Next up, co-sale agreement, which is short for "If you get to do it, I get to do it too."

Clint: Tell us about co-sale arrangements.

Jason: Well, the good news is that they are really straight forward and simple and rarely negotiated. The bad news is that it might hurt your mojo a bit if you're trying to sell some shares in your company.

So a co-sale agreement is usually between the founders or the common stockholders, and the preferred holders in the company. The idea is that the VCs come in, they put a lot of money into the company and then the CEO finds someone to buy a part of their shares. Then we say, "Wait a minute. Why do you get to sell your shares? What about our shares? We'd like to sell some too."

This gives the VCs, or the professional investors, the right to co-sale along with the CEO. For instance, if the CEO found a way to sell a million shares, under the co-sale agreement, the CEO would only be able to sell their pro rata amount of shares of the million. So if the CEO owns 20% of the company, they would be cut back to 200,000 and everyone else would make up the 800,000.

It's a way to control the cap table as we've talked about briefly before. It's a way to control the CEO from selling too much and having too much money in their pocket and not being interested in running the business. It's also a way on economics to get some liquidity for other folks. If there is a buyer out there who wants to buy some shares then everyone gets to tag along.

Clint: How often have you seen co-sale arrangements show up?

Jason: A few times. Not a lot, a couple of time a year, maybe. I don't know, 30 times in my life? It's very rare but it has happened.