The Check You Actually Get

The number in the offer letter is not the number that arrives in your account. Between the two sit working capital adjustments, escrow, seller financing, debt payoff, professional fees, and taxes. None of this is hidden, and none of it is a trick — but owners are routinely surprised by it at the closing table, which is the worst possible moment to learn it. This guide walks through the full path from headline price to money in hand.

A Worked Example

Consider a business that sells for a headline price of $4,000,000. The figures below are illustrative — every deal differs — but the shape is typical of a well-structured lower-middle-market transaction.

	Amount	When you see it
Headline enterprise value	$4,000,000	—
− Existing business debt paid off at closing	($350,000)	At closing
− Escrow / holdback (10%)	($400,000)	Typically 12–18 months later
− Seller note (10%)	($400,000)	Paid over 3–5 years, with interest
± Working capital adjustment	($50,000)	At closing or shortly after
− Your professional fees (attorney, CPA, advisors)	($130,000)	At closing
= Cash wired to you at closing	$2,670,000	Closing day
Later: escrow released (if no claims)	$400,000	12–18 months
Later: seller note principal + interest	$400,000 +	3–5 years
Then: federal and state taxes on the gain	Varies significantly	With your return

The headline was $4,000,000. The closing-day wire was roughly two-thirds of it. Nothing improper happened — and an owner who understood this going in negotiates the components rather than being blindsided by them.

Working Capital: The Adjustment Nobody Explains

Almost every deal of this size is done on a "debt-free, cash-free" basis with a normal level of working capital delivered at closing. In plain terms: the buyer expects to receive the business with enough receivables and inventory on hand to keep operating, without having to inject cash on day one.

A target — often called the peg — is set by averaging your working capital over the prior 12 months. At closing, actual working capital is measured against that peg. Deliver more, you get paid the difference. Deliver less, the price is reduced.

- **Why it exists:** Without it, a seller could collect every receivable and run inventory to zero before closing, handing over a business that cannot make payroll on Monday.
- **Where it goes wrong:** Seasonal businesses. If your peg is a 12-month average and you close at your seasonal low, you can owe money you did not anticipate. Negotiate a seasonally appropriate peg, not a blind average.
- **What to ask for:** A collar — a band, often a few percentage points, inside which no adjustment is made at all. It eliminates arguments over small variances.
- **What to watch:** How receivables over 90 days and obsolete inventory are treated. Both are commonly excluded from the calculation, and both can move the number meaningfully.

> *Ask any buyer for the working capital peg methodology in writing, in the letter of intent — not in the purchase agreement. By the time it appears in the purchase agreement, your leverage to negotiate it is largely gone.*

Escrow and Holdbacks

A portion of the price — commonly around 10% — is held by a third party for a defined period after closing, available to the buyer if your representations in the agreement turn out to be inaccurate. If nothing surfaces, it is released to you in full.

- **What to negotiate:** The percentage, the duration, and the deductible — a threshold below which no claim can be made at all.
- **What matters more than the size:** Which representations survive closing, and for how long. Narrow, time-limited survival is worth more than a slightly smaller escrow.
- **A reasonable expectation:** Most escrows are released without a claim. Clean books and honest disclosure during diligence are the best protection you have.

Seller Notes and Earnouts: Not the Same Thing

These are frequently discussed together and should not be. One is a financing tool. The other is a bet.

	Seller note	**Earnout**
What it is	A loan you make to the buyer for part of the price	Additional payment contingent on future performance
Do you get paid?	Yes, on a fixed schedule, with interest	Only if defined targets are met
Who controls the outcome	Nobody — the terms are fixed	The buyer, who now runs the business
Typical size	Often 5–15% of the price	Highly variable
Main risk	Buyer default	Targets missed, or measured in a way you did not anticipate

A seller note is normal and often signals a buyer with real financing behind them; in SBA-financed transactions a note is sometimes required and may be placed on standby, meaning payments do not begin immediately. Ask about standby terms specifically.

Earnouts deserve more caution. A meaningful share of earnouts pay out below what the seller expected — not usually through bad faith, but because the buyer now controls the accounting, the spending, and the strategy that determine the result. If an earnout is part of your deal, insist on a simple, high-level metric (revenue or gross profit is far harder to manipulate than net income), a clear definition in writing, your right to see the calculation, and protection against the buyer making changes that undermine the target.

> *A practical rule: be prepared to be satisfied with the deal if the earnout pays nothing. If you would not be, the price is not really the price.*

Structure Drives Your Tax Bill More Than Price Does

This is where owners most often leave real money behind, and where the least can be fixed after the fact. The mechanics are highly specific to your entity type and your circumstances, so this section is a map of what to discuss with your CPA — not advice.

- **Asset sale versus stock sale:** Buyers generally prefer buying assets; sellers often prefer selling stock. The two can produce materially different after-tax outcomes for you. This is negotiable, and it has a price.
- **Purchase price allocation:** In an asset sale, the price is allocated across categories of assets, and different categories are taxed differently. The allocation is negotiated and it matters.
- **Consulting and non-compete payments:** Money paid to you under these agreements is generally treated differently from sale proceeds. How the total is split between them affects what you keep.
- **Installment treatment:** Receiving proceeds over time, such as through a seller note, may change when tax is owed.

- **State considerations:** Where the business operates and where you reside can both affect the outcome.

> *Bring your CPA in a year before you intend to sell, not a month before closing. Nearly every meaningful tax planning option requires lead time, and most of them close off once a letter of intent is signed.*

What This Means for How You Evaluate an Offer

Comparing headline prices between two buyers tells you very little. Compare these instead:

1. Cash at closing, after debt payoff and estimated fees.
2. How much is deferred, for how long, and on what conditions.
3. How the working capital peg is calculated, and whether there is a collar.
4. Escrow size, duration, deductible, and which representations survive.
5. Whether any portion is contingent on future performance you will not control.
6. The deal structure and its after-tax consequence for you.
7. The probability the deal actually closes — financing in place, diligence scope, track record.

An offer that is lower on paper and higher in certainty and cash at closing is frequently the better deal. Ask every buyer to walk you through their own version of the table at the top of this guide. Any serious buyer will do it without hesitation.

This guide is educational and general in nature. Deal terms vary widely, and nothing here is tax, legal, or accounting advice. The tax treatment of a sale in particular depends entirely on your structure and circumstances — engage your CPA and attorney early, ideally a year before you plan to sell.

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