilutive capital. Revenue funds development, validates the market, de-risks your raise.

University Partnerships

Tech transfer offices, NSF I-Corps (up to $50K), joint R&D. Negotiate IP/royalty terms carefully — some create cap table complications.

↗ CONTRARIAN — SBIR awards signal federal peer review. Savvy angels look for SBIR history — scientists, not just salespeople, validated the technology.

The Capital Stack: Right Tool, Right Stage

Bootstrapping	Zero dilution. Max ownership. Signals conviction. Use it as long as you can.	**0%**
Non-Dilutive	Grants, SBIR, pilots. Zero equity. Validates your tech before you set your valuation.	**0%**
Angels + SAFEs	SAFE: no interest, no maturity, converts at next round. Standard pre-seed instrument.	**Deferred**
Convertible Notes	Loan that converts. Has interest + maturity date. SAFEs have largely replaced these.	**Deferred**
Priced Round	Seed / Series A. Shares at set price.	**20–35%**

↗ CONTRARIAN — The question is never 'how much can I raise?' It's 'what's the minimum to hit the milestone that justifies my next raise at 3x the valuation?'

CAP TABLE STRATEGY

Your Cap Table Is a Roadmap. Make Sure It Goes Where Your Pitch Says It Does

0.1–0.5%

MAX ADVISOR EQUITY

With 2-year monthly vesting and defined deliverables. Early advisors given 1–2% with no vesting become a persistent red flag impossible to unwind.

10–20%

OPTION POOL BEFORE RAISE

If investors create the option pool after they invest, they use your shares — not theirs. Build it first. It's actually cheaper for founders.

1 story

CAP TABLE + PITCH DECK

If your deck says you need $2M and your cap table shows SAFEs already at 80% of that valuation cap — an investor notices before you finish the slide.

↗ CONTRARIAN — Pro rata rights sound like an investor perk — but too many holders with pro rata can crowd out new lead investors, making future rounds harder to close.

Fundraising Mechanics & Capital Strategy

01	**Exhaust non-dilutive capital first**	SBIR, NYCEDC, corporate pilots — zero equity given up
02	**SAFE is the standard pre-seed instrument**	No interest, no maturity date, no negotiating ownership today
03	**Build the option pool before you raise**	Or investors create it from your shares, not theirs
04	**Advisor equity: 0.1–0.5% max**	With vesting and defined deliverables — always

↗ Raising money is not the goal. Building a company is. Every equity dollar raised is a constraint on your future — hire slower, spend sharper, protect ownership longer.

DEAL KILLERS & INVESTOR DILIGENCE

Most Deals Don't Die in the Pitch Room

They die in due diligence — not because the business was bad, but because the paperwork told a different story than the pitch.

The 5 Deal Killers — All Fixable. None Forgivable If You Knew.

01	**Poor Documentation**	Missing founder agreements, IP assignments, contractor docs. If you can't organize documents, investors assume you can't run a company.
02	**Cap Table Gaps**	Undocumented SAFEs, missing vesting, undefined advisor equity. The cap table must be clean, current, and match what you've told investors.
03	**Governance Failures**	No board minutes, unauthorized equity actions, wrong board composition. Signals the company hasn't been run professionally.
04	**Regulatory Gaps**	Operating in Health, FinTech, or EdTech without required compliance (HIPAA BAA, KYC/AML, COPPA). Sector-specific and non-negotiable.
05	**Entity & Tax Misalignment**	SAFEs issued as an LLC. Missing the 83(b) election (30-day window, no exceptions). Unclaimed R&D tax credits.

↗ CONTRARIAN — Deal killers found by the right investors lead to a pause, not a pass. Proactive disclosure before diligence is far less damaging than discovery during it.

Deal Killers at a Glance — Categorized by Fix Complexity

Documentation	Cap Table	Governance	Regulatory	Tax & Entity
HIGH **No founder agreement** → Sign before launch	HIGH **Undocumented SAFEs** → Add to cap table immediately	HIGH **Unauthorized equity actions** → Retroactive board consent required	HIGH **No HIPAA BAAs (HealthTech)** → Before any PHI is touched	HIGH **SAFE issued as LLC** → Convert to C Corp first
HIGH **IP not assigned to company** → Paper at incorporation	HIGH **No vesting schedules** → Paper now — retroactive is messy but possible	SOON **No D&O insurance** → Add when first outside board member joins	HIGH **No KYC/AML (FinTech)** → Before product launch	HIGH **No 83(b) election filed** → 30-day window only — file immediately
HIGH **No contractor IP/NDA** → Before any work begins	SOON **Advisor equity >0.5%** → Negotiate down or add vesting cliff	SOON **Wrong board composition** → Plan composition before Series A term sheet	SOON **No data privacy policy** → Standard template available — implement now	SOON **QSBS not tracked** → Retroactively verify eligibility with CPA
SOON **No board minutes** → Retroactively document + maintain going forward	SOON **Cap table in Excel** → Migrate to Carta / Pulley	SOON **Missing written consents** → Document every major decision going forward	SOON **Missing sector licenses** → Varies — start the process immediately	OPT **R&D credits unclaimed** → File amended returns up to 3 years back

● HIGH = Fix immediately (pre-raise) ● SOON = Fix before Series A ● OPT = Optimize anytime

TAX STRATEGY

The Tax Moves That Separate Prepared Founders From Everyone Else

⚡ 30-DAY HARD DEADLINE

83(b) Election

File with the IRS within 30 days of receiving **restricted stock**. Locks in your tax basis when shares are nearly worthless. Miss the window: owe taxes on full vested value. Potentially hundreds of thousands. No extensions. No exceptions.

💡 UP TO $15M TAX FREE

QSBS / Section 1202

C Corp shares held 5+ years qualify for up to $15M (or 10x cost basis) federal capital gains exemption. A real angel incentive. Lead with it in angel conversations — most don't know you qualify.

💰 OFTEN UNCLAIMED

R&D Tax Credits

Federal credit (20% of qualified R&D)and NY State credit available even pre-revenue. AI, HealthTech, Energy, EdTech founders almost certainly qualify. Most never claim it. Find a startup-specialist CPA.

↗ CONTRARIAN — QSBS is the most underused founder asset. Most angels don't ask — and most founders don't offer it. Leading with QSBS eligibility is a concrete, legal fundraising edge.

Deal Killers & Investor Diligence

01	**5 deal killers. All fixable.**	None acceptable to discover in diligence for the first time
02	**Paper everything — today**	Verbal commitments have no legal existence in a diligence review
03	**83(b) election: 30 days**	File immediately upon receiving restricted stock. No extensions.
04	**Lead with QSBS**	A legal angel investor incentive — use it in every angel conversation

↗ Diligence is not adversarial. Investors who find deal killers and still want to close believe in you. Use that moment to negotiate from confidence, not panic.

Your Action List

Not theory — specific, executable steps you can take this week, and the strategic questions that will determine whether you're fundable at Series A and B.

TAKEAWAYS

5 Things to Do This Week

#1 Audit Your Cap Table

- All SAFEs & notes documented in your cap table?
- Every equity holder has a signed vesting schedule?
- Advisor equity under 0.5% with defined vesting?
- Cap table on Carta, Pulley, or Capshare — not Excel?

#2 Build or Update Your Data Room

- Formation docs + all IP Assignments on file?
- 12 months of financials + projections ready to share?
- Sector compliance docs in place (HIPAA, KYC, etc.)?
- Could you share this room with an investor today?

5 Things to Do This Week

#3 Schedule a 30-Min Legal Review

- Last legal review >12 months ago? Book one now.
- 83(b) elections on file for all restricted stockholders?
- Entity structure right for your next raise stage?
- Employment & contractor agreements all current?

#4 Fix Your #1 Deal Killer

- Use the deal killers chart to identify your biggest gap.
- Pick the highest-urgency ● item on your list.
- Assign it an owner and a deadline — this week.
- Pre-disclose it to your next investor conversation.

#5 Apply for One Non-Dilutive Source

- Search sbir.gov for open solicitations in your sector.
- Check NYCEDC.com/programs for current open applications.
- Identify one corporate pilot prospect to approach.
- NSF I-Corps application if university-affiliated.

3 Things to Think About

Questions that will determine whether you're fundable at Series A and

01

OWNERSHIP & STRUCTURE

Does your ownership structure support the round you need?

Series A investors will model your cap table forward through Series B and Series C. If the fully diluted math shows founders below 20% post-Series A, many institutional investors see a motivation problem.

Think about: What is your target founder ownership at exit? Work backward from that number. Every SAFE, every option grant, every advisor share affects that trajectory. Model it now, while you can still control the inputs.

02

LEGAL GOVERNANCE

Can your legal and compliance infrastructure scale with the business?

Series A due diligence is deeper than seed. Series B investors often bring in outside counsel who will review every contract, every board action, and every regulatory filing.

Think about: Are your employment agreements, IP assignments, and governance processes built for a 20-person company or a 5-person company? The cost of retrofitting compliance at Series B is 10x the cost of building it right at Series A.

03

TRACTION & STORY

Is your revenue and traction story investable at institutional scale?

Series A investors are buying the right to participate in your Series B. Series B investors need a narrative that supports a $100M+ outcome. Both are asking: Is this company building durable, defensible value?

Think about: Are you accumulating proprietary data, switching costs, or network effects that make your position harder to replicate over time? Capital-efficient growth with clear unit economics is the signal institutional investors need to justify the multiple.

The Core Principles

Legal Foundation	Capital Strategy	Deal Killers
Convert to C Corp before SAFEs or VC	Exhaust non-dilutive sources first	All 5 are fixable — fix them now
Paper all IP — structure share classes early	SAFE is the standard pre-seed instrument	83(b) election: 30-day window, no exceptions
Build the data room before anyone asks	Advisor equity: 0.1–0.5% max with vesting	Lead with QSBS in every angel conversation

Q & A

Live Questions · 10 Minutes

Let’s Talk

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Is your company investor-ready?

Schedule your complimentary 20-minute legal audit* to assess your company's legal and fundraising readiness.

*Only 4 spots available.

You are not just building a company.

You are building a solution the world needs.

The foundation you build today determines whether your vision survives contact with institutional capital —and whether your company lasts long enough to make the impact you came here to create.

Go build it on a foundation that lasts.

Let's Talk
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