PROJECT MESQUITE

Quality of Earnings Report

Commercial landscape maintenance, Dallas–Fort Worth

Prepared for	The Bank (engaging lender)
Target	Cross Timbers Grounds Management, LLC
Proposed borrower	Mesquite Grounds Holdings, LLC
Transaction	Asset purchase, $4,600K. SBA 7(a) financing
Basis	SBA SOP 50 10 8.1, quality of earnings for purchase price of $3M or more
Periods	FY2024, FY2025 and trailing twelve months to September 30, 2026
Date	October 2026
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1. Scope, Procedures & Independence

Engagement

The Bank engaged the preparer to perform a quality of earnings review of Cross Timbers Grounds Management, LLC in connection with a proposed SBA 7(a) loan to finance its acquisition. The purchase price is above $3 million, so SOP 50 10 8.1 requires an independent QoE obtained for the Bank's benefit. The Bank will use the earnings in this report to determine debt service coverage.

Independence

The preparer was engaged by the Bank and reports only to the Bank. The preparer has no relationship with the borrower, the seller or the broker, did not prepare any part of the borrower's application, and is paid a fixed fee that does not depend on whether the loan closes.

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Procedures

Area	Procedures performed
Records reconciliation	Tied revenue and income across the federal returns, IRS transcripts and the internal monthly P&L for FY2024 and FY2025. Explained each difference.
Proof of cash	Reconciled bank deposits to revenue and bank disbursements to expenses and other outflows for FY2024, FY2025 and the TTM, across all three operating accounts. Traced transfers to and from savings to the savings statements.
Adjustments	Tested each broker adjustment against source documents. Identified adjustments the broker did not present. Classified each as accepted, modified, rejected or new.
Revenue quality	Customer-level revenue for all periods, top-customer concentration, retention by cohort, contract terms and termination rights, revenue by service line.
Margins & costs	Gross margin by service line, labor cost and wage rates by crew type, seasonal labor program, fuel, equipment repair history.
Capital spending	Fixed asset register, fleet age and condition list, capex compared with depreciation.
Working capital	AR and AP agings, customer prepayments, accrued payroll and PTO, sales tax filings.
Coverage	Debt service coverage on the Bank's term sheet for each fiscal year, the two-year average, the TTM and the TTM pro forma for known changes, each against 1.25x. The SOP test itself uses the last fiscal year or the two-year average.
Interviews	Owner, office manager and outside CPA. Site visit to the yard and equipment.

2. Summary of Findings

Earnings summary	FY2024	FY2025	TTM Sep-26
Reported EBITDA (after owner pay)	967	1,130	1,173
Adjusted EBITDA per broker	1,436	1,619	1,673
Broker EBITDA after $165K market GM cost	1,271	1,454	1,508
QoE normalized EBITDA	**1,080**	**1,251**	**1,206**
Difference vs. broker, comparable basis	(191)	(203)	(302)
QoE normalized EBITDA margin	*16.8%*	*18.1%*	*16.8%*

Debt service coverage, TTM	EBITDA	Capex	DSCR
Broker EBITDA, historical capex	1,508	(190)	2.07x
QoE EBITDA, historical capex	1,206	(190)	1.60x
QoE EBITDA, normalized capex	**1,206**	**(300)**	**1.43x**
QoE EBITDA, normalized capex, lost customer	**1,062**	**(300)**	**1.20x**

Debt service of $635.5K a year on the Bank's term sheet: $4,050K 7(a), 10 years, 9.75%, monthly payments. Seller note of $230K on full standby, excluded.

Against 1.25x, after normalized capex	DSCR	Result
SOP test: FY2025 normalized	1.50x	Meets
SOP test: FY2024–FY2025 average	1.36x	Meets
FY2024 normalized	1.23x	Below
TTM normalized	1.43x	Meets
TTM pro forma, lost customer removed	**1.20x**	**Below**

Key findings

> **The loan meets the SOP 50 10 8.1 coverage test, but the business the buyer will own covers it at 1.20x.** The SOP tests the last fiscal year or the two-year average: 1.50x and 1.36x, after normalized capex. With the departing customer removed, TTM coverage is 1.20x. To hold 1.25x on that basis, debt service has to fall about $26K a year, about $165K less on the 7(a). Section 10 sets out the sizing.

- **Normalized TTM EBITDA is $1,206K, $302K below the broker on a comparable basis.** The largest differences are the son's crew-lead payroll and the “one-time” repairs. Both recur, and both were rejected.
- **TTM is below FY2025.** Normalized EBITDA fell from $1,251K to $1,206K. Revenue grew, but the July wage increase for the year-round crew raised costs (annualized in the normalized figure), and customer prepayment timing and a non-recurring insurance credit flattered the reported TTM.
- **Records tie.** Revenue on the returns matches the IRS transcripts and reconciles to the internal P&L through receivables. Bank deposits prove revenue within 0.5% in every period.
- **Capital spending has run well below depreciation.** Across FY2024, FY2025 and the TTM, capex averaged $175K against $332K of depreciation, and 9 of 31 major units are past useful life. Normalized maintenance capex is $300K.
- **The largest customer has given notice.** A property manager with $410K of revenue ends service in December 2026. Its loss takes $144K out of cash flow.
- **Debt-like items total about $258K**, led by customer prepayments and a possible sales tax exposure. See Section 9.

3. Normalized EBITDA

Reported results

EBITDA bridge	FY2024	FY2025	TTM Sep-26
Revenue	6,420	6,910	7,180
Gross profit	2,407	2,640	2,728
Operating expenses, ex-owner	(1,180)	(1,240)	(1,285)
Owner compensation	(260)	(270)	(270)
Reported EBITDA	**967**	**1,130**	**1,173**
Depreciation & amortization	(310)	(335)	(350)
Interest	(95)	(88)	(84)
Net income (internal P&L)	**562**	**707**	**739**

From the internal accrual-basis P&L, which reconciles to the returns in Section 5.

Normalization

Reported EBITDA to normalized EBITDA	#	Type	FY2024	FY2025	TTM Sep-26
Reported EBITDA			**967**	**1,130**	**1,173**
Owner compensation to market	1	Management	95	105	105
Owner vehicles, personal share	2	Management	33	35	36
Owner's son, crew lead payroll	3	Management	–	–	–
Equipment repairs, “one-time”	4	Management	–	–	–
Personal insurance	5	Management	20	21	22
Charitable contributions	6	Management	10	11	12
Spouse phone & travel	7	Management	9	10	11
Related-party yard rent to market	8	Diligence	(36)	(36)	(36)
Customer prepayments recognized on receipt	9	Diligence	(18)	(25)	(42)
Insurance audit refund in operating expense	10	Diligence	–	–	(31)
Year-round crew wage increase, run-rate	11	Diligence	–	–	(44)
Total adjustments			**113**	**121**	**33**
QoE normalized EBITDA			**1,080**	**1,251**	**1,206**

Management: adjustments presented by the broker, as tested. Diligence: adjustments identified in this review. Section 4 gives support and conclusions.

4. Adjustment Detail

#	Adjustment	Broker, TTM	QoE, TTM	Support reviewed	Conclusion
1	Owner compensation to market	270	105	Guaranteed payments per K-1s; GM compensation survey, DFW landscape services.	**Modified.** Owner pay added back and replaced with $165K market GM cost.
2	Owner vehicles, personal share	48	36	Titles, fuel cards, GPS logs on two trucks.	**Modified.** Both trucks are used on routes about 25% of the time; that share stays in.
3	Owner's son, crew lead payroll	45	–	Timesheets, route sheets, org chart.	**Rejected.** Works full time as a crew lead. The role would need to be filled.
4	Equipment repairs, “one-time”	85	–	Repair ledger, 2023 to 2026.	**Rejected.** Repairs ran $78K to $85K every year. They are an operating cost.
5	Personal insurance	22	22	Policy declarations; insured is the owner's lake house.	**Accepted.**
6	Charitable contributions	12	12	GL detail, receipts.	**Accepted.** Discretionary.
7	Spouse phone & travel	18	11	Phone bills, card statements.	**Modified.** Spouse handles collections part time; her phone stays in.
8	Related-party yard rent to market	–	(36)	Lease with owner's entity at $60K; broker opinion of rent at $96K.	**New.** Buyer signs a market lease at close.
9	Customer prepayments recognized on receipt	–	(42)	Prepayment schedule; 14 annual contracts paid in advance.	**New.** Revenue moved to the months serviced. Growth in prepayments had inflated revenue.
10	Insurance audit refund in operating expense	–	(31)	Carrier audit letter, Feb-2026.	**New.** Non-recurring credit relating to 2024 and 2025 premiums.
11	Year-round crew wage increase, run-rate	–	(44)	Payroll registers; $1.50/hr increase for the year-round crew effective Jul-2026.	**New.** TTM carries three months of the increase. The other nine months, $44K with payroll taxes and workers' compensation, are added as cost.

Broker figures for FY2024 and FY2025 are from the CIM; TTM figures are from the broker's updated adjustment schedule to September 2026. Broker adjustments total $500K in the TTM, including the full $270K of owner pay. After replacing the owner with a $165K market GM, the broker's figure is $1,508K. Normalized EBITDA is $1,206K.

5. Records Reconciliation

Revenue	FY2024	FY2025
Gross receipts, federal return (Form 1065, cash basis)	6,388	6,862
Gross receipts, IRS return transcript	6,388	6,862
Difference, return vs. transcript	–	–
Add: increase in accounts receivable	32	48
Revenue, internal accrual P&L	**6,420**	**6,910**
Unreconciled	–	–

Income	FY2024	FY2025
Net income, internal P&L	562	707
Less: increase in accounts receivable	(32)	(48)
Add: increase in payables and accrued expenses	9	12
Add: charitable contributions, separately stated on K-1s	10	11
Add: book depreciation in excess of tax, net of tax gain on disposals	85	100
Ordinary business income, Form 1065	**634**	**782**
Unreconciled	–	–

What this shows

- The returns are filed on the cash basis. The internal P&L is accrual. The revenue difference in each year is exactly the change in receivables.
- Gross receipts on the returns match the IRS transcripts. The Bank should still pull its own 4506-C transcripts before closing.
- Book and tax income differ by four items: the cash-basis timing of receivables and of payables and accrued expenses, charitable contributions, which a partnership reports separately on the K-1s rather than deducting, and depreciation. Most of the fleet was expensed for tax in earlier years through bonus depreciation, so book depreciation now runs above tax. The FY2025 figure is net of about $12K of extra tax gain on equipment sold, which had little tax basis left. No other reconciling items.
- The outside CPA prepares the returns but does not review or compile the internal statements. No accountant-prepared statements exist for any period.
- TTM figures come from the internal P&L only. They are supported by the proof of cash in Section 6.

6. Proof of Cash

Receipts	FY2024	FY2025	TTM Sep-26
Revenue, internal P&L	6,420	6,910	7,180
Less: increase in receivables	(32)	(48)	(35)
Add: sales tax collected	370	398	414
Add: transfers in from savings	80	–	150
Add: insurance audit refund	–	–	31
Add: equipment sale proceeds	–	15	22
Expected deposits	**6,838**	**7,275**	**7,762**
Deposits per bank statements	6,807	7,289	7,779
Difference	**(31)**	**14**	**17**
% of revenue	*-0.5%*	*0.2%*	*0.2%*

Bank balance roll, operating accounts	FY2024	FY2025	TTM Sep-26
Beginning balance	410	524	590
Deposits	6,807	7,289	7,779
Disbursements	(6,693)	(7,145)	(7,578)
Ending balance	**524**	**668**	**791**

Three operating accounts, combined; transfers between them are eliminated. The savings account sits outside the roll, so transfers to and from it are reconciling items, traced to the savings statements. Cash operating costs include interest and are shown gross of the insurance refund, which the P&L nets against expense. Equipment sold had remaining book value; small gains ($3K in FY2025, $5K in TTM) are netted in depreciation, outside EBITDA. Sales tax is 8.25% on taxable sales, about 70% of revenue; the rest is billed to exempt public and nonprofit customers. Ending balances agree to statements.

Disbursements	FY2024	FY2025	TTM Sep-26
Cash operating costs, internal P&L	5,548	5,868	6,122
Less: increase in payables and accrued expenses	(9)	(12)	(18)
Add: capital expenditures	160	175	190
Add: equipment loan principal	210	225	240
Add: sales tax remitted	367	395	410
Add: owner distributions	430	480	520
Add: transfers out to savings	–	–	100
Expected disbursements	**6,706**	**7,131**	**7,564**
Disbursements per bank statements	6,693	7,145	7,578
Difference	**(13)**	**14**	**14**
% of costs	*-0.2%*	*0.2%*	*0.2%*

Deposits and disbursements reconcile within 0.5% in every period. Nothing suggests revenue is overstated or that cash is running outside the books. The largest gap, the FY2024 deposit shortfall of $31K, traces to customer checks received in late December 2024 and deposited in early January 2025. It reverses in FY2025, net of a smaller year-end lag in December 2025.

7. Revenue Quality

Revenue by service line	FY2024	FY2025	TTM Sep-26	TTM GM
Maintenance contracts	3,916	4,353	4,595	38%
Enhancements (color, mulch, cleanups)	1,477	1,520	1,508	40%
Irrigation repair	578	622	646	44%
Installation projects	449	415	431	22%
Total	**6,420**	**6,910**	**7,180**	**38%**
Maintenance share	*61%*	*63%*	*64%*	

Retention, maintenance revenue	FY2025	TTM
Gross revenue retention, prior-year customers	93%	91%
Net revenue retention, incl. price	101%	99%
Contracts lost, count	17	21

Concentration, TTM	% revenue
Largest customer (notice given, ends Dec-2026)	5.7%
Top 5	19%
Top 10	31%
Active maintenance contracts	218

Observations

- Maintenance contracts are 64% of revenue and growing as a share. That is the recurring base.
- Contracts are one year, auto-renewing, with 30-day termination for convenience on both sides. Retention is good, but nothing is locked in. The Bank should treat this revenue as recurring by habit, not by contract.
- Retention slipped in the TTM. Net retention fell below 100% for the first time in the periods reviewed.
- The largest customer gave notice in September after its property portfolio was sold. Its revenue is in the TTM in full and is not removed in normalized EBITDA. The account was priced below the book average, at a 35% gross margin, so its loss takes $144K out of cash flow. No overhead savings are assumed. Section 10 shows the effect.
- Installation projects are lumpy and low-margin. They are 6% of revenue.

8. Margins, Labor & Capital Spending

Labor & margin	FY2024	FY2025	TTM Sep-26
Gross margin	37.5%	38.2%	38.0%
Field labor, % of revenue	41.2%	41.8%	42.3%
Year-round field staff	17	18	18
Year-round crew wage, $/hr	17.25	18.00	19.50*
Seasonal (H-2B) workers	32	35	38
Fuel, % of revenue	4.9%	4.6%	4.4%
Equipment repairs	78	81	85

* Rate effective July 2026. TTM average is $18.38. H-2B workers are paid the wage set in each season's petition and were not part of the July increase.

Capital spending	FY2024	FY2025	TTM Sep-26
Capital expenditures	160	175	190
Depreciation	310	335	350
Capex / depreciation	*52%*	*52%*	*54%*
Normalized maintenance capex			**300**

Labor

Field labor is the largest cost and it is rising faster than price. The July increase of $1.50 an hour went to the 18 year-round field staff, who work about 34,800 hours a year. With payroll taxes and workers' compensation it adds about $59K a year, and nine months of it are not yet in the TTM (adjustment 11).

The business relies on 38 H-2B seasonal workers. Visa availability is capped nationally and has been short in some years. A bad visa year would mean overtime and temporary labor at higher cost. The seasonal wage is reset with each petition, so next season's rate is a further cost risk not in these figures.

Equipment

Capex has run at about half of depreciation in FY2024, FY2025 and the TTM. The fleet's average age is 6.8 years, and 9 of 31 trucks and mowers are past their useful lives. Replacing the fleet on a normal cycle costs about $300K a year, which is the figure used for coverage. The buyer should also expect about $250K of catch-up spending in the first two years.

9. Working Capital & Debt-like Items

Working capital, Sep-30-2026	$
Accounts receivable	812
Less: reserve, disputed HOA invoices	(38)
Accounts payable	(296)
Accrued payroll, excluding PTO	(144)
Net working capital	**334**
TTM monthly average, same basis	*322*

If the purchase includes receivables, working capital should be delivered at a normal level. The TTM monthly average of $322K is a reasonable peg. At September 30, working capital is $12K above it.

Customer prepayments and accrued PTO are left out of working capital and treated as debt-like items below, so each is counted once.

The seller's AR aging shows 5.2% over 90 days, mostly the disputed HOA account, which is fully reserved.

Debt-like items	$	Treatment
Customer prepayments (service owed after close)	186	Price adjustment or seller credit at close
Accrued PTO	44	Seller pays at close
Sales tax, possible under-collection on enhancement invoices	28	Escrow or indemnity; refer to tax advisor
Total, excluding equipment loans	**258**	
Equipment loans	610	Paid off at close from proceeds

Customer prepayments are the largest item. Fourteen customers have paid for service the buyer will have to deliver. Unless the price is reduced, the buyer funds that work with no cash coming in. Texas taxes landscaping as a real property service. About 30% of revenue is from exempt public and nonprofit customers; exemption certificates were on file for the accounts tested. Sample testing found 11 enhancement invoices without sales tax. Exposure is estimated from that sample and should be confirmed by the seller's tax advisor.

10. Earnings for Debt Service Coverage

Earnings for coverage, TTM	$
QoE normalized EBITDA	1,206
Less: normalized maintenance capex	(300)
Cash flow available for debt service	**906**
Proposed annual debt service (Bank term sheet)	635.5
DSCR	**1.43x**
Pro forma: remove lost customer contribution	(144)
Cash flow available, pro forma	**762**
DSCR, pro forma	**1.20x**

Each line uses normalized maintenance capex of $300K. The lost customer's $144K is its $410K of revenue at its 35% gross margin, with no overhead savings assumed. Seller note on full standby, excluded. Coverage is pre-tax; the Bank's global analysis should include the guarantor's taxes on pass-through income.

Coverage tests	Cash flow	DSCR	vs. 1.25x
FY2025 normalized	951	1.50x	Meets
FY2024–FY2025 average	866	1.36x	Meets
FY2024 normalized	780	1.23x	Below
TTM normalized	906	1.43x	Meets
TTM pro forma, lost customer removed	**762**	**1.20x**	**Below**

Sizing to 1.25x, pro forma	$
Cash flow available, pro forma	762
Maximum debt service at 1.25x	609.6
Proposed debt service	635.5
Debt service reduction needed	**25.9**
7(a) loan supported at 9.75%, 10 years	3,885
7(a) loan on term sheet	4,050
Reduction in 7(a) loan	**165**

Matters for the Bank

- **The loan meets the SOP test as structured:** 1.50x for FY2025 and 1.36x on the two-year average, after normalized capex. On SBA's historical definition, EBITDA over debt service with no capex deducted, FY2025 is 1.97x.
- **On the business the buyer will own, coverage is 1.20x.** That is below 1.25x, and it is the figure we would underwrite to.
- **To hold 1.25x pro forma, we would size the 7(a) about $165K smaller, about $3,885K.** The gap can come from a lower price tied to the lost account, a larger seller note on full standby, more buyer equity, or a mix.
- FY2024 normalized coverage was 1.23x. The business has improved, but it does not have a long record of covering this debt.
- Fleet catch-up of about $250K is not in the coverage figure. It should be funded at close or from a reserve.
- Customer prepayments of $186K should come off the price or be credited at close.
- Contracts can be cancelled on 30 days' notice. Retention is the key operating risk after the sale.

Appendix: Documents & Limitations

Documents received	Period
Federal returns, Form 1065, with K-1s	FY2023 to FY2025
IRS return transcripts (seller-provided; Bank to confirm via 4506-C)	FY2024, FY2025
Internal monthly P&L and balance sheet	Jan-2024 to Sep-2026
Bank statements, three operating accounts and savings	Jan-2024 to Sep-2026
General ledger detail	Jan-2024 to Sep-2026
Customer revenue by account; contract register and contract forms	FY2024 to TTM
AR and AP agings	Sep-30-2026
Payroll registers, timesheets, H-2B petitions	FY2024 to TTM
Fixed asset register and fleet list	Sep-2026
Related-party lease; broker opinion of rent	Sep-2026
Sales tax returns	FY2024 to TTM
Insurance policies and audit letter	2024 to 2026
Broker's offering memorandum (CIM)	Jul-2026
Broker's updated adjustment schedule	TTM Sep-2026
Bank term sheet	Oct-2026

Limitations

This report was prepared for the Bank's use in evaluating a loan under SBA SOP 50 10 8.1. It should not be relied on by the borrower, the seller or any other party.

The procedures were limited to those described in Section 1 and were based on records provided by the seller. They do not constitute an audit, review, compilation or agreed-upon procedures engagement under AICPA standards, and no opinion or assurance is expressed.

The preparer is not a CPA firm. Tax matters noted, including sales tax, should be confirmed by a qualified tax advisor.

Findings are as of the report date. Events after that date, including customer losses or changes in labor costs, are not reflected except where noted.