Venture Capital · Structured Equity

Down Rounds with Dignity: Structure Mathematics for Founders

A founder-side framework for comparing a clean repricing with preferences, pay-to-play, recapitalisation and structured flat-round alternatives

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ABSTRACT

This paper addresses which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. It converts the question into an evidence-led decision system covering economics, structure, timing, control and downside funding. The analysis uses current primary and authoritative sources, supported by transaction-specific documents and clearly identified hypothetical modelling assumptions. The recommended process links fully diluted cap table, charter rights, liquidation waterfall, option plan to effective price, fully diluted ownership, liquidation proceeds, participation. It also assigns preparation, challenge and approval across the relevant parties. Scenario outputs illustrate method only. Actual terms, values, timing, legal effect, tax treatment and investment outcomes require current evidence and qualified professional review.

Keywords

Venture Capital · Structured Equity, effective price, fully diluted ownership, liquidation proceeds, participation, runway, clean down round, structured flat round, senior preference

1. Executive thesis

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links fully diluted cap table, the proposal milestone and the effective price measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Preference Overhang is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the clean down round route against at least the moderate repricing case and record the sensitivity of effective price. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

The control response assigns preparation, challenge and approval to different people across founders, new investors, existing investors. Open items remain in an exception register with a deadline and consequence. A financing or investment recommendation is released after the relevant evidence is complete, the downside case is funded, and the legal, regulatory, tax, accounting and technical questions have been reviewed by qualified advisers where applicable.

- Evidence focus: fully diluted cap table.
- Evidence focus: charter rights.
- Evidence focus: liquidation waterfall.

2. The decision perimeter

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links charter rights, the cap-table model milestone and the fully diluted ownership measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Anti-Dilution is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the structured flat round route against at least the deep repricing case and record the sensitivity of fully diluted ownership. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

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- Evidence focus: charter rights.
- Evidence focus: liquidation waterfall.
- Evidence focus: option plan.

3. Assumptions and scenario limits

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links liquidation waterfall, the conflict review milestone and the liquidation proceeds measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Employee Dilution is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the senior preference route against at least the structured headline-flat case and record the sensitivity of liquidation proceeds. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

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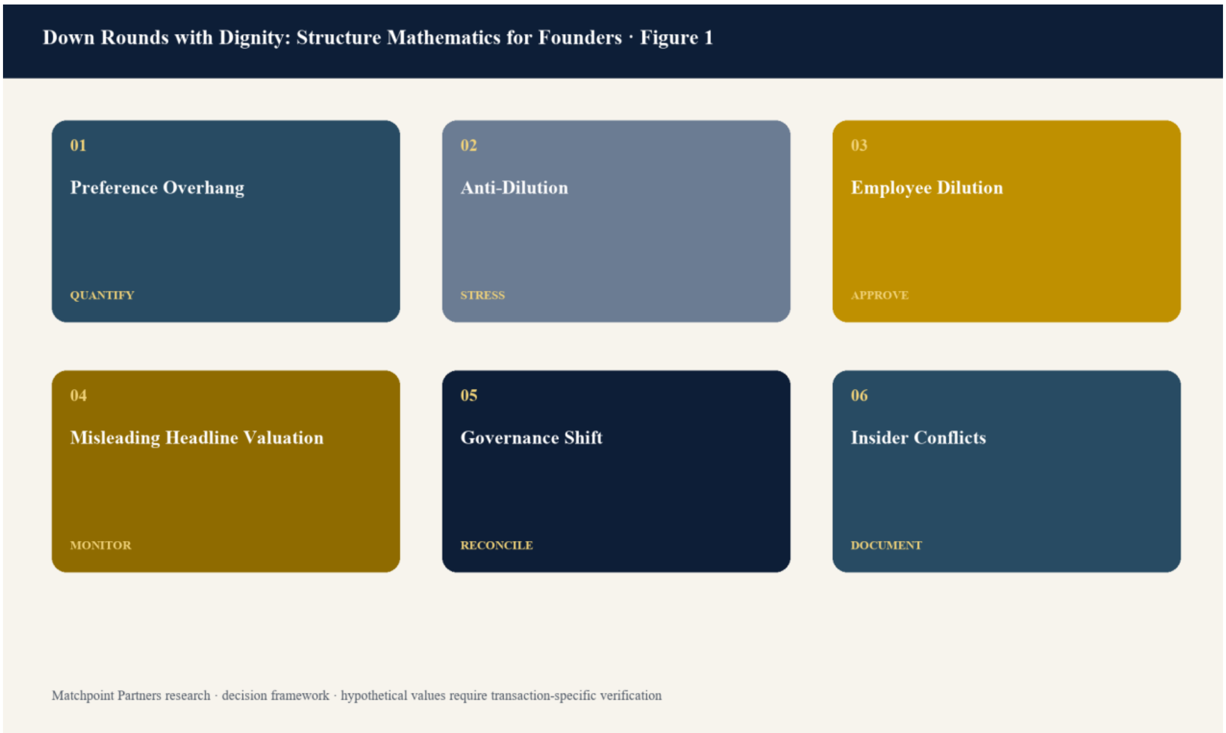

Figure 1. Structured decision view; categories are topic-specific and values require current transaction evidence.

4. Parties, authority and conflicts

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links option plan, the board approval milestone and the participation measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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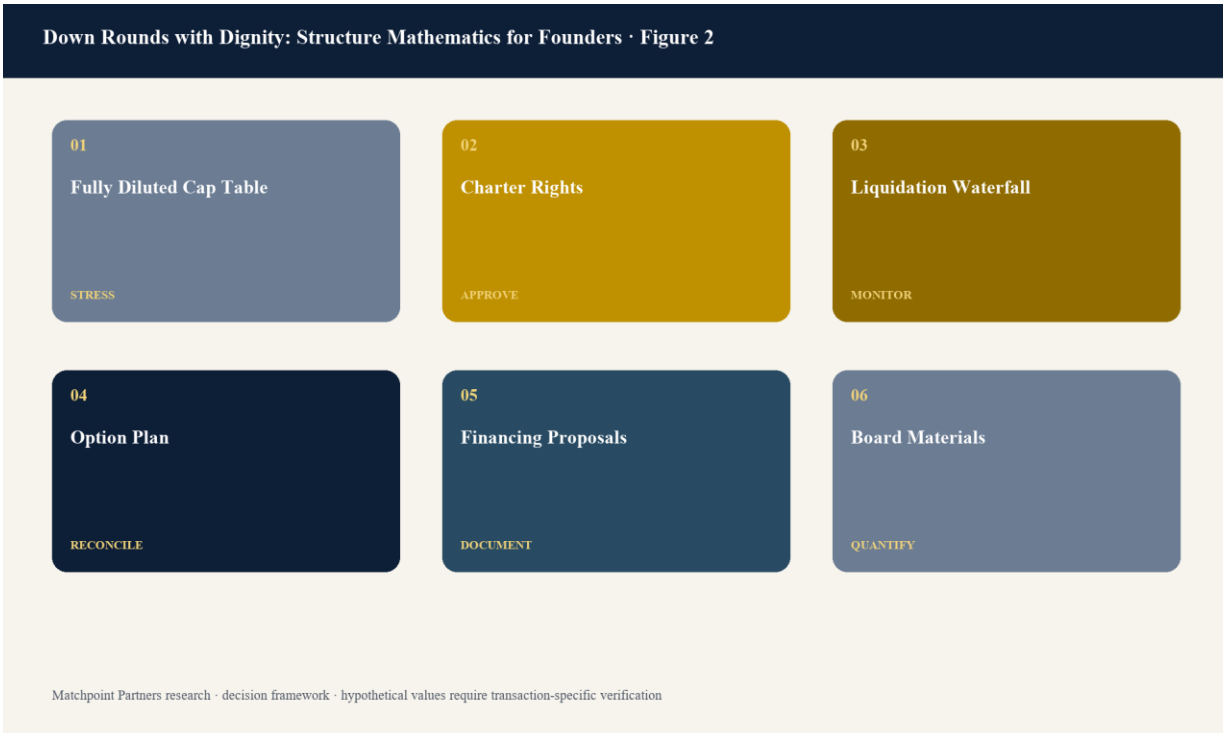

Figure 2. Structured decision view; categories are topic-specific and values require current transaction evidence.

5. Economics and value transfer

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links financing proposals, the stockholder consent milestone and the runway measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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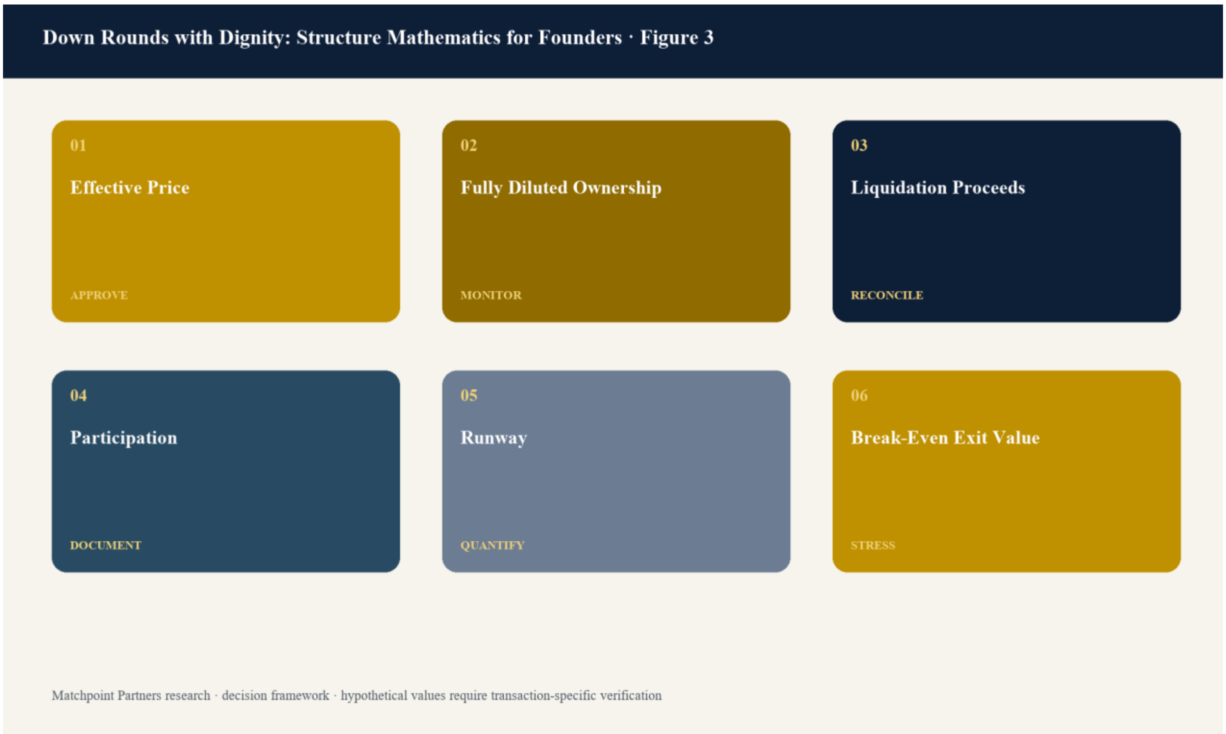

Figure 3. Structured decision view; categories are topic-specific and values require current transaction evidence.

6. Structure comparison

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links board materials, the closing milestone and the break-even exit value measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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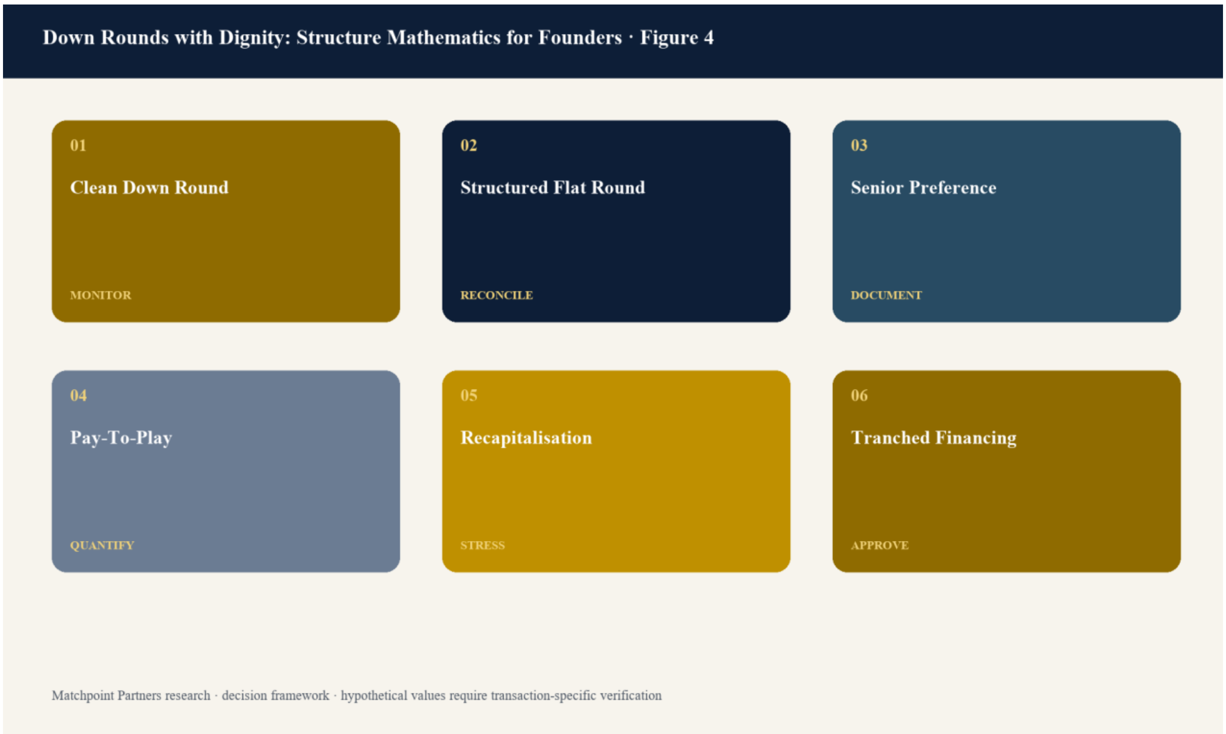

Figure 4. Structured decision view; categories are topic-specific and values require current transaction evidence.

7. Risk map and control response

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links cash forecast, the proposal milestone and the employee refresh measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: cash forecast.
- Evidence focus: conflict record.
- Evidence focus: fully diluted cap table.

8. Risk focus: Preference Overhang

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links fully diluted cap table, the conflict review milestone and the effective price measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: fully diluted cap table.
- Evidence focus: charter rights.
- Evidence focus: liquidation waterfall.

9. Risk focus: Anti-Dilution

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links charter rights, the board approval milestone and the fully diluted ownership measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: charter rights.
- Evidence focus: liquidation waterfall.
- Evidence focus: option plan.

10. Risk focus: Employee Dilution

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links liquidation waterfall, the stockholder consent milestone and the liquidation proceeds measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: liquidation waterfall.
- Evidence focus: option plan.
- Evidence focus: financing proposals.

11. Risk focus: Misleading Headline Valuation

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links option plan, the closing milestone and the participation measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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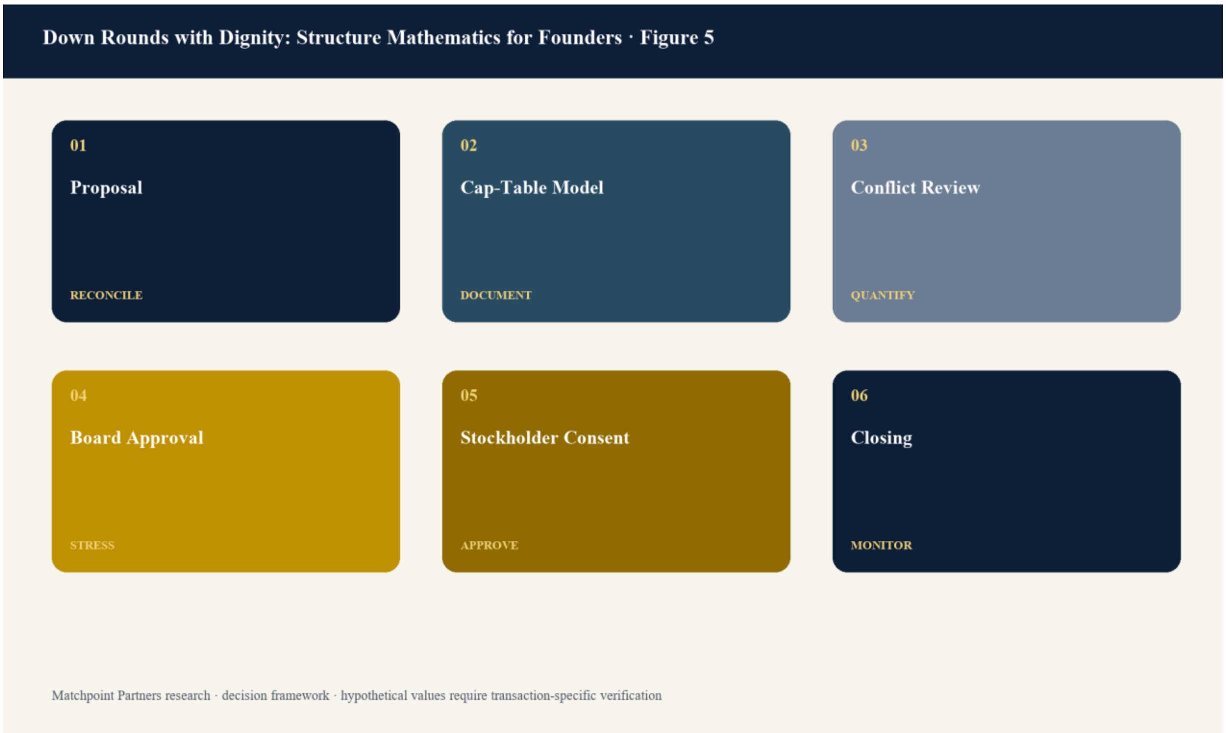

Figure 5. Structured decision view; categories are topic-specific and values require current transaction evidence.

12. Risk focus: Governance Shift

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links financing proposals, the proposal milestone and the runway measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: financing proposals.
- Evidence focus: board materials.
- Evidence focus: cash forecast.

13. Risk focus: Insider Conflicts

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- Evidence focus: board materials.
- Evidence focus: cash forecast.
- Evidence focus: conflict record.

14. Risk focus: Future-Round Blockage

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links cash forecast, the conflict review milestone and the employee refresh measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: cash forecast.
- Evidence focus: conflict record.
- Evidence focus: fully diluted cap table.

15. Risk focus: Insufficient Runway

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links conflict record, the board approval milestone and the next-round threshold measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: conflict record.
- Evidence focus: fully diluted cap table.
- Evidence focus: charter rights.

16. Evidence focus: Fully Diluted Cap Table

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links fully diluted cap table, the stockholder consent milestone and the effective price measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: fully diluted cap table.
- Evidence focus: charter rights.
- Evidence focus: liquidation waterfall.

17. Evidence focus: Charter Rights

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links charter rights, the closing milestone and the fully diluted ownership measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: charter rights.
- Evidence focus: liquidation waterfall.
- Evidence focus: option plan.

18. Evidence focus: Liquidation Waterfall

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- Evidence focus: liquidation waterfall.
- Evidence focus: option plan.
- Evidence focus: financing proposals.

19. Evidence focus: Option Plan

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links option plan, the cap-table model milestone and the participation measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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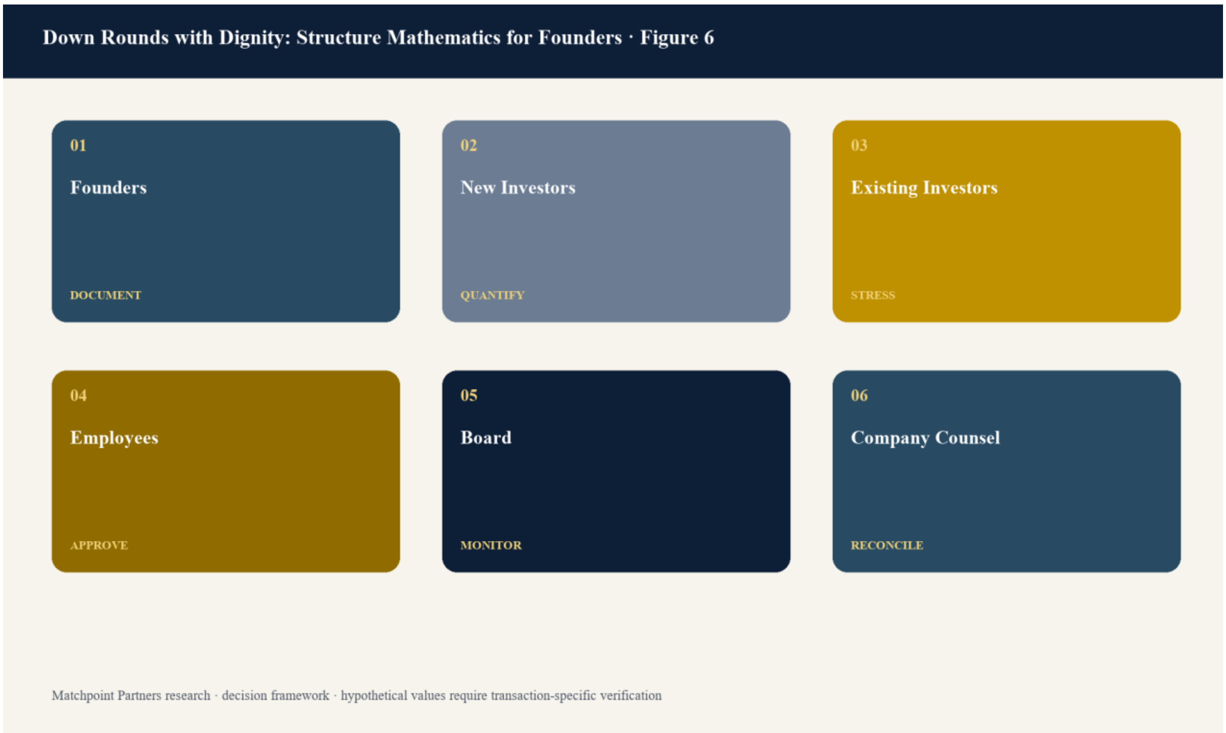

Figure 6. Structured decision view; categories are topic-specific and values require current transaction evidence.

20. Evidence focus: Financing Proposals

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links financing proposals, the conflict review milestone and the runway measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: financing proposals.
- Evidence focus: board materials.
- Evidence focus: cash forecast.

21. Evidence focus: Board Materials

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links board materials, the board approval milestone and the break-even exit value measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: board materials.
- Evidence focus: cash forecast.
- Evidence focus: conflict record.

22. Evidence focus: Cash Forecast

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- Evidence focus: cash forecast.
- Evidence focus: conflict record.
- Evidence focus: fully diluted cap table.

23. Evidence focus: Conflict Record

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links conflict record, the closing milestone and the next-round threshold measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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- Evidence focus: conflict record.
- Evidence focus: fully diluted cap table.
- Evidence focus: charter rights.

24. Contract and term-sheet controls

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links fully diluted cap table, the proposal milestone and the effective price measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

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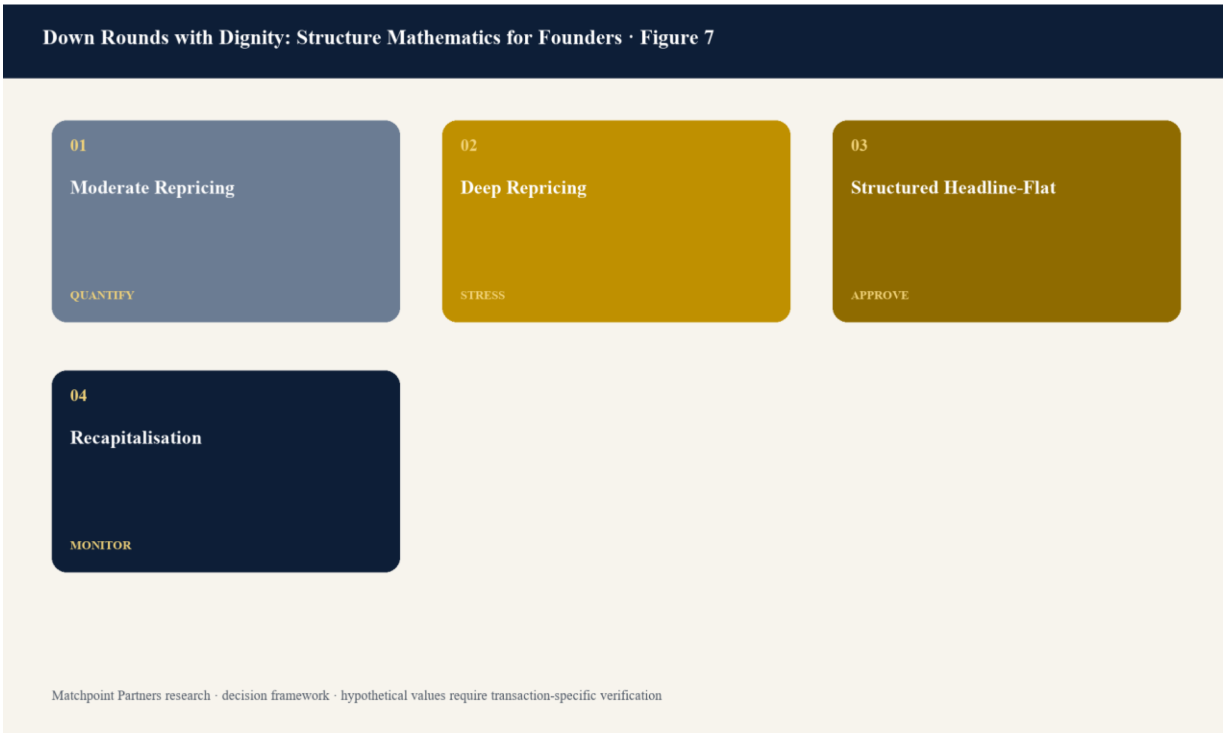

Figure 7. Structured decision view; categories are topic-specific and values require current transaction evidence.

25. Downside funding and remedies

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links charter rights, the cap-table model milestone and the fully diluted ownership measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Anti-Dilution is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the structured flat round route against at least the deep repricing case and record the sensitivity of fully diluted ownership. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

The control response assigns preparation, challenge and approval to different people across new investors, existing investors, employees. Open items remain in an exception register with a deadline and consequence. A financing or investment recommendation is released after the relevant evidence is complete, the downside case is funded, and the legal, regulatory, tax, accounting and technical questions have been reviewed by qualified advisers where applicable.

- Evidence focus: charter rights.
- Evidence focus: liquidation waterfall.
- Evidence focus: option plan.

26. Hypothetical scenario matrix

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links liquidation waterfall, the conflict review milestone and the liquidation proceeds measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Employee Dilution is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the senior preference route against at least the structured headline-flat case and record the sensitivity of liquidation proceeds. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

The control response assigns preparation, challenge and approval to different people across existing investors, employees, board. Open items remain in an exception register with a deadline and consequence. A financing or investment recommendation is released after the relevant evidence is complete, the downside case is funded, and the legal, regulatory, tax, accounting and technical questions have been reviewed by qualified advisers where applicable.

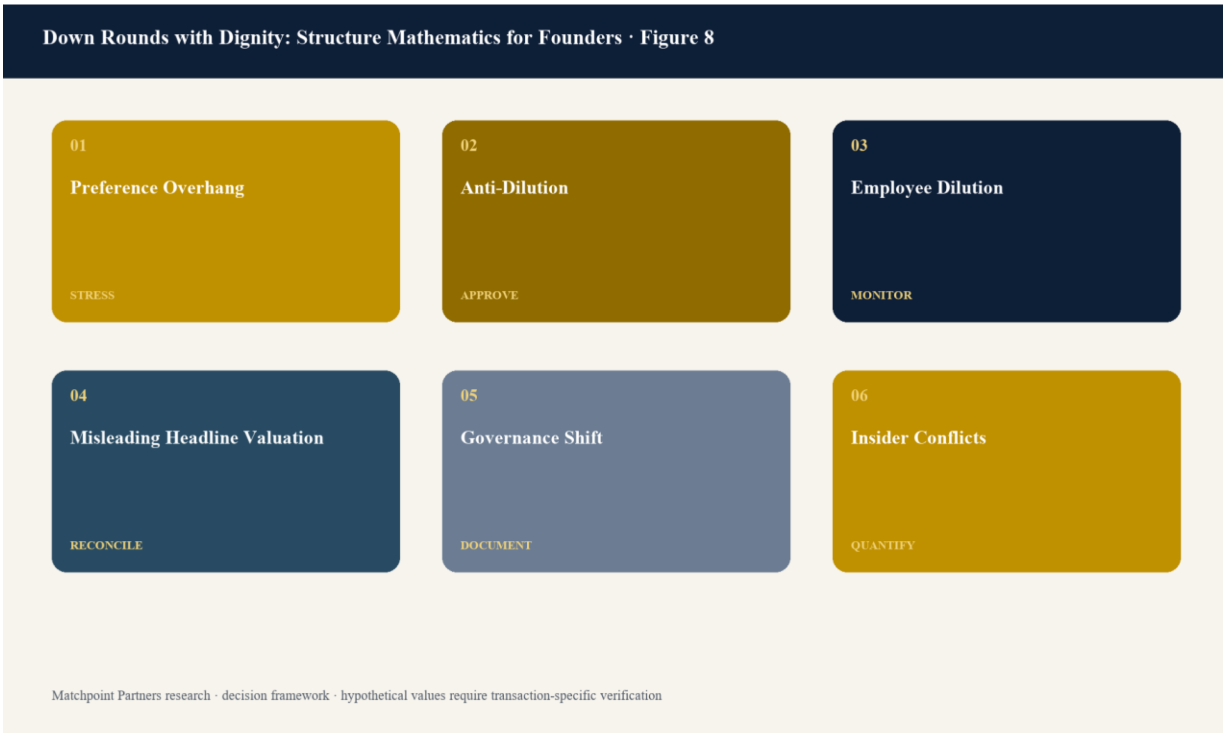

Figure 8. Structured decision view; categories are topic-specific and values require current transaction evidence.

27. Implementation roadmap

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links option plan, the board approval milestone and the participation measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Misleading Headline Valuation is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the pay-to-play route against at least the recapitalisation case and record the sensitivity of participation. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

The control response assigns preparation, challenge and approval to different people across employees, board, company counsel. Open items remain in an exception register with a deadline and consequence. A financing or investment recommendation is released after the relevant evidence is complete, the downside case is funded, and the legal, regulatory, tax, accounting and technical questions have been reviewed by qualified advisers where applicable.

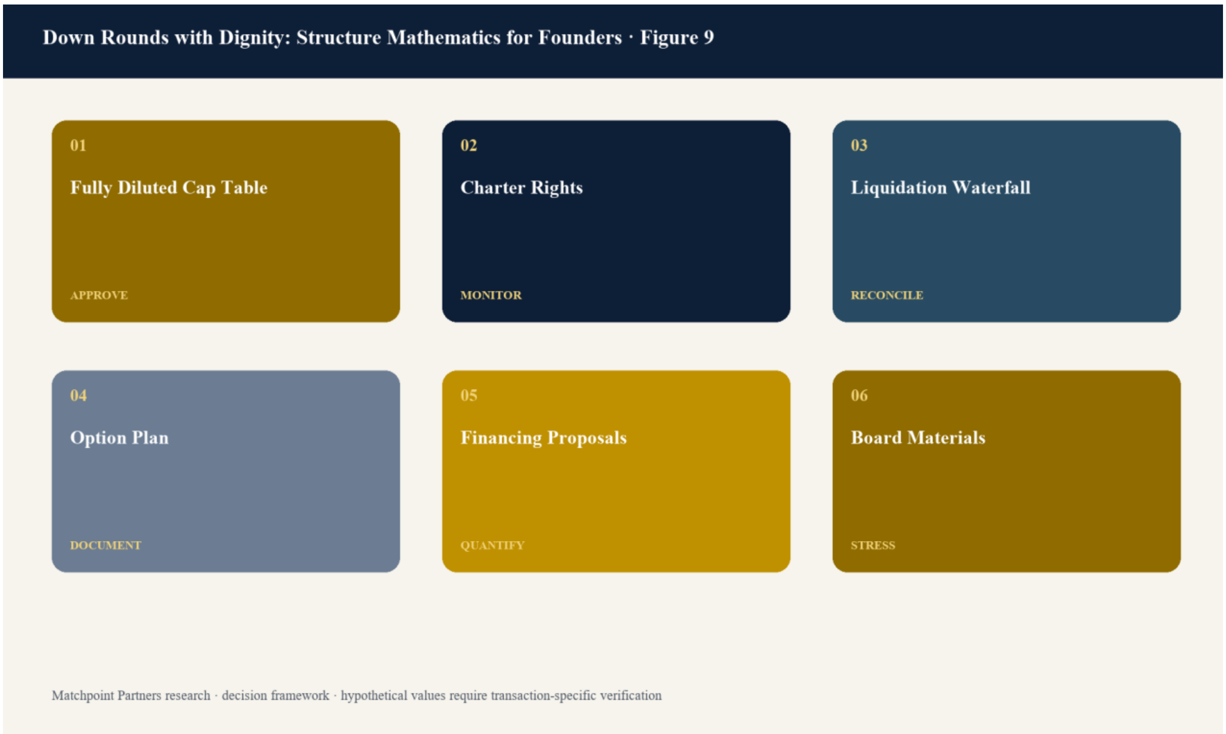

Figure 9. Structured decision view; categories are topic-specific and values require current transaction evidence.

28. Monitoring dashboard

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links financing proposals, the stockholder consent milestone and the runway measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Governance Shift is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the recapitalisation route against at least the moderate repricing case and record the sensitivity of runway. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

The control response assigns preparation, challenge and approval to different people across board, company counsel, founders. Open items remain in an exception register with a deadline and consequence. A financing or investment recommendation is released after the relevant evidence is complete, the downside case is funded, and the legal, regulatory, tax, accounting and technical questions have been reviewed by qualified advisers where applicable.

- Evidence focus: financing proposals.
- Evidence focus: board materials.
- Evidence focus: cash forecast.

29. Decision memorandum and approval gate

The decision is which financing structure preserves the highest probability-weighted founder, employee and company value after considering runway, preference seniority, dilution and future financeability. The work begins with a dated perimeter, named decision authority and one controlled record. That record links board materials, the closing milestone and the break-even exit value measure. Each item carries a source, owner, date, status and exception. This structure lets the committee distinguish evidence that already exists from a management target or a hypothetical modelling assumption.

Insider Conflicts is the principal focus on this page. Its effect can appear through timing, liquidity, control, value or enforceability. The review should test the tranched financing route against at least the deep repricing case and record the sensitivity of break-even exit value. A reader should be able to reproduce the conclusion from the cited documents and the disclosed assumptions without relying on an unsupported market benchmark.

The control response assigns preparation, challenge and approval to different people across company counsel, founders, new investors. Open items remain in an exception register with a deadline and consequence. A financing or investment recommendation is released after the relevant evidence is complete, the downside case is funded, and the legal, regulatory, tax, accounting and technical questions have been reviewed by qualified advisers where applicable.

- Evidence focus: board materials.
- Evidence focus: cash forecast.
- Evidence focus: conflict record.

30. Sources, method and author

Sources were selected for institutional authority, direct relevance and current availability. Official law, regulator, government, standards-body and issuer materials take priority. The source date does not remove the need to confirm the current rule, programme or document before a transaction decision.

No.	Source	URL
1	National Venture Capital Association, Model Legal Documents	https://nvca.org/model-legal-documents/
2	U.S. Securities and Exchange Commission, Regulation D Offerings	https://www.sec.gov/resources-small-businesses/capital-raising-building-blocks/regulation-d-offerings
3	Delaware Code, Title 8, Section 202, Restrictions on transfer and ownership of securities	https://www.delcode.delaware.gov/title8/c001/sc06/

Method

The paper separates source-backed statements, transaction evidence and hypothetical modelling assumptions. Scenario values illustrate a calculation pathway. They do not predict a market, issuer, fund, project, buyer, lender or family-office outcome.

Author

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