

# L30: Distribution and Vesting

## Module D: Tokenomics

Blockchain & Cryptocurrency

December 2025

- Describe token allocation categories (team, investors, community) and their purposes
- Analyze vesting schedules and cliff periods
- Evaluate the impact of unlock events on token price
- Apply distribution analysis to real projects
- Case Study: Solana token unlocks

# The Problem: How do we fairly distribute tokens over time?

## The Challenge

How do we fairly distribute tokens over time without enabling insider dumps? Early contributors deserve rewards, but instant liquidity creates misaligned incentives and pump-and-dump schemes.

## Why It Matters

- Unfair distributions lead to insider selling and community distrust
- Historical example: ICO-era instant unlocks caused 90% crashes; FTX/Alameda token manipulation (2022)

## What We Need

- Economic alignment of actors
- Alignment between team and community incentives over multi-year horizons

## The Cryptoeconomics Question

*Aligning individual and collective interests*

*Today's lesson: How Distribution & Vesting addresses this challenge*

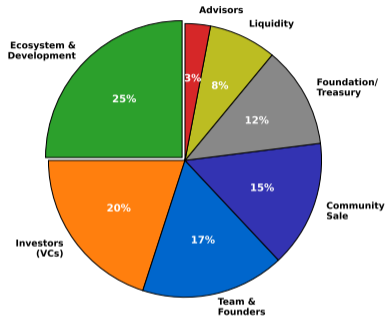
**Definition:** The initial allocation of tokens among different stakeholder groups.

**Common Allocation Categories:**

- Team and Founders / Early Investors (Seed, Series A/B/C)
- Advisors / Community Sale (ICO/IEO/IDO)
- Ecosystem Development / Liquidity Provision
- Foundation/Treasury / Airdrops

**Goal:** Balance early supporter rewards with long-term community alignment.

## Typical Token Allocation (Healthy Project)



**Insiders (Team+VCs+Advisors): ~40% | Community: ~60%**

*Red Flag: Team + Investors  $\geq$  50% indicates high centralization risk*

## Best Practices:

- 15-20% of total supply
- 4 years minimum vesting
- 1-year cliff period
- Linear unlock after cliff

**Example:** 20M tokens, 1-year cliff, then 416,667 tokens/month for 48 months

## Why Long Vesting?

- Prevents insider dumps
- Demonstrates commitment
- Aligns long-term incentives
- Builds community trust

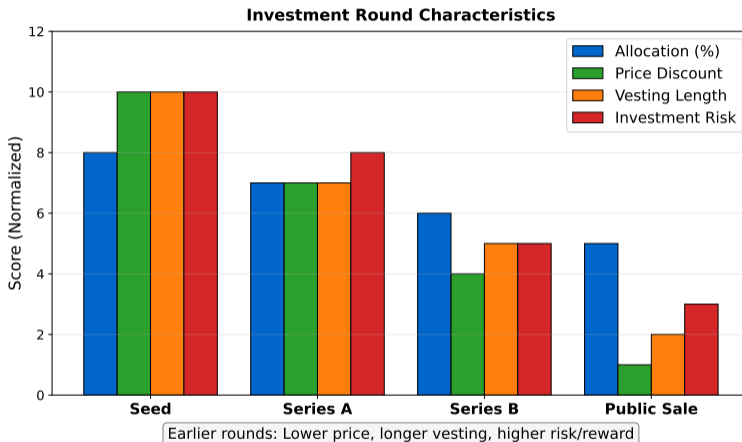
## Typical Investment Rounds:

Round	Allocation	Price	Vesting
Seed	5-10%	Lowest	2-3 years
Series A	5-10%	Low	18-24 months
Series B	5-10%	Medium	12-18 months
Public Sale	10-15%	Highest	0-6 months

## Key Considerations:

- Earlier investors = longer vesting
- Discount compensates for higher risk
- Too many investors = fragmented governance

# Investment Round Characteristics



*Earlier rounds get bigger discounts but longer lock-ups and higher risk*

## ICO (2017 Era):

- Direct sale to public
- Minimal regulation

## IEO:

- On centralized exchange
- Exchange vets project

## IDO:

- Launch on DEX
- Immediate liquidity

## Fair Launch:

- No pre-sale/VC rounds
- Same price for all (e.g., YFI)

**Definition:** Schedule controlling when allocated tokens become accessible.

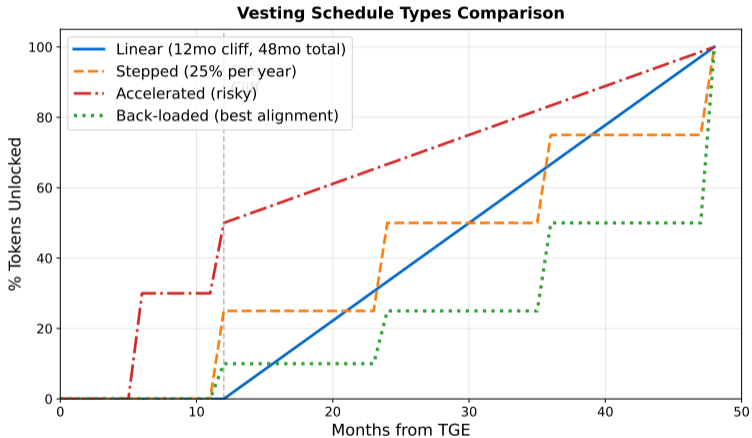
## Key Terms:

- **Cliff:** Initial wait period
- **Vesting:** Total unlock duration
- **Linear:** Equal regular unlocks
- **Unlock Event:** Transfer date

## Example (1M tokens):

- Cliff: 12 months (0 unlock)
- Vesting: 48 months total
- Post-cliff: 27,778/month
- Full vest: month 48

# Vesting Schedule Types



*Back-loaded vesting provides strongest long-term alignment; accelerated is risky*

## Typical Durations:

- Team: 12 months
- Investors: 6-12 months
- Advisors: 6 months
- Community: often 0

**Investor Perspective:** Cliffs protect against early team departures

## Why Use Cliffs?

- Prevents immediate dumps
- Tests commitment
- Project maturation time
- Reduces initial supply

## Market Impact:

- Increases circulating supply
- Creates selling pressure
- Price drops before/during
- Market front-runs unlocks

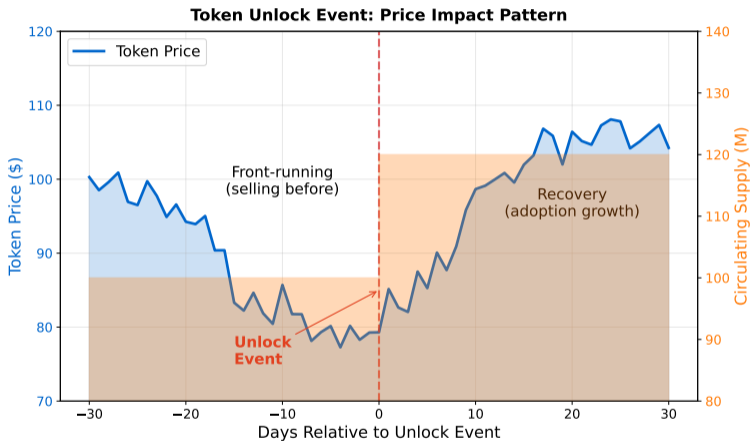
## Types of Unlocks:

- **Cliff:** Large one-time release
- **Linear:** Monthly/daily streams
- **TGE:** Initial launch unlocks

## Tools:

Token Unlocks, Messari, CoinGecko

# Unlock Event Price Impact



Market front-runs unlocks; price typically drops 15-20% around major events

## Background:

- 500M SOL (to 700M by 2030)
- Major unlocks 2021-2025
- VC: a16z, Multicoïn, etc.

## Key Events:

- Jan 2023: 13.8M (seed)
- Mar 2023: 17.8M (early)
- Ongoing: validator unlocks

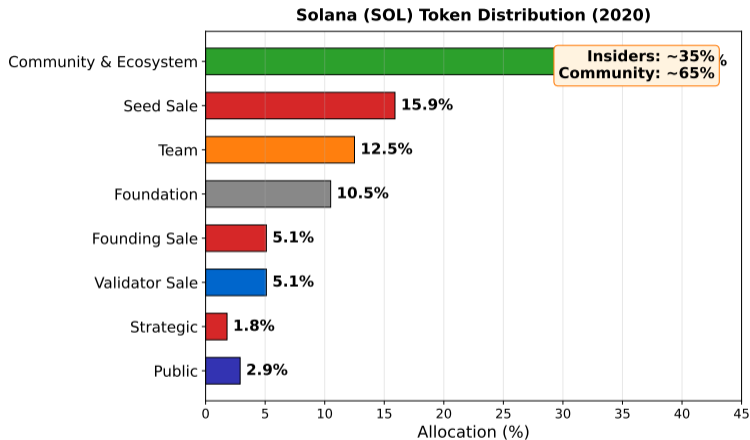
## Price Impact:

- 15-20% drops at unlocks
- Long-term recovery
- Market front-runs events

## Lesson:

Strong fundamentals absorb unlock pressure over time

# Solana Distribution Breakdown



*Insiders 35% with long vesting helped manage dilution over time*

## Staking Incentives:

- High yields lock tokens
- Ex: SOL 7% APY

## Gradual Unlocks:

- Daily/monthly releases
- Smooths supply shock

## Lockup Extensions:

- Voluntary extra vesting
- Bonus for extended locks

## Strong Fundamentals:

- Demand  $\dot{}$  supply growth
- Adoption absorbs pressure

## Airdrop Types:

- **Retroactive:** Past users (UNI)
- **Holder:** Existing holders
- **Task-based:** Actions
- **Governance:** DAO participation

## Benefits:

- Bootstrap community
- Decentralize ownership
- Reward early adopters

## Risks:

Hunters, immediate selling pressure

# Famous Airdrop: Uniswap (UNI)

## September 2020:

- 400 UNI per address
- 250,000 addresses eligible
- 150M UNI (15% supply)
- \$1,200 value at claim

## Impact:

- Instant decentralization
- Massive publicity
- Long-term holding
- DeFi airdrop standard

**Key Insight:** Retroactive airdrops reward genuine users, not speculators

## Excessive Insiders:

- Team + VCs  $\geq$  50%

## Short/No Vesting:

- Team vesting  $\leq$  2 years
- No cliff period

## Opaque Distribution:

- No published allocations
- Unknown wallet holders

## Centralized Control:

- Foundation  $\geq$  30% forever

*Multiple red flags = high risk of insider dumping*

## What are Points?

- Off-chain loyalty tracking
- Converts to tokens at TGE
- Replaces traditional airdrops

## How They Work:

- Track actions (deposits, trades)
- Accumulate proportionally
- Convert at TGE

## 2024 Examples:

- EigenLayer: restaking
- Blast: L2 deposits
- Ethena: USDe staking

## Criticism:

Opaque, favors whales, mercenary capital

## The Original Problem

*How do we fairly distribute tokens over time?*

## How Distribution & Vesting Solves It

- Vesting schedules with cliffs create time-locked incentive alignment
- Community airdrops with anti-sybil measures reward genuine users
- Gradual unlock schedules smooth supply shocks (daily/monthly releases)

## Remaining Limitations

- Vesting can be circumvented via derivatives (token loans, synthetic positions)
- Airdrops are often farmed by professional hunters, not real users

## Open Questions

- What distribution model best aligns long-term interests without creating insider advantages?
- Risk: Incentive misalignment, free-rider problems

*Distribution & Vesting partially solves "we fairly distribute tokens over time" but introduces new trade-offs*

## Distribution:

- Determines ownership concentration
- Healthy: Team+VCs  $\leq$  40%
- 3-4 year vesting standard
- Cliffs prevent immediate dumps

**Next:** Token Classification and Valuation

## Market Dynamics:

- Unlocks = predictable pressure
- Points replacing airdrops (2024)
- Transparency builds trust
- Check Token Unlocks first

- ① Why do early investors typically have longer vesting than public sale participants?
- ② How did Solana's unlock events impact its price trajectory?
- ③ What are the pros and cons of retroactive airdrops vs. task-based airdrops?
- ④ How can a project mitigate selling pressure during major unlocks?
- ⑤ What vesting schedule would you design for a new token launch?

## Quiz Questions (1-5)

**Q1. What is the primary purpose of a cliff period in token vesting?**

- A) Increase token price   B) Ensure minimum commitment before unlocks   C) Reduce gas fees   D) Enable governance

**Answer: B** – Cliff periods prevent immediate dumping and ensure team/advisors commit for minimum duration.

**Q2. What is considered a red flag for team and investor allocation?**

- A) Team 10%, VCs 20%   B) Team 15%, VCs 25%   C) Team 30%, VCs 25%   D) Team 5%, VCs 10%

**Answer: C** – Team + VCs  $\geq$  50% indicates high centralization risk.

**Q3. Which investment round typically has the longest vesting period?**

- A) Public Sale   B) Series B   C) Series A   D) Seed

**Answer: D** – Seed investors get 2-3 years vesting (longest) due to earliest entry and highest risk.

**Q4. What is linear vesting?**

- A) Tokens unlock all at once   B) Equal amounts unlock at regular intervals   C) Exponential unlock schedule   D) Random unlock dates

**Answer: B** – Linear vesting releases equal token amounts monthly/daily after the cliff period.

**Q5. What was the typical price impact of Solana's major unlock events?**

- A) 5-8% drop   B) 15-20% drop   C) 30-40% drop   D) No impact

**Answer: B** – SOL dropped 15-20% around major unlocks as market front-ran selling pressure.

## Quiz Questions (6–10)

**Q6. What is the recommended minimum vesting period for team tokens?**

- A) 6 months   B) 1 year   C) 2 years   D) 4 years

**Answer: D** – Best practice is 4 years minimum for team tokens to ensure long-term alignment.

**Q7. Which airdrop type rewards past users who already used the protocol?**

- A) Task-based   B) Holder airdrop   C) Retroactive   D) Governance

**Answer: C** – Retroactive airdrops reward genuine past users (e.g., Uniswap's 400 UNI per address).

**Q8. What was the value of Uniswap's airdrop per eligible address in September 2020?**

- A) \$400   B) \$800   C) \$1,200   D) \$2,000

**Answer: C** – 400 UNI per address was worth approximately \$1,200 at claim time.

**Q9. Which sale method involves launching directly on a decentralized exchange?**

- A) ICO   B) IEO   C) IDO   D) IPO

**Answer: C** – IDO (Initial DEX Offering) provides immediate liquidity on decentralized exchanges.

**Q10. What is a typical team allocation percentage of total token supply?**

- A) 5-10%   B) 15-20%   C) 30-40%   D) 50-60%

**Answer: B** – Best practice is 15-20% for team allocation to balance incentives and decentralization.

## Quiz Questions (11–15)

**Q11. What is the primary risk of airdrops to protocols?**

- A) Too expensive   B) Airdrop hunters and immediate selling pressure   C) Legal issues   D) Technical complexity

**Answer: B** – Airdrop hunters farm rewards without genuine interest, creating immediate sell pressure.

**Q12. How many tokens unlock during a 12-month cliff period?**

- A) 50% of allocation   B) 25% of allocation   C) 10% of allocation   D) 0 tokens

**Answer: D** – Cliff means zero tokens unlock during that period; all unlocking starts after cliff ends.

**Q13. Which vesting type provides the strongest long-term alignment?**

- A) Linear   B) Front-loaded   C) Back-loaded   D) Accelerated

**Answer: C** – Back-loaded vesting releases more tokens later, keeping incentives aligned longer.

**Q14. What is TGE in token distribution?**

- A) Token Growth Event   B) Token Generation Event   C) Total Gas Estimation   D) Treasury Governance Entity

**Answer: B** – TGE (Token Generation Event) is the initial launch with first token unlocks.

**Q15. What strategy can mitigate unlock selling pressure?**

- A) Delete tokens   B) Staking incentives with high yields   C) Burn all unlocked tokens   D) Ban selling

**Answer: B** – High staking yields incentivize holders to lock tokens instead of selling (e.g., Solana 7% APY).

## Quiz Questions (16–20)

**Q16. What replaced traditional airdrops as the primary distribution mechanism in 2024?**

A) ICOs   B) Points programs   C) NFT drops   D) Mining

**Answer: B** – Points programs track off-chain activity and convert to tokens at TGE (e.g., EigenLayer, Blast).

**Q17. Which project is an example of a Fair Launch with no pre-sale?**

A) Ethereum   B) Solana   C) YFI (Yearn Finance)   D) Cardano

**Answer: C** – YFI had a fair launch where everyone bought at the same price with no VC rounds.

**Q18. What percentage of Uniswap's total supply was airdropped in September 2020?**

A) 5%   B) 10%   C) 15%   D) 25%

**Answer: C** – Approximately 150M UNI (15% of supply) was airdropped to 250,000 addresses.

**Q19. What is the recommended maximum for Foundation/Treasury holdings?**

A) <10%   B) <20%   C) <30%   D) <50%

**Answer: C** – Foundation holding <30% indefinitely is a centralization red flag.

**Q20. Why do earlier investors receive longer vesting periods?**

A) Regulatory requirement   B) Compensates for higher risk and bigger discounts   C) Technical limitation   D) Random assignment

**Answer: B** – Early investors take highest risk, get biggest discounts, so longer vesting aligns long-term incentives.