

FORBES STOCK MARKET GUIDE

Your Indispensable Guide To Building Wealth!



Ask An Expert

How To Cash Out But Keep Control

Maureen Farrell, 07.19.07, 2:08 PM ET

Have burning questions about how to run your small business better? E-mail askanexpert@forbes.net with your query, and we'll track down the advice.

Can I take cash out of my business without relinquishing total management control?

The Bancroft family, owner of a controlling stake in Dow Jones & Co., has been chewing on that same question since April, when **News Corp.**'s Rupert Murdoch offered \$5 billion for the company--more than twice what anyone else was willing to pay. (When this article published, the Bancrofts were still chewing.)

The Bancrofts' big concern wasn't the price tag, but handing over editorial control of the vaunted *The Wall Street Journal*. Their ostensible compromise: to form an independent committee that appoints key positions at the paper in order to maintain its editorial integrity.

Not all entrepreneurs looking to cash out have such a juicy bargaining chip. Nor can they have their whole cake and eat it too: If you trade equity for cash, you will give up control.

Yet with some carefully crafted provisions, sellers can stay involved while taking something off the table. Mark Davis, a partner at the San Francisco-based law firm Gordon & Rees, has worked with dozens of small businesses looking to do just that.

The first and easiest strategy, of course, is to sell only a minority stake. Sure, the new equity owners will have seats at the table, but you are still ultimately in control.

Next strategy: Negotiate a board seat. In the case of limited liability companies, which don't have boards, you'll want to secure a managerial role. That way you'll have a platform to air your views and vote on key decisions, says Davis.

If you want matters even more under thumb, create a tiered capital structure, in which there might be regular shares and "super-voting" shares. That way you can sell off a majority ownership stake (at least 50%) while still maintaining control over the direction of the company. Holders of super-voting shares might have other privileges, too, like being able to elect the board of directors.

Large companies with dual-stock structures, in which minority shareholders wield a disproportionately large amount of voting power, include The New York Times, Tyson Foods, Estée Lauder and Ford Motor.

Only interested in having a say in certain key issues? If the buyer is willing, tailor the contract to include specific triggers that will require a "supermajority" vote on those matters. Example: Say you sell a chunk of your ketchup company but are really concerned about which products the new management will choose to launch in the future. While you might only keep a 25% equity stake, you could, in theory, negotiate a supermajority requirement calling

for 80% agreement on a decision to make mustard--making you the de facto deciding vote.

A final, and more indirect, way to stay involved: Negotiate a golden parachute. By adding an onerous severance provision, new owners will be reluctant to send you packing. "They're not going to want to terminate the founder without cause," says Davis. "It's a good way of locking in your position and keeping your voice heard." The caveat: They can always ignore you.