



CONSIDERATIONS FOR SELLING YOUR BUSINESS: A PRACTICAL GUIDE FOR BUSINESS OWNERS PLANNING AN EXIT

By Nicholas F. Phillips

Employees may daydream about quitting. Business owners daydream about exiting.

Studies show that up to 90% of business owners expect to sell or exit in the next decade. Unfortunately, nearly 80% have no written plan nor consulted an advisor about it. Whether you want to sell, pass your business to family, or wind it down, thoughtful planning can transform your company from a burden into your greatest asset.

This guide outlines three common exit paths and how experienced legal counsel helps you protect your wealth, legacy, and long-term goals.

Option 1: Selling Your Business

Selling your business can provide liquidity, diversification, and relief from operational pressures. But a successful sale begins with preparation, and most deals fall apart because owners wait too long to plan.

The first consideration here is what price to sell your business. To determine the price, owners often rely on professionals who value businesses (valuation experts), many of whom are affiliated with accounting practices, or investment bankers (for larger transactions). These professionals will help you determine the “fair market value” (“**FMV**”), which reflects what a willing buyer would pay a willing seller in an open market, with both having reasonable knowledge and no pressure to transact.

One method buyers use to determine FMV is “Seller’s Discretionary Earnings” (“**SDE**”): net income plus owner salary, benefits, and discretionary expenses.

A more formal process includes a valuation expert using a more complex report that includes an evaluation of the following approaches:

- Income approach: The value is determined based on the income generated by the company over a period of time by evaluating earnings before interest, taxes, and amortization (“**EBITA**”), or earnings before interest, taxes, depreciation, and amortization (“**EBITDA**”).
- Market approach: A comparison is made of what other similar companies in similar markets are selling for based on available information.



- Book value: The company's "book value", the value of the physical assets and accounts of the seller, is valued.

The valuation expert then compares the information from each approach and arrives at the FMV, which is generally a multiple of EBITA/EBITDA. Because book value only values the "hard assets" of a business, it is not frequently used but valuation experts consider it to compare the book value with a valuation using SDE or EBITA/EBITDA.

Preparing for sale typically includes:

- Cleaning and organizing 3 to 5 years of financials
- Reviewing leases, permits, contracts, and corporate records
- Identifying discretionary expenses added back to SDE
- Streamlining operations and reducing dependency on the owner

Once you are able to determine the price for your business, you must consider how you want to structure your sale. Most small and mid-sized transactions occur as asset purchases or stock purchases. Each carries different tax, liability, and practical implications.

The next consideration is how the purchase is financed. In many deals under \$10M in aggregate purchase price, the seller may finance some portion of the purchase price by requiring a down payment and requiring the buyer to sign a promissory note for the balance or the seller accepting shares of the buyer that are worth the balance due. Many transactions are financed by loans obtained by the buyer or the buyer using capital available to it from stock sales.

Seller-financed transactions require proper collateral and protections. If the buyer defaults, your security interest may determine whether you recover value.

The deal process includes:

1. Entering into non-disclosure agreement ("**NDA**"), often first, before sharing any financials to assure confidentiality for information to be shared, including that the seller is interested in selling;
2. Negotiating and signing a "Letter of Intent" ("**LOI**") that provides an outline of the terms for the proposed sale, so the parties agree on the basic terms before a more formal agreement is signed;
3. The buyer performing "due diligence", or reviewing your financial and operational records, disclosures on pending litigation, review of existing and possible future contracts, etc.;
4. The parties negotiating and drafting a definitive purchase agreement; and
5. Closing the transaction and post-closing transition where the new owners take over.

You may stay on for a 3 to 12-month transition period, often compensated separately. Your attorney helps structure the transaction, evaluate terms, negotiate protections, and ensure a smooth transition.

Option 2: Family Business Succession Planning

Succession planning requires both financial strategy and family diplomacy. A successor must be willing, capable, and properly trained. A clear transition plan avoids confusion, resentment, and unintended inequities.

A common challenge arises when one child is active in the family business and another is not. In these cases, owners often equalize inheritance using life insurance or non-business assets while transferring control of the business to the active child.

Even if a sale is not imminent, consider:

- Leadership development and training timelines
- Governance structures (boards, advisors, voting rights)
- Tax and estate planning implications
- Contingency plans for incapacity or sudden exit

If there is no one ready to take over, it may be wiser to plan for an eventual sale rather than forcing a family member into a role that does not fit.

Option 3: Winding Up and Dissolution

Sometimes the best decision is to close the business rather than sell it. Unexpected headwinds, undercapitalization, or significant liabilities can make dissolution a more responsible choice.

A formal dissolution generally requires:

- Filing dissolution documents with the Secretary of State
- Notifying creditors and resolving claims
- Completing tax filings and employment obligations
- Liquidating and distributing remaining assets
- Canceling permits, licenses, and registrations

An attorney can help prioritize creditor payments, negotiate where appropriate, and reduce the risk of personal exposure during the wind-down.

Final Thoughts

Whether your timeline is one year or ten, beginning the exit conversation early gives you more options, greater leverage, and better outcomes.

A strategic, well-planned exit can turn your business into your greatest asset, one that secures your retirement, rewards your employees, and preserves your legacy. A poorly executed exit can do the opposite. Thus, if you are starting to think seriously about selling, transitioning, or winding down your

business, consulting with an attorney who handles business sales can clarify your options and help you move forward with confidence.

The transactions department of Coleman & Horowitz, LLP represents businesses and their owners in the creation, maintenance, dissolution, and sale of businesses, including mergers and acquisitions, documentation of business and real estate transactions, and business succession planning. If you have questions regarding this article, contact the author, Nicholas F. Phillips, or Michael Dowling, the head of the transactions department at nphillips@ch-law.com and mdowling@ch-law.com or (559) 248-4820.

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About the author:



Nicholas (“Nick”) F. Phillips is a business attorney in the transactions department of Coleman & Horowitz, LLP with more than a decade of experience advising closely held companies on corporate governance, succession planning, mergers and acquisitions, and strategic exits. He is a graduate of Brown University and received his law degree from the University of Illinois (Urbana-Champaign) College of Law. Nick is fluent in Mandarin and speaks Japanese. He can be reached at nphillips@ch-law.com or (559) 248-4820.

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