

The Founder Check List for Warrant Programs

There's TWO things you need to know about setting up your employee warrant program

1. You need to reserve space in the cap table for employee equity as it'll be essential to attract, motivate and retain talent.
2. You need a lawyer to help you. You're going to think it's expensive, but it'll be pocket money in comparison to what it will cost you to get it wrong.

Yet money can be saved when you turn to a lawyer for help. A lawyer will provide you with legal advice yet also offer you a range of options and leave you with the decisions. With this list you should be able to skip a visit or two as it should help you give the lawyer directions on what to include in the warrant program from the get-go.

The list is put together with experience from the hundreds of startups the team at PreSeed Ventures have worked with and therefore covers the best practice for warrant programs in the pre-seed and seed stage.

Use it as a template and point of discussion both in your founder team and with your lawyer.

Quantity: The maximum quantity of warrants available for allocation has to be clearly evident in nominal amount and value of shares. Not just a percentage, as this varies over time.

Granting period: A period where the warrants are granted should be determined, usually over a period of 3-4 years.

Share class: Warrants are always allocated as common stock/A-shares (or as a separate non - preferred separate share class for warrants).

Vesting: A yearly vesting should be implemented, and monthly vesting should be considered.

Dilution: Warrants must be dilutable, meaning that the subscription price and number of warrants are not adjusted by future capital changes, including capital increase, capital reduction, granting of new warrants, issuing or exercise of convertible instruments of debt, dissolution, mergers or demergers etc. Excepted here from could be adjustment related to issuing of bonus shares.

Exercise price: Exercise pricing must be established in DKK (the point of reference is always the latest issue rate). *Note: Exercise pricing in future issues should continually be adjusted with new share issue rates.*

Exercise period: Warrants may be exercised 1-2 times yearly in connection with termination of the annual report and in the event of the annual general meeting. Otherwise, only exercise in the case of an exit/IPO.

Leaver scenarios for employees (Termination of employee's employment):

- Termination by the company: The employee may maintain right to exercise the EARNED warrants but loses the right to any further allocations. It could be agreed that after the time of termination, the employee may have a period to exercise vested warrants, after which the non-exercised warrants are cancelled.
 - Own Resignation: All warrants earned are cancelled – if they have not been exercised prior to the resignation. Furthermore, the right to further allocation ceases following the resignation.
-

Leaver scenarios for CEO's (Termination of CEO's employment):

- Termination by the company: The manager continues vesting warrants in the notice period. Subsequent to the period, the vesting terminates. After the end of the notice period, the CEO has 3 months to exercise vested warrants, after which the non-exercised warrants are cancelled.
 - Own Resignation: All vested warrants are cancelled – if they have not been exercised. Furthermore, the right to further allocation ceases
-