LIMESTONE STRATEGIC PARTNERS

FIELD GUIDE

Due Diligence for the Self-Funded Buyer

What to verify, in what order, before you sign for a business.

WRITTEN BY

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SCOPE

SBA 7(a) acquisitions

$1M to $5M purchase price

LIMESTONE STRATEGIC PARTNERS

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FOREWORD

You are signing personally, and that changes what diligence is for.

Every buyer I meet on a deal this size has run the same arithmetic on the back of something. Ten percent down, a personal guarantee on the rest, a seller who has owned the business since before you finished college, and a spouse who has seen the number.

A fund that gets a deal wrong writes it off against the rest of the portfolio, and I spent years on that side of the table. You don't have a rest of the portfolio. So you have two questions in front of you and neither one is whether this is a good business. Is it the business he says it is? And does it still work with you running it instead of him?

We wrote this about the business and the numbers, and nothing else. No legal advice, no tax advice, and nothing at all about which lender to use.

One admission before I start. Stanford has followed traditional search funds for two decades and publishes real returns on them. Nobody holds the same data on self-funded search, so anyone who quotes you a return on what you're about to do is quoting a number that doesn't exist.

Ryan has read more than a hundred quality of earnings reports, buy-side and sell-side. I've run businesses somebody else bought, which taught me mainly that the diligence you skip becomes an operating problem on a Tuesday morning eighteen months later. We've published the whole method here, including the parts a buyer could hand to a cheaper provider.

Jared Luegers

FOUNDER AND MANAGING PARTNER (CFA)

LIMESTONE Strategic Partners is an embedded CFO and Operating Partner firm working out of Carmel, Indiana, and most of our work sits within a two-hour drive of the office. We run quality of earnings and operational diligence for buyers, and after a deal closes we stay out of it unless the buyer asks us in.

HOW TO READ THIS

Five questions decide whether you should buy this business.

They are answered here in the order the money is spent, which is not the order they occur to you. Worked in sequence, a bad answer early saves you the cost of every question behind it.

One	Two	Three	Four	Five
Are the earnings real?	**Will they hold?**	**What do I owe on day one?**	**Can it carry the debt?**	**Can I actually run it?**
The bank statements, against the return.	Who the customer calls.	Working capital, and the tax.	Coverage, on the real term.	Which seats the seller holds.

EXHIBIT 1 **The five questions, and where each one is answered**

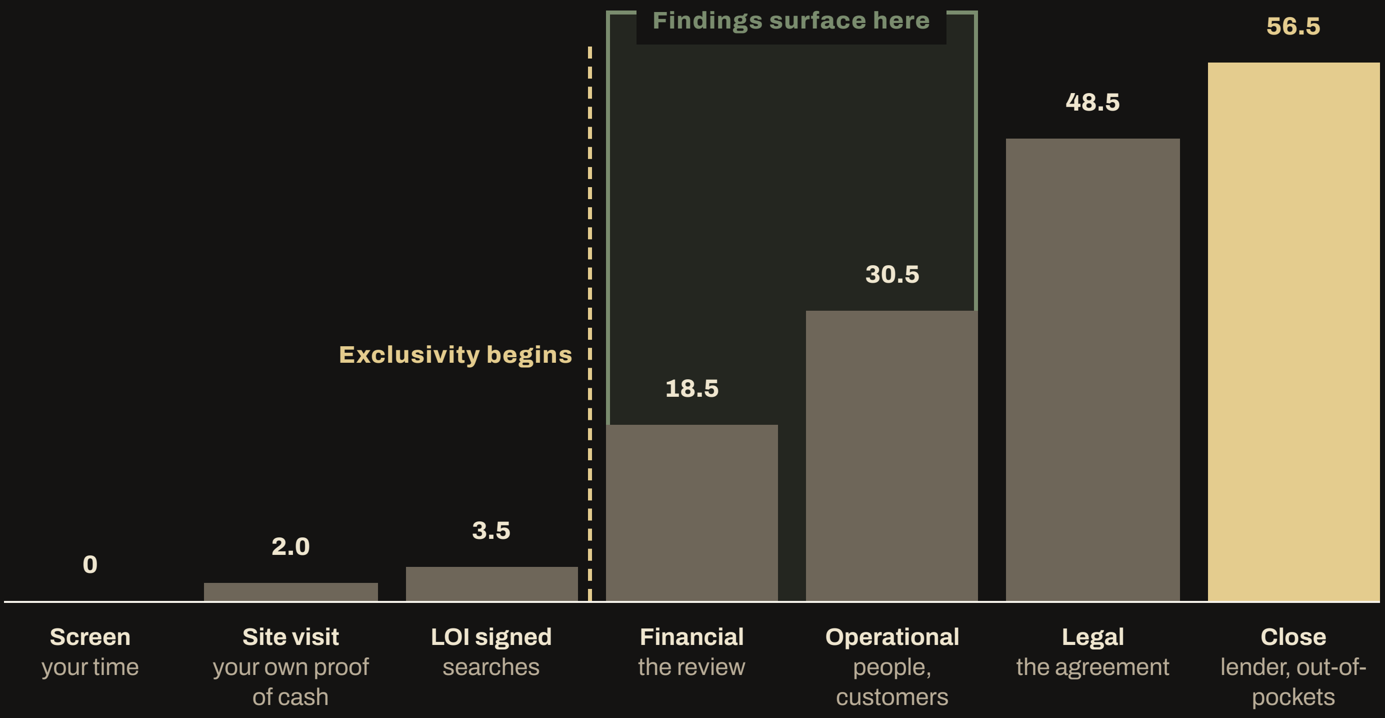
BEFORE YOU START

The five are not weighted equally. Question one sets the price you should pay, and question five decides whether you will still be able to pay it in year two.

HOW THE MONEY IS SEQUENCED

Ninety-six percent of the money is spent after exclusivity begins.

EXHIBIT 2 **Cumulative diligence spend against the point of commitment**



$ in thousands, cumulative. Excludes the SBA guaranty fee, which is on page 6.

96%

of the diligence budget is committed after exclusivity begins. Before the letter of intent the only real cost is travel.

46%

is still unspent when the financial and operational findings arrive, which is the money a bad finding saves you.

4 to 5

weeks is what the financial work alone can take out of a ninety-day exclusivity window.

Cumulative spend is illustrative sequencing on a $3.0M business purchase price built from LIMESTONE engagement scoping; the quality of earnings and operational figures are our own published floors. The four-to-five-week financial window is from Jacobs and Wasserstein, *On the Nature of Due Diligence in a Search Fund Acquisition*, Yale School of Management, 6 May 2022.

THE NINETY-DAY CLOCK

Confirmatory diligence runs on a clock that starts the day the seller signs.

Yale splits the work in two. Preliminary diligence is everything before the letter of intent; confirmatory diligence is everything inside the exclusivity period that letter buys, which its case note puts at ninety days or longer.

EXHIBIT 3 How a ninety-day exclusivity period is consumed

BEFORE THE LOI	**Preliminary diligence** The screen, the site visit, and a proof of cash off twelve months of statements.
WEEK 1 TO 2	**The request list, slowest items first** Yale notes sellers need weeks simply to collect the financial documents.
WEEK 2 TO 6	**Financial: the quality of earnings** Including the narrative your lender needs, this can run four to five weeks of the ninety.
WEEK 4 TO 8	**Operational, commercial and customer** Calls need the seller's consent and his introduction: arranged week two, made week five.
WEEK 6 TO 10	**Legal and the purchase agreement** The agreement follows the findings. Drafting it first means drafting it twice.
WEEK 10 TO 13	**Lender approval and closing** Credit approval, the guaranty fee, and the searches you ordered in week one.

Two-stage frame and the ninety-day window: Jacobs and Wasserstein, Yale, 2022. Week allocations are LIMESTONE scoping.

> **OUR OWN DAY 1 RULE**
>
> Our clock starts at complete data, never at signature. A ten-to-fifteen-business-day turnaround measured from a half-empty data room is a promise nobody can keep, and we would rather argue about the start date in week one than the delivery date in week six.

THE COST STACK

The SBA guaranty fee costs more than all of your diligence combined.

Every line below is money spent outside the purchase price, on a $3.0M deal with the unwaivable ten percent injection. Our fees are shown as ours. SBA's are computed from its published schedule, because no independent survey of diligence pricing exists at this size and every published band traces to a provider quoting its own card.

EXHIBIT 4 **Every cost outside the purchase price, on a $3.0M deal**

LINE	WHAT SETS IT	DOLLARS
Screen, two site visits, the searches	Your own time; lien, UCC, judgment and entity searches per state and per name	3,500
Quality of earnings, Core	LIMESTONE floor, 10 to 20 business days from complete data	15,000
Operational diligence, six reference calls	LIMESTONE floor. The seats, the relationships, the interviews	12,000
Legal: the agreement and the ancillaries	Counsel, hourly, and the largest variable on this page	18,000
Diligence, all in	**1.6% of the business purchase price**	**48,500**
Lender packaging fee	SBA caps it at a flat $2,500 undocumented, or 3% to a $30,000 ceiling	2,500
Business valuation, lender-ordered	An accredited source, prepared for the lender, never for you	3,500
SBA guaranty fee	75% of a $2.7M loan; 3.5% of the first $1.0M, then 3.75%	73,437
Total outside the purchase price	**4.3% of the price, and 43% of your equity injection**	**127,937**

Dollars, not thousands. Guaranty fee schedule, packaging ceilings and the valuation requirement: SBA SOP 50 10 8.1, effective 1 October 2026, the arithmetic following SBA's own worked example. Diligence lines are LIMESTONE floors and observed scoping.

THE TWO FACTS THAT ANSWER THE OBJECTION

Both reports go inside the loan and both count toward your ten percent: Appendix 15 makes them an eligible use of proceeds and lets what you spend on them count as equity. Agent fees do not qualify, so keep those invoices separate.

WHAT THIS WORK CANNOT DO

A cash proof can tie to the penny and still miss a misclassified expense.

Ryan Anoskey, Partner, CPA

THE LIMIT, IN ONE NUMBER

Zero

Third-party confirmations sent in a quality of earnings. An audit sends them and we do not, which is why the word fraud appears nowhere in our scope.

A quality of earnings is non-attest work. No opinion, no assurance, and no confirmations sent to anyone. Every procedure tests whether the records reconcile to cash. Most of what we find is sloppiness, some is advocacy, and concealment is a third thing this work cannot catch.

EXHIBIT 5 **What a cash proof catches, and what it structurally cannot**

WHAT THE CASH PROOF CATCHES	WHAT IT STRUCTURALLY CANNOT
Deposits that do not reconcile to reported revenue, and income that was never operating revenue: a settlement, an owner loan repaid, equipment sold.	Invoices billed to friends of the owner, which Yale calls invoices that “may exist only to amplify revenue and earnings as part of a window-dressing scheme.” The money moved, so the reconciliation agrees with itself.
Expenses in the ledger that never left the bank, and payments out of the bank that never reached the ledger. A cash-basis book never converted to accrual shows up here.	An expense that is real, paid, recorded and in the wrong account. Bad debt reserves are the usual hiding place. Under-reserving overstates earnings and leaves no cash trail.

LIMESTONE quality of earnings method. The quoted phrase is from Jacobs and Wasserstein, *On the Nature of Due Diligence in a Search Fund Acquisition*, Yale School of Management, 2022.

> **“I’ve argued a buyer out of a larger engagement more than once. I’d rather name the risks I can see in your deal and quote you the work that answers them.”**

RYAN ANOSKEY · PARTNER, CPA

THE LIMITS, STATED FIRST

No amount of diligence fixes a seller you cannot trust.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

Trust is a gate the seller passes or fails, and it sits in front of everything else in this book. Every other finding here has a number attached and a structure that answers it. A seller willing to mislead you has neither, because the finding you would have to price is the one he has not shown you.

The tells, and what they are not

None of these proves anything alone. Each is a reason to slow down and look twice at one specific thing.

- Documents that arrive slowly and then arrive complete. A seller who takes ten days to produce twelve bank statements is deciding what to send.
- A number that moves when you ask about it a second time.
- Costs described as one-time that appear in all three years under the same description. Hoosier had two of those.
- Unwillingness to let you speak to the at-risk account, which page 19 treats as a finding in its own right.
- Compensation promised for periods after he leaves, which Yale calls an unrecorded contingent liability falling to the buyer.

Your own problem, which is harder

You have been searching for months and you want this one to work. Yale says searchers "have every motivation to fall prey to confirmation bias," and recommends a change of posture:

> **"Eschew a posture of 'I am trying to confirm what I already believe' and embrace a tone of 'How can I prove what I believe is inaccurate?'"**
>
> Jacobs and Wasserstein, Yale School of Management, 2022

Write the walk-away triggers down before the work starts, with numbers, and hand them to somebody outside the deal.

AN ASSET DEAL AND AN INDEMNITY DO NOT SOLVE THIS

An asset purchase leaves successor liability for sales and use tax, payroll tax and a misclassified workforce, which page 28 sets out. An indemnity is a promise to pay money from the person you have just concluded you cannot trust, and once the escrow releases it is usually secured by nothing.

THE STANDING LINE

Whatever you cannot verify before closing, you own after closing.

THE RULE, AS IT ACTUALLY READS

From 1 October the lender orders the quality of earnings at $3 million and above.

EXHIBIT 6 SOP 50 10 8.1, Appendix 15, as it reads

SBA SOP 50 10 8.1 · APPENDIX 15 BOX LAST CHECKED 12 SEPTEMBER 2026

1 **The requirement.** On Initial Acquisition and Business Expansion deals at a Business Purchase Price of $3 million or more, the lender must obtain a quality of earnings as well as the valuation. It has to be independent, for the lender's benefit, and "may not be prepared by or for the borrower or seller." Owner Buyout and ESOP deals are exempt at any size.

2 **The threshold.** Measured on the Business Purchase Price, real estate removed at appraised value, and "independent of total project costs, the application of Borrower equity, structuring of seller debt, or any other measure that would reduce the 7(a) loan amount."

3 **What has to be in it.** A reconciliation of accountant-prepared statements, tax returns, internal statements and IRS transcripts, and a Cash Proof reconstructing receipts and disbursements on a trailing twelve and two prior fiscal years.

4 **What it decides.** "The Lender must use the earnings from the QoE in the Debt Service Coverage (DSC) determination," and where coverage will not support the structure, "the loan amount must be reduced accordingly."

> **"Say you have a buyer who engages their own independent QoE. We're not prohibiting the lender from using that report. However, it has to be reviewed by one of their approved vendors and it can be incorporated into their report."**
>
> SBA OFFICE OF CAPITAL ACCESS · APPENDIX 15 LENDER TRAINING · 26 AUGUST 2026

A TECHNICAL UPDATE IS PENDING

SBA said on the same call that "there's some flexibility that we'll be adding and clarifying in the tech update," and an acquisition lender reported the same buyer-QoE carve-out from a further call on 10 September 2026. On timing the SOP carries one line, "Effective Date: October 1, 2026."

SBA SOP 50 10 8.1, Appendix 15, effective 1 October 2026. Quotation from the Office of Capital Access lender training on Appendix 15, 26 August 2026, transcribed in full and held by LIMESTONE. Written to be reissued when the technical update lands.

READING THE LITERATURE SAFELY

The diligence literature is written for deals ten to a hundred times larger.

A buyer paying $1 million to $5 million reads the same articles a private equity associate reads, and the defaults inside them were built for a different animal. The table names what is true in each band.

EXHIBIT 7 **What is actually true in each deal band**

ENTERPRISE VALUE	HOW IT GETS FINANCED	STRUCTURE	A WORKING CAPITAL PEG	REP AND WARRANTY INSURANCE
Under $1M	Seller note and cash, occasionally a small 7(a)	Asset purchase, almost always	Rare. Working capital passes with the assets and nobody measures it	No
$1M to $5M This is you	SBA 7(a), 10% down, a personal guarantee, a seller note on full standby	Asset purchase, occasionally stock	Sometimes, and usually computed rather than negotiated	No
$5M to $15M	Bank debt with a sponsor, or mezzanine behind it	Stock purchase common	Standard, negotiated, with a collar	Occasionally, above roughly $10M
$15M to $30M	Institutional debt, a credit committee, a rating	Stock purchase or a merger	Standard, with a true-up and an escrow	Routine

LIMESTONE knowledge base. Observed across our own engagements, plus the SBA 7(a) rules below $5M.

WHAT TO IGNORE WHEN YOU READ ABOUT DILIGENCE

Representation and warranty insurance, priced for deals ten times the size. **Locked-box mechanics,** which assume audited accounts you do not have. And above all **the budgets.** Yale's illustrative diligence budget notes that legal transaction services alone, meaning the purchase agreement and the ancillaries, "can be another cost of approximately $100,000 to $200,000 per deal." On a $3 million price that is a third to two thirds of your equity injection.

> **WHY THIS PAGE SITS AT THE FRONT**
>
> Importing a default from a larger deal is among the most expensive mistakes available in this band, because those defaults assume a buyer who can walk away from a bad outcome without it following him home.

A seller's add-back schedule only ever moves the number up.

RYAN ANOSKEY, PARTNER, CPA

A sell-side schedule is an advocacy document, and rebuilding it is most of what the financial work is. The schedule on Hoosier claimed $552.6K and $413.6K of it cleared, which is a respectable hit rate. What it did not carry is the more interesting half. Three adjustments on this business run the other way, and a buyer who misses them pays a multiple of each.

EXHIBIT 8 **The two directions an adjustment can run**

ADJUSTMENTS THE SCHEDULE CARRIED

$413.6K accepted, $139.0K declined

Five of eight items cleared all three gates. The register is on page 14.

Owner compensation above market A $520.0K W-2 against a market benchmark near $270.0K.	250.0
Related-party rent to market Leased from the owner at $360.0K against a market rate near $270.0K.	90.0
Personal spend and the payroll taxes Personal vehicle, travel, club dues and owner insurance, itemized in the register on page 14, plus 3.6 of payroll tax on the excess.	73.6

ADJUSTMENTS IT DID NOT

Three, and all three reduce earnings

Maintenance capital expenditure Capex of $51.0K against depreciation of $162.0K. A business spending a third of its depreciation is deferring something the buyer meets after closing.	(111.0)
The rent add-back, if the lease does not reset The real estate does not convey, so the $90.0K rests on a landlord who is also the seller signing at $270.0K before closing.	(90.0)
Sales and use tax, unregistered Three neighboring states, likely economic nexus, no registrations found, plus penalties. A liability rather than an adjustment, and it belongs in the price.	(60.0) to (90.0)

Hoosier Supply Co. (illustrative), a fictional composite used across LIMESTONE's published samples. $ in thousands, trailing twelve months to 30 June 2026. None of the three right-hand items appears on any sell-side schedule we have tested.

SOURCE engagement model, tabs qoe.AddBackSupport and qoe.TaxFlags.

Every earnings figure starts at a number somebody signed under penalty.

RYAN ANOSKEY, PARTNER, CPA

Work up from the return rather than down from the broker's number, because the return is the one figure in the file that carries a signature and a penalty behind it. Each rung below names the document that proves it, and a rung without a document is a rung you have accepted on somebody's word.

EXHIBIT 9 **The earnings ladder, from the filed return upward**

RUNG	THE DOCUMENT THAT PROVES IT	FY2025 ($000)
Ordinary business income per the federal return	Form 1120-S, line 21, agreed to the IRS Record of Account transcript	416.5
Depreciation in excess of book	Section 179 and bonus, Schedule M-1	80.0
Meals at fifty percent, penalties, officer life	Schedule M-1, each line recomputed	(12.0)
Net income per books	**Ties to the internal profit and loss statement**	**484.5**
Interest expense	General ledger, agreed to the loan statements	50.0
Depreciation	General ledger and the fixed-asset register	162.0
EBITDA as reported	**Recomputed, not taken from the broker's package**	**696.5**
Tested add-backs	The add-back register, FY2025 portion. Page 14	413.6
Adjusted EBITDA, FY2025	**The number a lender underwrites**	**1,110.1**

Hoosier Supply Co. (illustrative), fiscal year 2025. $ in thousands. The trailing-twelve figures on page 14 run higher, at $833.5K reported and $1,247.1K adjusted; the ladder is set on a filed year because that is where the signature is. All three returns are filed, gross receipts tie the books in every year, and Schedule M-1 closes to zero each year.

SOURCE engagement model, tab qoe.Waterfall.

> **THE CHEAPEST TEST IN FINANCIAL DILIGENCE**
>
> Yale puts it in one line. Compare EBITDA to the net income on the tax return. Here the gap between book net income of $484.5K and reported EBITDA of $696.5K is $212.0K, and it is interest of $50.0K plus depreciation of $162.0K. It reconciles to the dollar. Where a gap that size cannot be explained in two lines, stop on this page and start asking.

An add-back goes on the schedule only if it is real, provable and defensible.

RYAN ANOSKEY, PARTNER, CPA

A seller hands you a number and a list of reasons it should be higher. Every line on that list has to clear three gates before it goes back on, and the gate a line fails tells you something about the seller as well as about the cost.

EXHIBIT 10 The three gates an add-back has to clear

GATE 1

Real

There is a legitimate reason this is not a go-forward operating cost: non-recurring, personal, related-party, or a normalization to market or to accrual. The owner's word is not a reason.

GATE 2

Provable

The amount ties to a source: the ledger, the return, a bank statement, an invoice or the payroll register. A round figure for personal spending stays off until it is itemized.

GATE 3

Defensible

We would explain it out loud, with the support in hand, to a skeptical credit committee. If either of us would hedge, it does not clear.

THE TWO RULES THAT SIT OVER THE SCHEDULE

Costs travel with the revenue they produced. An expense cannot leave the model while the revenue it generated stays in it. And **infrequent is not one-time.** A machine rebuild every five years belongs in the earnings stream, spread across the cycle, with the basis stated.

The three gates are LIMESTONE's own test, applied on every engagement.

> **"I've had both of these on the same schedule. The bracelet he bought his wife comes back to earnings. The gold watch every tenured retiree gets stays in them, because that one runs to the people who are staying and you'll be paying it too. Strike it and you're not modeling this company any more."**

RYAN ANOSKEY · PARTNER, CPA

Three of these eight add-backs did not clear.

RYAN ANOSKEY, PARTNER, CPA

Showing them is what makes the other five believable. Every item the seller put forward is below with the gate it failed, and the three that did not clear are worth $139.0K of earnings, which at four times is $556K of price resting on costs that do not go away.

EXHIBIT 11 **The adjustments register, as tested**

ITEM	WHAT IT RESTS ON	$ IN THOUSANDS	RESULT
Excess owner compensation	A W-2 of 520.0 against a market general manager benchmark near 270.0	250.0	Taken
Related-party rent to market	Warehouse leased from the owner at 360.0 against a market rate near 270.0	90.0	Taken
Personal and discretionary expenses	Itemized: vehicle leases 33.0, travel and meals 9.0, club dues 18.0, insurance 10.0	70.0	Taken
Payroll taxes on the excess compensation	Employer payroll taxes attaching to the excess above. They travel with it	3.6	Taken
One-time legal settlement	Supplier dispute settled September 2024, so 95.0 sits outside the measurement window	nil	Taken
Accepted, trailing twelve months		**413.6**	
Rebrand and website, claimed one-time	85.0 claimed in FY2025. Brand spend recurs on a refresh cycle. Fails gate 1	(85.0)	Declined
Estimated personal expenses	A round number, no ledger tie, not itemized. Fails gate 2	(30.0)	Declined
Marketing program, claimed one-time	Lead generation recurs at 2 to 4 percent of revenue every year. Fails gate 1	(24.0)	Declined
Adjusted EBITDA, trailing twelve months	**Reported EBITDA of 833.5 plus the accepted items**	**1,247.1**	

Hoosier Supply Co. (illustrative), a fictional composite used across LIMESTONE's published samples. $ in thousands. Accepted items are the trailing twelve months to 30 June 2026; each declined item is shown at the amount claimed in the period it was claimed, which is how the three total 139.0.

SOURCE engagement model, tab qoe.AddBackSupport.

Reported revenue and bank deposits are two different claims.

Ryan Anoskey, Partner, CPA

WHAT IT MEASURED

0.05%

The variance this reconciliation actually landed on across two fiscal years. One percent is the tolerance; reporting the number you hit is the discipline.

A proof of cash reconstructs receipts and disbursements from the bank statements and reconciles them to the income statement and the return. SBA now requires one on every mandated report, and it is the procedure a buyer should never let a provider scope out.

EXHIBIT 12 Proof of cash: receipts tested, disbursements reconciled

PERIOD	EXPECTED	BANK AND PROCESSOR	RESULT
FY2024	9,930.0	9,934.9	**Pass, 0.05% over**
FY2025	10,657.0	10,662.8	**Pass, 0.05% over**
Trailing twelve	10,930.0	10,927.8	**Pass, 0.02% under**

DISBURSEMENTS, TRAILING TWELVE MONTHS: WHAT LEFT THE BANK, AND WHY

Total payments out of all operating accounts	11,256.4
Transfers between its own accounts 312.0, owner distributions 420.0, debt service 128.0	(860.0)
Capital expenditure 51.0, sales tax collected and remitted 201.9	(252.9)
Attributable to operations	**10,143.5**

Hoosier Supply Co. (illustrative). $ in thousands. Expected disbursements are revenue of 10,977.0 less reported EBITDA of 833.5, which is 10,143.5, so the tested figure ties exactly. Tolerance is one percent monthly and cumulative. Statements were obtained from January 2024 forward, so FY2023 sits outside the bank scope by design.

SOURCE engagement model, tab qoe.ProofOfCash.

> **WHAT THIS CATCHES THAT NOTHING ELSE DOES**
>
> **Income that was never operating revenue. It sits in the revenue line, it foots, and only a reconciliation to the deposit finds it. Read this beside page 7, though. A tie at 0.05 percent says nothing about how a cost was classified.**

SDE runs $285K above adjusted EBITDA and the lender uses the smaller one.

RYAN ANOSKEY, PARTNER, CPA

Seller's discretionary earnings adds back a market wage for the seat the owner occupies, on the reasoning that the buyer will occupy it himself. Adjusted EBITDA leaves the wage in, because somebody has to do the job. Both are defensible, and a buyer handed a multiple against one who models it against the other misprices the business badly.

EXHIBIT 13 **Seller's discretionary earnings against adjusted EBITDA**

Adjusted EBITDA, trailing twelve months Every add-back that cleared all three gates. The figure a 7(a) lender measures coverage on.	**1,247.1**
Add back a market wage for the owner's seat A market general manager's compensation and the payroll taxes attaching to it.	**+285.4**
Seller's discretionary earnings The figure a Main Street broker quotes, and the figure most listing packages carry.	**1,532.5**

$4,988K

Four times adjusted EBITDA. This is what the lender will lend against and what the valuation has to support.

$6,130K

Four times SDE. The same multiple against the larger number, and $1,142K more price for the same business.

Hoosier Supply Co. (illustrative). $ in thousands, trailing twelve months to 30 June 2026. The four times multiple is illustrative; LIMESTONE expresses no conclusion of value.

SOURCE engagement model, tab qoe.SDE.

THE REGISTER RULE, AND WHERE THE LINE SITS

SDE marks a Main Street deal and adjusted EBITDA marks the lower middle market, and the conventions cross at roughly $1 million of EBITDA. Below that line a buyer usually replaces the owner in the job; above it he usually hires somebody, which is why the wage stays in the model. Ask which number a multiple was quoted against.

Verified earnings can still walk out the door when the owner does.

Part one asked whether the number is accurate. This part asks whether it is transferable, which is a different question with a different answer and no overlap in the procedures. A business can be thoroughly profitable and only lightly transferable, and the financial work will never tell you which one you are buying.

EXHIBIT 14 **Where the earnings sit, and who holds them**

42%

of Hoosier Supply's revenue sits in customer relationships the owner holds personally. The earnings are real, cash-backed and tested. Whether they travel to a new owner is the subject of the rest of this part.

24%

of revenue in the single largest account, which buys on open purchase orders with nothing to assign

70%

of revenue in the top ten accounts, across twenty-one active customers

3 *of* 5

critical seats held by the owner, and no successor named for any of the three

Hoosier Supply Co. (illustrative), a fictional composite used across LIMESTONE's published samples. Trailing twelve months to 30 June 2026. *Source* LIMESTONE engagement model and the operational diligence file, tabs qoe.Concentration and opdd.Seats.

SBA carries two different concentration thresholds in the same rulebook.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

Ask four people what customer concentration is too much and you will hear four numbers, which is why we publish the dispersion rather than pick one. The regulator that just mandated the report supplies two of the three by itself, depending on which document you read.

EXHIBIT 15 **Three concentration thresholds, and where this deal lands**

WHO HOLDS THE LINE	THE NUMBER	WHERE IT COMES FROM, AND WHAT IT DOES TO YOUR DEAL
SBA, testing the earnings	None	Appendix 15 requires the report to assess "customer concentration risk, contract continuity, and the likelihood that existing revenue and margins will be maintained post-sale," and sets no number. Mandatory assessment, lender's conclusion.
SBA, lending against the receivable	20%	On a working capital line, "accounts from any one customer that constitute more than 20% of the total outstanding receivables should not be included in the eligible borrowing base" unless one of five narrow conditions is met.
LIMESTONE, in the work	15 to 20%	Where we flag an account and test it rather than describe it: the reference call, the contract status, pricing history, and who the customer calls when something breaks.
Where this deal lands	24%	Hoosier's largest account, with 70% in the top ten across twenty-one customers. Not one of the contracted accounts, and it buys on open purchase orders, so there is nothing to assign.

Quoted from SOP 50 10 8.1: Appendix 15 Para. C.1 for the earnings test, the Working Capital CAPLine requirements for the borrowing base. **Hoosier Supply Co. (illustrative),** trailing twelve months.

SOURCE engagement model, tab qoe.Concentration.

THE CONSEQUENCE NOBODY JOINS UP

A 24 percent account is a paragraph in the earnings report and a hole in the collateral. If the concentration carries through to receivables those invoices leave the eligible borrowing base, which cuts the day-one availability on the line of credit that page 34 uses to lift coverage from 1.34x to 1.52x.

Do not let the seller choose all six customers.

Jared Luegers, Founder and Managing Partner, CFA

A curated list of happy customers tells you nothing you could not have guessed. Ask the seller for the whole account list, then select against the frame below and give him one pick of his own. Five rules govern the calls before you dial any of them.

THE CAP, AND WHY

Six

Calls, and a seventh is a change order. The cap is there because a seventh call has never changed a conclusion and it always costs the seller goodwill.

1. **Buy-side only.** On a live sell-side deal we never contact a seller's customers, including for an informal call.
2. **Written consent, through the seller.** He introduces us, or he approves the list and the outreach in writing. Never a cold call.
3. **Never disclose the transaction.** If a customer works it out and asks directly, deflect once and move on.
4. **Six calls.** A seventh is a change order, priced and approved before it happens.
5. **No recording** without explicit verbal consent captured at the top of the call.

EXHIBIT 16 Selecting the six customers to call

Two of the top five	By revenue. Concentration is the point of the exercise, so the largest relationships are not optional.
One long-tenured	Five years or more. Tests what the relationship is built on, and whether the answer is a person.
One recent win	Inside eighteen months. Tests whether the business can still win work without the owner in the room.
One at-risk account	Where the data shows one. This is the call that earns the fee, and the seller will resist it.
One free pick, his	Give him one. It buys cooperation and it occasionally surprises you.

LIMESTONE operational diligence method, buy-side only.

> **THE REFUSAL IS THE FINDING**
>
> If the seller will not let you speak to the at-risk account, that refusal goes in the report as a finding in its own right. It is the one item on this page that produces a result whether the call happens or not, and it is the reason the at-risk name is requested in week two rather than week six.

The third question is the one the call is for.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

Fifteen minutes, and candid is more useful than polite. Question three produces relationship-based dependency out of the customer's own mouth rather than the owner's, and if the answer is a first name it goes to page 37.

EXHIBIT 17 **The thirteen questions, published in full**

RELATIONSHIP AND ORIGIN

1. How long have you worked with them, and how did that start?
2. Who do you deal with day to day?
3. **Who do you call when something goes wrong?**

DURABILITY, WHICH IS WHAT THE BUYER IS PAYING FOR

7. Is there a contract, or is it a rolling relationship?
8. When did you last look at alternatives, and what happened?
9. **If they raised prices five percent, what would you do?**
10. **What would have to happen for you to move your business?**
11. Do you expect your volume to go up, down or stay flat, and why?

PERFORMANCE

4. What do they do well?
5. Where do they let you down?
6. **Have you had a service failure? What happened next?**

THE OPEN CLOSE

12. If you were advising someone about working with them, what would you say?
13. Anything I should have asked and did not?

LIMESTONE customer reference-call guide, buy-side only. The four in gold carry the read: dependency, failure recovery, pricing power, switching cost. Nothing is attributed by name without consent, and six calls is a small sample the report has to acknowledge. A write-up gives the count, the share of revenue and what the customers said. A line like "customers love working with the company" is not a finding.

> **"Six customers representing roughly forty percent of trailing revenue were interviewed. Four described the relationship as tied to a specific individual rather than to the business. None had a written contract beyond a purchase order."**

FROM THE LIMESTONE OPERATIONAL DILIGENCE STANDARD, ON WRITING UP THE CALLS

A change-of-control clause lets your largest customer leave the week you take over.

Jared Luegers, Founder and Managing Partner, CFA

WHAT IS BEHIND THE ACCOUNT

Nothing

In writing behind Hoosier's largest account. That removes the consent problem and removes the notice period with it, which is the trade nobody prices.

This page is mechanical and it is where the legal work meets the durability question. Every item below is a consent, an assignment or a license that somebody outside the deal controls, and each one is a place where a signed purchase agreement does not finish the job.

EXHIBIT 18 **Consents, assignments and licenses somebody else controls**

Customer contracts ASSIGNMENT AND CHANGE OF CONTROL	Read the assignment clause on every contract worth more than a rounding error. An anti-assignment clause turns an asset purchase into a consent exercise, and a change-of-control clause reaches a stock purchase too. **Hoosier's top account has no contract at all.**
Supplier and dealer agreements TERRITORY, REBATE, EXCLUSIVITY	Distribution rights and buying-group membership frequently do not survive a change of ownership, and the rebate program behind a chunk of gross margin can be one of them.
The real property lease CONSENT, TERM, RENEWAL	Where the building belongs to the seller the lease must be re-struck at market before closing, and the add-back for above-market rent rests on it. Page 11 has the arithmetic.
Licenses and permits TRANSFERABLE, OR REAPPLIED FOR	Some transfer, some do not, and some need a new application with a processing time nobody built into the ninety days.

LIMESTONE operational diligence method, from the contract file review.

WHAT THE SEARCHES WILL NOT TELL YOU

Lien, UCC and judgment searches find recorded interests and nothing at all in a contract file, so a consent problem is found by reading the agreements or not found.

Owners call all three of these recurring.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

Management described about ninety percent of Hoosier's revenue as repeating, and tested against the data the claim holds at eighty-nine. The total was right; the composition is what matters, because only the first band carries anything in writing.

EXHIBIT 19 **Revenue character, tested against management's claim**

Contracted
Annual pricing letters and supply agreements. The largest account is not among them.

Repeat, evidenced
Accounts that also purchased in each prior fiscal year, with nothing in writing.

One-time
Re-won order by order, every order.

> **How the middle band was tested.** By purchase history in each prior fiscal year rather than by management's description. One account ran from $445.7K in FY2024 to nil after a 2025 service failure, the only meaningful loss in three years, and growth absorbed it.

Hoosier Supply Co. (illustrative), trailing twelve months.

SOURCE engagement model, tab qoe.RevenueCharacter, from the sales system customer detail and the contract file.

TEST ONE

Cohort retention

Take the accounts live three years ago and ask how many still buy, and at what volume.

TEST TWO

Pricing power

Find the last price increase, when it went out, and who pushed back on it.

TEST THREE

Backlog, as evidence

Signed orders with dates are evidence. A weighted pipeline is a forecast.

> **THE TRAJECTORY POINT MOST GUIDES MISS**
>
> Concentration is a direction as well as a level. An eleven percent account becomes a thirty percent account in four years if it grows faster than everything else, and the number on the page today tells you nothing about which way it is heading. Ask for the top ten by revenue in each of the last three years and read how the ranking moved.

The purchase price is not what the deal costs you.

RYAN ANOSKEY, PARTNER, CPA

Two columns of cash run through every acquisition and they are rarely put side by side. On the left is what the seller receives, which is the price adjusted for debt he leaves behind and working capital he leaves in. On the right is what you have to produce, which is the injection, the fees and the working capital the business needs before it earns any.

EXHIBIT 20 **Two columns of cash: what he receives, what you produce**

WHAT THE SELLER RECEIVES

Enterprise value Illustrative, at four times adjusted EBITDA	5,000.0
Funded debt assumed or repaid A regional-bank term note, no covenants	(593.0)
Debt-like items Reviewed, none identified. Page 27	nil
Working capital delivered above the peg Settled in his favor	27.9
Equity to the seller	**4,434.9**

What he nets after his broker, his counsel and his own tax is his business. It is also why “I need five million” is usually a statement about his retirement.

WHAT YOU HAVE TO PRODUCE

Equity injection, ten percent Unwaivable on an initial acquisition	500.0
Diligence, all in Page 6, on this deal	48.5
Lender fees: packaging, valuation, guaranty The guaranty fee alone is 124.1	130.1
Working capital above what the loan funds The seasonal trough falls in January	100.0
Less the valuation and the review, which count as equity Appendix 15 allows both toward the injection	(18.5)
Cash out of your account	**760.1**

Hoosier Supply Co. (illustrative), a fictional composite used across LIMESTONE’s published samples. $ in thousands. The four times multiple and the $100.0K working capital cushion are illustrative; LIMESTONE expresses no conclusion of value. Page 6 prices the same stack on a $3.0M purchase price, where the guaranty fee is $73.4K; this deal is larger, so the loan and the fee are larger with it.

SOURCE engagement model, tab qoe.EquityBridge.

A working capital peg can be calculated correctly and still be wrong.

RYAN ANOSKEY, PARTNER, CPA

This is the distinction the category does not draw, and it is the one that costs buyers money. A computed peg answers what the balances averaged. A tested peg answers whether those balances are collectible, saleable and owed. The arithmetic can be immaculate and the number still wrong, because averaging a receivable nobody will pay produces a confident figure about nothing.

EXHIBIT 21 **The computed peg against the tested peg**

WHAT ALMOST EVERYONE DELIVERS

The computed peg

Twelve month-end balances of current assets excluding cash, less current liabilities excluding debt, averaged. On Hoosier that is **$1,297.1K**, which is 11.8 percent of trailing revenue and correct to the dollar.

What has this business historically carried?

WHAT WE DELIVER ALONGSIDE IT

The tested peg

The same arithmetic, after aging the receivables, testing the inventory for saleability and obsolescence, and confirming that accrued liabilities are complete rather than convenient.

How much of that converts to cash for you?

WHAT THE TESTING FOUND ON THIS BUSINESS

Days inventory on hand runs at **61** against a 45-to-75 band, which reads comfortable until you age it. The computed peg carries the slow-moving portion at cost because that is what the balance sheet says it is worth. A buyer who accepts the computed figure as a negotiated one is funding somebody else's working capital and calling it a purchase price.

Hoosier Supply Co. (illustrative). $ in thousands, trailing twelve months to 30 June 2026. Working capital is defined as current assets excluding cash less current liabilities excluding debt, on a cash-free and debt-free basis.

SOURCE engagement model, tabs qoe.AdjustedNWC and qoe.WCDays.

> **“An inaccurate working capital peg might mean the searcher pays for inventory that is gone by 12:01 AM on the day they take over as CEO.”**

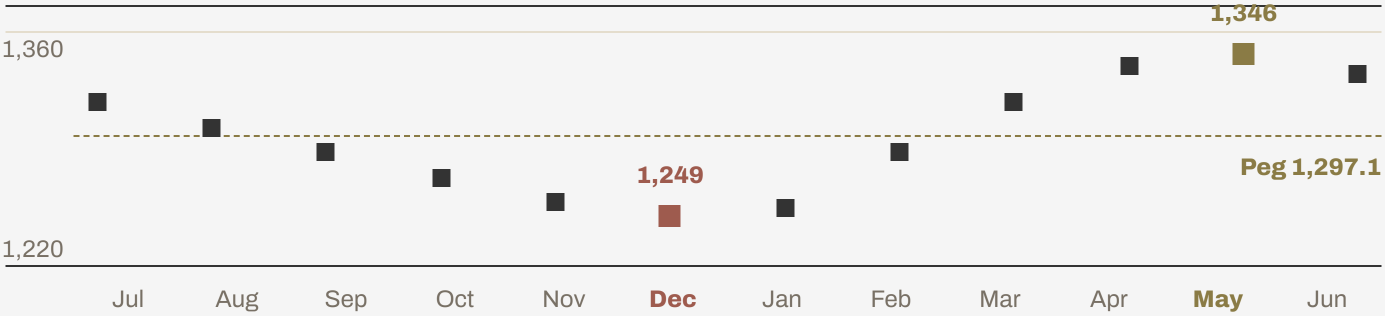
JACOBS AND WASSERSTEIN · YALE SCHOOL OF MANAGEMENT · 2022

A peg set on the wrong month is an accident rather than a number.

RYAN ANOSKEY, PARTNER, CPA

Four methods, four answers, landing within $53K of each other here, so no method distorts the price. Where a business is growing or genuinely seasonal that spread widens fast, and the month the peg sits on starts deciding the number.

EXHIBIT 22 **Month-end working capital, and the four peg methods**



METHOD	RESULT	WHEN TO USE IT
Trailing twelve-month average	1,297.1	Recommended here. It smooths the December and January trough, where the operating account ran brief overdrafts.
Six-month average	1,319.7	For a business growing fast enough that a year-old month no longer represents it.
Three-month average	1,327.7	The most exposed to whichever season you happen to close in.
Same month, prior year	1,275.0	A cross-check rather than a method, for a seasonal close date.

Hoosier Supply Co. (illustrative). $ in thousands. Twelve month-end adjusted balances, rounded; the trailing twelve-month average is 1,297.1. The vertical axis runs from 1,220 at the rule to 1,360 at the top and does not start at zero, because a series between the December trough of 1,249 and the May peak of 1,346 shows nothing at all on a zero baseline.

SOURCE engagement model, tab qoe.AdjustedNWC.Mo.

THE QUESTION TO ASK YOUR ADVISER

Which month-end balances went into this, and what would the peg be on the other three methods? Working capital adjustments now appear in more than 90 percent of private-target transactions, up from 50 percent a decade ago, so this is a standard conversation rather than a difficult one.

On an SBA deal the true-up you were promised may not be available.

EXHIBIT 23 The true-up mechanic on a 7(a) change of ownership

SBA SOP 50 10 8.1 · APPENDIX 15, PARA. A.1

BOX LAST CHECKED 12 SEPTEMBER 2026

Working capital adjustments are standard in private-target deals and they normally settle sixty to ninety days after closing. On a 7(a) change of ownership the mechanic is asymmetric, and the asymmetry is written into the rulebook rather than negotiated by your lender.

NOT AVAILABLE

Money moving to the seller after closing

"Seller earnouts are prohibited." Four words, and they remove the instrument the operational read on page 39 would otherwise reach for. A post-closing payment to the seller contingent on anything is outside the program.

Escrow closings are also capped. A lender may use one "for not more than 5 business days to facilitate a loan closing." A sixty-day adjustment window has nowhere to sit inside five business days.

AVAILABLE, WITH A CONDITION

Money moving back to you

"Buyer rebates based on business performance are allowed because this is a benefit to the Borrower." A downward adjustment in your favor is structurable, and it has a name.

The condition is where it lands: "If the Borrower receives funds based on a rebate from the seller, proceeds must be applied to pay down the principal balance of the 7(a) loan." It reduces your debt rather than reaching your pocket, and under 13 CFR 120.223 it triggers no subsidy recoupment fee.

WHAT TO DO WITH THIS AT THE NEGOTIATING TABLE

Settle working capital at closing with a peg you have tested rather than computed, because the post-closing remedy is narrower than the one your counsel is used to drafting. Where an adjustment has to survive closing, structure it as a buyer rebate and price it knowing it pays down principal. And check the arithmetic. Total debt supporting the transaction is limited to the business valuation amount, and any excess has to come in as additional equity on full standby, which page 33 quotes in full.

SBA SOP 50 10 8.1, Appendix 15 Para. A.1 for earnouts and rebates and Para. C.2 for the equity treatment; Section B, Ch. 2 for the five-business-day escrow limit. Effective 1 October 2026. Quotations are verbatim. This page is written to be reissued when the technical update lands.

Accrued time off and unpaid tax are money you owe the morning after closing.

RYAN ANOSKEY, PARTNER, CPA

Debt-like items are obligations that behave like debt and do not look like it on the face of a balance sheet. Each is a line an experienced buyer deducts from the price, and the procedure is to name the category, test it, and report the result even when the result is nil.

EXHIBIT 24 Debt-like items, reviewed and reported

CATEGORY	RESULT	WHY IT DOES NOT LOOK LIKE DEBT, AND WHERE IT HIDES
Accrued paid time off	CLEAR	Earned, unused, payable in cash the day anyone leaves. On a cash-basis book it appears nowhere.
Customer deposits and prepayments	CLEAR	Cash already received for work not yet done: revenue on the way, an obligation today.
Unremitted sales and payroll tax	CLEAR	Collected in trust and owed to a state. It survives an asset purchase; page 28 covers that.
Deferred compensation and bonuses	CLEAR	Promised for a period the buyer owns. Usually undocumented, and always remembered at closing.
Accrued owner distributions	CLEAR	Declared and unpaid on an S corporation. Reads as equity, behaves as a payable.
Aged payables, and capital leases	CLEAR	A supplier financing the business without a note, and debt with a different word on the document.

THE RESULT ON THIS BUSINESS, REPORTED AS FOUND

All six came back clear, so the debt-like adjustment on the equity bridge is zero. A nil result is still a finding and it belongs in the report, because a report with no debt-like section has not told you whether the work was done.

Hoosier Supply Co. (illustrative).

SOURCE engagement model, tab qoe.DebtSchedule, from the debt schedule, payroll register, accrual detail and state filings. Deferred maintenance is not a liability and is on page 11.

THE TAKEAWAY

Every one of these is priced by deducting it from what you pay, so every one has to be found before the purchase agreement is signed.

An asset purchase does not wash away sales tax or a misclassified workforce.

Ryan Anoskey, Partner, CPA

WHERE OUR SCOPE STOPS

Three

States with likely economic nexus and no registration found, at sixty to ninety thousand plus penalties. We identify and quantify these. Clearance certificates, voluntary disclosure and reclassification are tax specialist work, and the referral is part of the engagement.

Most buyers in this band buy assets partly because they were told it leaves the liabilities behind, and it leaves most of them behind. Tax is where the reasoning stops. Several states attach the obligation to the business rather than the entity.

EXHIBIT 25 **Tax exposures found, and what each costs to settle**

EXPOSURE	ON THIS DEAL	WHAT WAS FOUND, AND WHAT IT COSTS TO SETTLE
Sales and use tax, economic nexus	60 TO 90	Three neighboring states with likely economic nexus and no registrations found, plus penalties. Settled through voluntary disclosure and an escrow.
Worker classification	20 TO 40	Two long-tenured 1099 contractors who look employee-like. Reclassification re-burdens earnings going forward, which moves your coverage ratio.
Local and franchise filings	QUESTION	One county gross-receipts filing appears missed. The amounts are usually small and the penalty regime is not.

Hoosier Supply Co. (illustrative). $ in thousands.

SOURCE engagement model, tab qoe.TaxFlags, from the state filings, the payroll register and the general ledger.

> **“Two 1099 contractors who’ve worked the counter for nine years is a payroll question with nine years behind it. I’d fix it before closing, because the state finds these eventually and by then it’s yours.”**
>
> RYAN ANOSKEY · PARTNER, CPA

Run the searches before you need them, because they take longer than you think.

Ryan Anoskey, Partner, CPA

WHAT IT COSTS

$1,500

And about a week. The cheapest work in this book, and the only work that needs nothing at all from the seller.

These cost $1,500 and a week, and they belong in week one of exclusivity rather than in week ten alongside the loan closing. Every one of them turns up recorded interests and none of them reads a contract, so what they find is narrow, cheap and worth having early.

EXHIBIT 26 The searches, and what each one actually finds

UCC-1 financing statements SECRETARY OF STATE, EVERY STATE	Every lien against the assets you are buying, in every state the business has operated or held equipment. Stale filings from paid-off loans are common and have to be released before closing.
Judgment and litigation COUNTY AND FEDERAL	Docket searches in every county of operation and the federal district. What it misses: a dispute that has not been filed yet, which is why you also ask the question out loud.
Tax liens FEDERAL, STATE, COUNTY	Filed liens only. An unpaid liability that nobody has assessed yet does not appear, which is the entire point of page 28.
Entity good standing AND EVERY NAME IT HAS USED	Formation, amendments, registered agent and assumed names. Search every historical name and affiliate, because filings follow the name rather than the business.
Bankruptcy and the principals FEDERAL, BY NAME	PACER, on the seller and on every entity he has controlled. A prior filing is not disqualifying, and it changes how you read the rest of the file.
Fixtures and titled assets VEHICLES AND EQUIPMENT	Titles for anything on wheels, and fixture filings on anything bolted down. SBA requires a lien on a vehicle valued above $20,000 at the time the loan number is assigned, so the list matters to your lender too.

LIMESTONE method. The lien requirement on a vehicle above $20,000 is SBA SOP 50 10 8.1.

SEQUENCED ONTO THE REQUEST LIST

All six sit near the top of the request list on page 42, which is ordered by production time rather than by subject. The searches do not need the seller at all, which is exactly why they should be running while you are still waiting on him.

4

PART FOUR OF FIVE

Can it carry the debt?

1 Earnings | 2 Durability | 3 Day one | **4 Debt** | 5 Running it

The loan decides the price more than the multiple does.

RYAN ANOSKEY, PARTNER, CPA

Most first-time buyers meet this arithmetic late, usually after they have agreed a number. The price you can pay is whatever the coverage floor, the amortization and the program cap will finance, plus the equity you can put in, and a multiple of earnings has nothing to do with it. Work it in that order and the multiple falls out at the end as a description rather than an input.

EXHIBIT 27 **How the loan, not the multiple, sets the price**

Adjusted EBITDA, tested Page 14. The figure the lender is required to use once a quality of earnings is in the file.	**1,247.1**
Maximum annual debt service at the 1.25 coverage floor Divide, do not multiply. This is the whole constraint.	**997.7**
The loan that service will carry, ten years at ten percent SBA caps the rate on a loan above $350,000 at the prime rate plus three percent.	**6,291.3**
The 7(a) program maximum, which binds first Maximum loan $5.0M, maximum SBA guaranty $3.75M.	**5,000.0**
Total project cost the structure supports at a ten percent injection $5,000.0 of loan plus $555.6 of equity.	**5,555.6**

Hoosier Supply Co. (illustrative). $ in thousands. Ten-year amortization at ten percent, on a business purchase price with no real estate. Coverage floor, guaranty maximum and the rate ceiling from SBA SOP 50 10 8.1; the payment arithmetic is ours. The project cost is 4.5 times the tested earnings, which describes the structure rather than setting it. LIMESTONE expresses no conclusion of value.

> **THE ORDER TO WORK IT IN**
>
> **Start at the tested earnings, divide by the coverage floor your lender applies, price the loan that payment will carry at the real amortization, then add the equity you can put in. The multiple is what you write down at the end of that.**

The quality of earnings now decides the earnings coverage is measured on.

RYAN ANOSKEY, PARTNER, CPA

Coverage is 1.25 to one on an initial acquisition, 1.15 on a business expansion, and one to one globally in both. SBA says which earnings go into it: “The Lender must use the earnings from the QoE in the Debt Service Coverage (DSC) determination.” Projections may be evaluated and not relied upon. The add-back argument and the financing argument became the same argument on 1 October.

EXHIBIT 28 What the 7(a) maximum costs, and the earnings it needs

	ANNUAL DEBT SERVICE		
7(A) TERM LOAN	AT 8.5%	AT 10.0%	ADJUSTED EBITDA NEEDED AT 1.25X
2,000.0	**297.6**	**317.2**	372.0 to 396.5
3,000.0	**446.3**	**475.7**	557.9 to 594.7
4,000.0	**595.1**	**634.3**	743.9 to 792.9
5,000.0, the maximum	**743.9**	**792.9**	929.9 to 991.1

$ in thousands, ten-year amortization, monthly payments. Coverage floors from SBA SOP 50 10 8.1 Appendix 15 Para. C.2; Above $350,000 the rate ceiling is the base rate plus three percent. Payment arithmetic is LIMESTONE’s.

WHAT THAT MEANS ON THIS BUSINESS, AND ON ONE $350K SMALLER

Hoosier’s tested $1,247.1K carries the $5.0M maximum at **1.68x** coverage at 8.5 percent and **1.57x** at ten, so the program cap binds before the coverage floor. Move down one band and it reverses. A business at $900K of adjusted earnings is $91K short of the maximum loan at ten percent, and the three add-backs declined on this deal are worth $139.0K. On a smaller business those three items decide whether there is a deal.

OUR OWN LENDER SUMMARY, BUILT ON SBA’S LIST

Appendix 15 names the adjustments a lender may make: unfunded capital expenditures, non-recurring income, distributions, distributions for S-corporation taxes, seller discretionary expenses and ownership compensation. Every report we issue carries a one-page bridge built on exactly that list, in that order, so a credit analyst can lift it into the memorandum without re-deriving anything.

The same cash flow clears 1.15 on twenty-five years and 0.75 on ten.

RYAN ANOSKEY, PARTNER, CPA

The mixed-use loan is gone for changes of ownership, and with it the twenty-five year amortization on the business portion. Two structures remain: two separate loans, ten years on the business and up to twenty-five on the real estate, or one blended maturity on a weighted average taken before any equity is applied. The figures below are SBA's own, from its own training session.

EXHIBIT 29 The same loan on two amortizations

THE STRUCTURE THAT IS GONE

1.15x

The same company, the same cash flow, the same payment, on a **twenty-five year amortization.** It cleared.

THE STRUCTURE THAT REMAINS

0.75x

"Then you take the same loan and you tighten the amortization to 10 years. All of a sudden you have a 0.75 to 1." **Nowhere close to qualifying.**

STRUCTURE ONE

Two separate loans

Ten years on the business, up to twenty-five on the real estate. The business portion carries its own ten-year payment whatever the building does.

STRUCTURE TWO

One blended maturity

A weighted average of the two uses, rounded to the nearest year and taken **before any equity is applied,** so you cannot pay down one leg to lengthen the other.

SBA Office of Capital Access, Appendix 15 lender training, 26 August 2026, on a $2 million change of ownership at prime plus 2.875 percent. Our own arithmetic reproduces it: the annual payment on $2,000.0K at 8.5 percent is $193.3K over twenty-five years and $297.6K over ten, so the same cash flow produces 65 percent of the coverage. SBA's stated reason: at the end of year ten under the longer amortization "the borrower will have only repaid less than 18% of the principal."

> **"When you need 25 years to stretch that business acquisition further out, it's the same company, it's the same cash flow, it's a weaker credit overall is what it allows for."**

SBA OFFICE OF CAPITAL ACCESS · APPENDIX 15 LENDER TRAINING · 26 AUGUST 2026

Ten percent is the floor on an initial acquisition and it cannot be reduced.

RYAN ANOSKEY, PARTNER, CPA

Appendix 15 is unusually plain here: "For Initial Acquisitions, the required equity injection cannot be reduced or eliminated." Business expansions and owner buyouts can have theirs reduced or removed where the lender is satisfied on liquidity, and an initial acquisition cannot. Where the money comes from is governed as tightly as how much of it there is.

EXHIBIT 30 The equity injection, as it now reads

THE RULE	THE NUMBER	HOW IT WORKS, AND WHAT IT RULES OUT
Minimum injection	10%	Of the total project cost, including any fees financed into the loan. "For Initial Acquisitions, the required equity injection cannot be reduced or eliminated," at any size.
From the principals	5%	"We need the principals bringing in a minimum 5% of the equity." The other half can come from elsewhere, within the cap below, and a lender will want to see it land in the account.
Cap on limited sources	50%	Seller debt on full standby and non-controlling minority equity, individually or together, may supply no more than half the requirement. The cap now applies across both categories, where the prior SOP was silent.
Seller note, to count as equity	Full standby	No principal and no interest for the whole term of the 7(a) loan. Interest may accrue and be paid after the 7(a) loan is gone. Refinanceable after 36 months of being in place and current.
Where the price runs ahead of the value	Standby	Where the sales price exceeds what the valuation and the quality of earnings support, the difference must come in as additional equity, and it must be on full standby.

SBA SOP 50 10 8.1, Appendix 15 Para. C.2, and the Office of Capital Access lender training of 26 August 2026 for the quoted five percent. Effective 1 October 2026.

WHAT GETS BUILT INSTEAD OF AN EARNOUT

Seller earnouts are prohibited on these deals, which page 26 covers. What survives is a seller note on full standby, counted as equity and refinanceable after three years, and a buyer rebate that pays down principal. Both are worth negotiating; neither pays the seller for a transition he did not complete.

Moving working capital onto a line took coverage from 1.34 to 1.52.

RYAN ANOSKEY, PARTNER, CPA

Three things move a coverage ratio that most buyers never touch, and one cost that most buyers never model. The first is structural and it is SBA's own worked example, offered on its own training call as a route for deals that do not quite clear.

EXHIBIT 31 Three levers on the coverage ratio

1.52 FROM 1.34	**Move permanent working capital off the term loan and onto a line** SBA's own example on a \$4.2M initial acquisition: replacing **\$200,000** of permanent working capital in the term loan with a \$1M line, moving \$300,000 of day-one availability across, took coverage from 1.34x to 1.52x. Liens on receivables and inventory are now required, and a lender may move that collateral to a line for no less than 20 and no more than 50 percent of day-one availability.
2.0 YEARS SEASONING	**Check whether the deal is an expansion rather than an acquisition** Business expansion carries a 1.15 floor instead of 1.25 and the injection can be reduced. It needs **two full fiscal years** under current ownership and a four-digit NAICS match rather than six, and SBA said the delegated team can support an exception.
170 \$ THOUSANDS A YEAR	**Insurance, which is the cost nobody models** In the deal Yale recounts the diligence found a premium rising by **\$170,000 a year** against an EBITDA that had already come down \$150,000, and it nearly ended the deal. Quote it in week two on the real entity and the real loss history.

The line-of-credit example and the expansion rules are SBA's own, from the Office of Capital Access Appendix 15 lender training, 26 August 2026, and SOP 50 10 8.1. The insurance figure is from Jacobs and Wasserstein, Yale School of Management, 2022.

> **ON RELIANCE, SINCE SOMEBODY WILL ASK YOU TO RELY ON SOMETHING**
>
> A reliance letter is a named, priced liability and never an informal courtesy. If your lender wants to rely on a report you commissioned, that extension is negotiated, documented and paid for, and the provider who waves it through without changing the engagement letter has not understood what he signed. Settle it before the work starts.

PART FIVE · CAN I ACTUALLY RUN IT?

The company has to own it before it can transfer to you.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

Everything in the first four parts is a test of the business. This part is a test of the handover, and it is the only part where the finding is about a person who has agreed to leave. What walks out of the building with the seller is value you paid for and did not receive, and it is measurable before closing rather than discoverable after.

EXHIBIT 32 **Where value sits: the company, the person, the middle**

BELONGS TO THE COMPANY

Documented, held by a seat

A contract, a price file, a procedure, a system, a named person other than the owner who does the work today.

BELONGS TO THE PERSON

Undocumented, held in a head

The relationship the customer trusts, the pricing judgment nobody wrote down, the vendor who answers because of who is calling.

THE HONEST MIDDLE

Transferable with work

Most of it. The question is how long the work takes and who is doing it in the meantime.

LIMESTONE operational diligence method.

> THE PHRASE THAT WORKS BETTER THAN OWNER DEPENDENCE
>
> **A business can be profitable without being transferable. Owner dependence sounds like a criticism of the seller and gets argued about; transferability is a property of the business and gets tested.**

Three of the five seats are owner-held, and none of the three has a successor.

EXHIBIT 33 **The five critical seats, and who holds each**

This is an accountability map rather than an organization chart. A seat is defined by the outcome it owns and not by a title, and a seat the owner holds in addition to his own role is a finding rather than a footnote.

SEAT 1	SEAT 2	SEAT 3	SEAT 4	SEAT 5
Revenue and key accounts	**Pricing and estimating**	**Office and operations**	**Purchasing and vendor programs**	**Books and close**
Owns the buying relationship: who the customer calls, and who is at the table on price.	Owns the price file, the quote, the discount call and vendor pass-through.	Owns fill rate, counter service, delivery, inventory accuracy and staffing.	Owns replenishment, the buying-group position and the dealer agreements.	Owns the close, the reporting package, cash and the lender relationship.
OWNER-HELD Dale Ratliff, 28 years	**OWNER-HELD, SPLIT** Dale Ratliff and the estimator	**HELD BY THE BUSINESS** Office manager, 6 years	**OWNER-HELD** Dale Ratliff, 28 years	**HELD, THINLY** Bookkeeper, 9 years, 20 hours a week
No successor, and no account manager of record on the three owner-held accounts.	No successor. The estimator, 5 years, holds quoted pricing with no framework and no review.	No successor. The warehouse lead covers a week of execution and does not hold the seat.	No successor. Purchasing has no documented procedure of any kind.	The outside accountant can backfill reporting. No internal successor.

CONDITION 1

Transfer the top-account relationship on a written schedule, with his economics released against the transfer and not a date.

CONDITION 2

Retention agreements for the office manager and the estimator, signed as a condition of closing. Nothing holds either of them today.

CONDITION 3

Pricing authority moves into a named seat with a written framework inside 100 days.

Red: held by the owner — Patina: held by the business

3 of 5 owner-held · 0 of 3 with a named successor

Hoosier Supply Co. (illustrative), a fictional composite; names are fictional. *Source* management interviews with all five seat-holders, the representative-of-record report, the owner's trailing ninety-day calendar and the employment file review.

Forty-two percent of this company's revenue belongs to a person who is leaving.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

Asked directly, the owner said the business runs without him and offered a two-week fishing trip in 2025 as proof. That is fair evidence and it deserved testing rather than either accepting or dismissing it. Four sources, none of them an opinion.

EXHIBIT 34 Relationship ownership, tested against four sources

The calendar TRAILING NINETY DAYS	**61 percent** of scheduled time in customer, pricing or vendor meetings. Eleven of fourteen recurring approvals route to him, including every discount above 8 percent and every purchase order above $25K.
The absence TWO WEEKS, 2025	Shipping and counter service ran normally. Two project quotes were held for his return, one vendor rebate deadline was missed, and the top account called his mobile twice.
The managers, separately INTERVIEWED WITHOUT HIM	The office manager described her own decision rights as "anything that doesn't touch price or a vendor." The owner had described the same seat as running the place. **That gap is the finding.**
The customers SIX REFERENCE CALLS	Four of six named a specific individual rather than the business when asked who they call when something goes wrong. Question three on page 20 produces this from the customer's mouth rather than the owner's.

Hoosier Supply Co. (illustrative). Relationship ownership is measured as the share of trailing revenue in accounts where the owner is the relationship of record, from the sales system representative-of-record report cross-checked against the reference calls.
SOURCE LIMESTONE operational diligence file.

> "Every owner I ask under-reports this one, and they aren't being dishonest about it. A man who's answered the phone for twenty-eight years genuinely doesn't notice that he is the phone. The calendar notices."

JARED LUEGERS · FOUNDER AND MANAGING PARTNER, CFA

Interview the two or three people who would have to run it, separately from the owner.

Jared Luegers, Founder and Managing Partner, CFA

WHO IS IN THE ROOM

Two or three

People, separately, without the owner, with his written agreement. Thirty to forty-five minutes each, after the model is built.

This is a procedure with a written guide rather than a courtesy call, and it runs after the model is built so the questions can be specific. An interview conducted with the owner in the room measures the owner. The seller has to agree to it, and the way he responds to being asked is itself information.

EXHIBIT 35 **The management interview, as a procedure**

Who is in the room AND WHO IS NOT	The people who hold or would receive a critical seat, one at a time, without the owner.
The decision-rights question THE ONE THAT DOES THE WORK	What can you decide on your own, and what has to go to him? Then ask for the last three examples. **Compare the answer to how the owner described the same seat,** because the gap between the two is the transition risk in one sentence.
The accountability chart SEATS AND OUTCOMES	Draw the five seats from page 36 and ask each person which they hold. An organization chart shows boxes and titles; this shows who owns a result, which is what you are buying.
What they have been told AND WHAT THEY SUSPECT	Most will have guessed already. Find out what they think is happening, and what they intend to do about it, before you are their employer.
What is missing, in writing AGREEMENTS, NOT INTENTIONS	On Hoosier: **no employment agreements for the two seats a buyer must keep,** and a capable office manager who has never set a price, negotiated a vendor program or held a profit-and-loss statement.

LIMESTONE management interview guide, operational diligence.

> WHY IT RUNS AFTER THE MODEL AND NOT BEFORE
>
> **A general conversation produces general answers. Once the model is built you can ask why gross margin moved 140 basis points in the second quarter, and the person who knows will tell you, which also tells you who knows.**

SBA doubled the consulting window from twelve months to twenty-four.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

The seller may not stay as an officer, director, stockholder or employee. He may be engaged as a consultant “for a period not to exceed 24 months (in aggregate, including any extensions),” which SBA doubled from twelve “with the express goal of helping that buyer transition into the new business.” That window is the whole instrument, so write down what happens inside it before the ink dries.

EXHIBIT 36 The transition taper, function by function

MONTH 0 TO 3	MONTH 4 TO 9	MONTH 10 TO 18	MONTH 19 TO 24
He leads, you shadow	**You lead, he is available**	**Scheduled, not on call**	**On request only**
Introductions to the top ten accounts and every vendor program, with you in the room and him doing the talking.	You take the calls and the quotes. He answers the phone when you ring. Pricing decisions route through your seat under the framework.	A day a month, on the calendar. Two full cooling seasons is what actually tests whether a distribution relationship survived the change.	A retainer against named questions. If you still need him weekly at month twenty, the transition did not happen.

THE MISMATCH THAT KILLS THESE ARRANGEMENTS

The owner plans to teach and the buyer plans for the owner to keep running it, and neither says so. Write the taper down function by function, with the month each one moves, and have both parties sign the same page. **The operational read here wants an earnout tied to retention of the top account through two cooling seasons, and page 26 explains why that instrument is not available on this loan.** A consulting agreement with a defined taper and a buyer rebate are what remain.

LIMESTONE method. The twenty-four-month consulting window is SBA SOP 50 10 8.1, Appendix 15.

EIGHTEEN MONTHS, AND THE REASON IS STRUCTURAL

The transferable asset in a distribution business of this size is a set of buying habits that reset once a year, at the start of the cooling season. A relationship that survives one season under new ownership has not yet been tested, and one that survives two has. That is the arithmetic behind eighteen months, and it is why a twelve-month agreement measured on the calendar proves nothing.

What you are walking into.

JARED LUEGERS, FOUNDER AND MANAGING PARTNER, CFA

Diligence stops at closing and the first hundred days are their own guide. Four things arrive in the first quarter often enough that they belong at the end of this one, and all four are cheaper to plan for in week two of exclusivity than in week two of ownership.

EXHIBIT 37 What arrives in the first quarter after closing

Payroll comes in higher THAN THE MODEL SAYS	Sellers give raises during diligence, out of guilt or out of retention anxiety, and they are rarely in the numbers you were given. Ask for the payroll register again, dated the week before closing, and compare it to the one you modeled.
You have no credit FOR ONE TO THREE YEARS	A new entity has no trade history. Suppliers who gave the seller thirty days will ask you for a deposit or a personal guarantee, and the working capital effect of that is immediate and usually unmodeled.
Working capital runs to roughly double WHAT YOU MODELED	The peg plus the credit wall plus the seasonal trough, which on Hoosier is January rather than the June you closed in. Page 25 has the shape; this is the consequence.
The people are watching THE FIRST WEEK DECIDES A LOT	Nine warehouse and six office staff who have worked for one man for years. They will judge you on whether you keep the things they were told would be kept, and they will have decided by Friday.
Your own seat is unfilled YOU ARE THREE PEOPLE NOW	Three of the five seats were owner-held and you are holding them. Page 36 is the map; the honest question for the first hundred days is which one you give away first, and to whom.

Observed by LIMESTONE across its own engagements.

> **“What I remember from the first ninety days after somebody else bought the place is how many small surprises landed in the same two weeks, and every one of them had been sitting in a document nobody read.”**

JARED LUEGERS · FOUNDER AND MANAGING PARTNER, CFA

Write down what you will spend, in which week, before you spend any of it.

One page, filled in before exclusivity starts. The walk-away column is the one people leave blank, because writing a number in it in week one is easy and writing it in week seven is not.

EXHIBIT 38 Your diligence plan, to print and fill in

THE QUESTION	WEEK	BUDGET	MY WALK-AWAY TRIGGER, WITH A NUMBER ON IT
1. Are the earnings real? Proof of cash, the add-back register, SDE against EBITDA			
2. Will they hold? Concentration, six reference calls, revenue character, consents			
3. What do I owe on day one? The peg, debt-like items, tax exposure, the searches			
4. Can it carry the debt? Coverage on the tested number, at the real amortization			
5. Can I actually run it? The five seats, relationship ownership, the transition			
Total diligence budget			Held by, and given to somebody outside the deal:

On a $3.0M business purchase price the diligence stack on page 6 runs about $48.5K, 1.6 percent of the price, and the financing lines take the total outside the price to about $128K. Fill the budget column with your own numbers.

THE ONE RULE FOR THIS PAGE

Give the completed sheet to somebody outside the deal who does not benefit from it closing. A trigger nobody else has seen is a preference.

Ask for the slow documents first.

Most request lists are ordered by category, which is convenient for the person writing the list and useless for the person working it. This one is ordered by production time. Anything a seller cannot pull in a week sits at the top whatever its subject, because week one is the only week of the ninety you can afford to spend waiting.

EXHIBIT 39 **The request list, ordered by how long each item takes**

Ask in the first 48 hours: these take the longest

1 TO 3 WEEKS TO ARRIVE

- IRS Record of Account transcripts, three years, via Form 4506-C
- Bank and processor statements, every account, 24 to 36 months
- The general ledger detail, all accounts, three years and interim
- Monthly balance sheets, 24 to 36 months
- All customer contracts and supply agreements, in full
- Supplier, dealer and buying-group agreements, in full
- The property lease, amendments and any option
- Insurance policies and the five-year loss runs
- Employment agreements, non-competes and the payroll register
- State tax registrations and filings, every state shipped into

Order yourself, in week one, with no seller involvement

2 TO 7 DAYS

- UCC-1 searches, every state of operation
- Judgment and litigation dockets, county and federal
- Federal, state and county tax lien searches
- Entity good standing, and every assumed name used
- Vehicle titles and fixture filings
- Licenses and permits, and whether each one transfers

Ask in week two, once the above is moving

DAYS, IF THE BOOKS ARE IN ORDER

- Federal returns, three years, with all schedules
- Trial balances at each year end and the latest month
- Monthly profit and loss, three years and interim
- The add-back schedule and the support behind every line
- Revenue by customer, by month, three years
- Aged receivables and payables at each year end
- Inventory listing with quantities, cost and last movement date
- The fixed-asset register and the capex history
- The debt schedule, with statements
- The account list, for you to select the six calls from

LIMESTONE buy-side request list, ordered by observed production time.

> **WHY A NINETY-ITEM LIST ON DAY ONE COSTS YOU CREDIBILITY**
>
> A seller who receives everything at once produces the easy items first and stalls on the rest, and you lose the ability to tell stalling from disorganization. Sending the slow items alone, in the first forty-eight hours, tells you inside a week which of the two you are dealing with.

We will read one live deal for you at no charge, twice a month.

Three pages of this book are commercial, and this is the only one that asks you for anything.

EXHIBIT 40 How we help, and what it costs

Thirty minutes on a live deal under LOI, twice a month.

Send the broker's package, the add-back schedule and three years of returns. We will tell you what we would test first and whether a review is worth buying at all.

START HERE	**Red-Flag Screen** The package and the returns against the three gates, credited in full against a review.
$10,000	**Quality of Earnings, Light** Proof of cash, the add-back register, the ladder. Ten to fifteen days from complete data.
$15,000	**Quality of Earnings, Core** Plus working capital and the peg, revenue quality, concentration, the lender bridge. Ten to twenty days.
$25,000	**Quality of Earnings, Full** Plus tax and related-party exposure, quality of net assets, the sensitivity set. Fifteen to twenty-five days.
$12,000	**Operational diligence, as an add-on** The five seats, relationship ownership, the six reference calls, the interviews.

LIMESTONE published fee sheet, September 2026. Fees are fixed and quoted before the work starts.

Three deals that should not buy a full review, and we will say so

Under about $400K of adjusted earnings the fee stops being proportionate: buy the screen and run the proof of cash yourself. **Where the seller will not produce statements,** the refusal has answered the question. **On a deal you have decided to leave,** a report documents the walk-away. **jared@limestonesp.com**

NOTES, SOURCES AND SCOPE

Every figure in this guide traces to one of these.

1 SBA SOP 50 10 8.1, Office of Capital Access, effective 1 October 2026. Appendix 15 for changes of ownership; Section B for fees, guaranty percentages and escrow; the CAPLine requirements for the borrowing base. With 13 CFR §§ 120.202, 120.212, 120.214, 120.220, 120.221 and 120.223.

2 SBA Office of Capital Access, "SOP 50 10 8.1 Overview: Appendix 15," lender training, 26 August 2026, published on sba.gov and transcribed in full. Corroborated by an SBA acquisition lender publicly on 10 September 2026, reporting the same carve-out from a further call.

3 Jacobs and Wasserstein, *On the Nature of Due Diligence in a Search Fund Acquisition,* Yale School of Management, 6 May 2022. The two-stage frame, the ninety-day window, the confirmation-bias discipline, the peg consequence, the window-dressing invoices, the illustrative budget and the insurance account.

4 IBBA and M&A Source, *Market Pulse Survey,* Q2 2026, 57th edition. 255 brokers and advisers, 181 completed transactions, fielded 1 to 15 July 2026.

5 SRS Acquiom, *M&A Working Capital Purchase Price Adjustment Study 2026.* More than 1,500 private-target acquisitions valued at more than $385 billion.

6 Stanford Graduate School of Business, *2026 Search Fund Study.* Cited only for what it covers, traditional search funds. No equivalent dataset exists for self-funded search.

7 LIMESTONE engagement model and operational diligence file for Hoosier Supply Co. (illustrative), and LIMESTONE published fee sheets, September 2026.

SCOPE, AND WHAT THIS DOCUMENT IS NOT

Non-attest work, and not a valuation. A quality of earnings carries no opinion, no assurance and no audit or review under AICPA standards, and uses no third-party confirmations, so it is not designed to detect fraud. LIMESTONE is not a valuation firm and expresses no conclusion of value anywhere here; multiples shown are illustrative.

Not legal or tax advice. This guide offers no legal, tax or investment advice and no recommendation about any business. Tax exposures identified in our work are quantified and referred to a specialist.

Hoosier Supply Co. is fictional, a composite used across LIMESTONE's published samples so one set of figures can be tested in public. Every name and figure attached to it is illustrative, and no client engagement is described anywhere in this guide.

The SBA material is dated. Pages 9 and 26 carry the date last checked. A technical update was pending at publication and both pages are written to be reissued.

Ryan Anoskey

PARTNER (CPA)

More than one hundred quality of earnings reviews, buy-side and sell-side. Built the transaction advisory practice at Blue & Co. Carries parts one, three and four.

Jared Luegers

FOUNDER AND MANAGING PARTNER (CFA)

Five years in equity research, then independent-sponsor private equity, where a portfolio business was sold to Sunoco for $200 million. Carries the foreword, parts two and five.

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