



Does a Working Capital Escrow Cap Seller Liability?

Laurent Capital is an independent M&A advisory firm headquartered in San Jose, California. It advises owners of founder-owned, family-owned and sponsor-backed B2B companies on sales, acquisitions and recapitalizations.

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Executive Summary

A working capital escrow does not, by itself, cap seller liability. It identifies money reserved for settlement. A contractual cap limits the covered obligation, while an exclusive recovery provision identifies where payment may be collected. The purchase agreement must connect these concepts before the escrow can be treated as the seller's maximum exposure. Professional guidance distinguishes these functions and recognizes different rules for different claim categories. (fasthofflawfirm.com) (www.stout.com)

The **2026 SRS Acquiom study** illustrates both structures. Within its separate purchase price adjustment (PPA) escrow branch for **2025 Q1 through Q3** deals with purchase price adjustments in consideration mechanics, **52%** limited recovery to that escrow and **48%** allowed additional recovery. These are nested percentages, not estimates for all United States business sales. (learn.srsacquiom.com) The originator describes its underlying acquisition information as predominantly nonpublic. (www.srsacquiom.com) The finding describes negotiated alternatives; it does not establish what a particular agreement permits.

Consider a **Hypothetical Example**: a **\$30 million** transaction with a **\$300,000** dedicated PPA escrow. Assuming the entire final adjustment is payable, a **\$100,000** buyer-favorable true-up sends that amount to the buyer and releases **\$200,000** to sellers. A **\$500,000** adjustment exhausts the escrow and leaves **\$200,000** requiring a contractual answer. Under the assumed escrow-only structure, recovery stops at **\$300,000**. Under an additional-recovery structure, the balance goes only to an authorized source. These amounts are original illustrative calculations, not market benchmarks. Professional guidance recognizes both escrow-limited recovery and possible additional sources. (www.pwc.com) (www.goodwinlaw.com)

The practical task is to record **the amount withheld, the maximum PPA obligation, and the permitted recovery sources separately**. Another escrow or a future payment can fund a deficiency only under the relevant contractual terms; additional recovery need not mean unlimited direct seller liability. (www.goodwinlaw.com) (www.sec.gov) A seller-favorable adjustment also requires separate treatment of the buyer's payment and return of withheld proceeds. (www.sec.gov) Owners should take the completed stress test to transaction counsel and transaction accountants: the former checks enforceability, allocation and

remedies; the latter checks definitions, signs and settlement arithmetic. This report provides a calculation framework, not legal or accounting advice or a recommendation for any escrow amount or transaction. (www.wiggin.com)

Introduction and Background

The question usually arises when an owner reads the closing funds flow and sees an adjustment escrow deducted from proceeds. An escrow funded from purchase price represents consideration held pending the agreed payment or release conditions. Its existence does not answer every question about the underlying obligation. (www.wiggin.com)

A **working capital true-up** reconciles estimated and final closing amounts under the purchase agreement. BDO describes the preliminary adjustment as a comparison between estimated closing net working capital and the agreed benchmark, often called the **peg**. PwC explains that the subsequent final closing statement measures the closing date, even though it is prepared afterward. The estimated closing adjustment and the later reconciliation belong in the same bridge, rather than being treated as unrelated deductions. (www.bdo.com) (www.pwc.com)

For owners and chief financial officers, this distinction matters because a closing payment can look settled while a repayment obligation remains open. Conversely, a large calculated downward adjustment need not create direct personal repayment when the contract confines recovery to identified funds. The decisive evidence is the payment section, its limitations and cross-references, rather than the account label. Legal guidance recognizes possible recovery beyond escrow through other funds, future payments or direct repayment. The specific combination must be established from the documents. (www.goodwinlaw.com)

Laurent Capital's perspective in this report is the owner's proceeds decision: distinguishing cash received, money still held, and exposure under the signed documents. Legal conclusions belong with transaction counsel, and accounting calculations belong with transaction accountants. The framework connects their work through a reviewable proceeds bridge. It does not recommend selling, a particular cap, or a particular allocation of transaction risk.

Key Changes

The changes discussed here are changes to the seller's model, not an assertion that governing law has changed. Start by replacing a single escrow assumption with separate entries for the calculation, payment obligation and recovery sources. Accounting commentary explains that working capital and indemnification limitations can produce different economic results. (www.stout.com)

Replace the escrow number with a contractual map

Escrow balance is the available fund at the relevant time. **PPA obligation** is the amount payable after applying the agreement's adjustment formula and applicable limitations. **Recoverable amount** is what the agreement permits the buyer to collect from authorized sources. These can differ. For example, the ResMed

and Brightree agreement expressly says that no further payment is required when the specified shortfall exceeds remaining escrow funds. That is an illustrative contractual limitation, not a general rule for other sales. (www.sec.gov)

The terminology checklist should distinguish:

- **Cap:** A maximum for the obligation or claim category it covers; an indemnification cap addresses its defined indemnification exposure. (velawood.com)
- **Escrow:** A funded payment source, whose scope and exclusivity require reading the contract. (www.wiggin.com)
- **Deductible threshold:** An initial amount borne by the claimant before covered recovery begins. (velawood.com)
- **Tipping threshold:** A trigger that may permit recovery including the initial threshold once exceeded, according to the wording. (velawood.com)
- **Exclusive recovery source:** A limitation identifying the fund or other source from which the covered payment can be recovered. (www.sec.gov)
- **Exclusive remedy:** A provision defining the available contractual avenue for a category of matters; its scope and exceptions must be read. (www.sec.gov)

Do not treat these labels as model clauses. Stout separately discusses a ceiling-and-floor arrangement. Because usage varies, the worksheet should transcribe the operative formula: whether a threshold eliminates the entire adjustment, subtracts an initial amount, or merely triggers payment. A small fluctuation rule and a maximum repayment rule answer different questions. (www.stout.com)

Record symmetry explicitly

A buyer-favorable limit does not establish the seller-favorable treatment. Read the upward-payment provision independently. The NBTY and Balance Bar agreement, for example, pairs upward adjustment payment with release of working capital escrow. Use that structure only if the actual documents provide it. The workbook needs distinct lines for the new payment and the release of consideration already withheld. (www.sec.gov)

Keep Adjustment, Indemnification and Payment Sources Separate

A purchase price adjustment and indemnification can involve related balance sheet matters without sharing every limitation. Stout warns that their different limitations can change economic results. In a filed Comfort Care agreement, the general exclusive indemnification remedy expressly carves out amounts payable under the adjustment section. The useful lesson is to trace the cross-reference, rather than assume that a general indemnity cap controls the consideration-adjustment section. (www.stout.com) (www.sec.gov)

The converse also deserves attention. The Tenable and Accurics agreement expressly subjects specified direct adjustment payments to limitations in another section. Thus a rule that indemnity limitations can never matter would also be too broad. Counsel should identify precisely which cap, exceptions, recovery restrictions and seller-allocation provisions are incorporated into the PPA obligation. (www.sec.gov)

A functional map contains distinct boxes:

- **Consideration adjustment:** The closing statement calculation and the amount finally payable under it. (www.pwc.com)
- **Indemnification:** The separate claim framework, whose rules can differ by claim category. (fasthofflawfirm.com)
- **Dedicated adjustment escrow:** The fund earmarked for adjustment payments. (www.goulstonstorrs.com)
- **Other escrow:** A separate fund that is available to the adjustment only if the documents connect them. (www.wiggin.com)
- **Later consideration:** An earnout or other payment subject to any expressly authorized reduction. (www.lesaklegal.com)
- **Direct seller payment:** A payment source distinct from escrow, where the agreement provides it. (www.hklaw.com)

The connections are contractual. In the AMN Healthcare and MedPartners agreement, excess adjustment recovery can use specified alternatives, including owner payments or earnout offset. In the Hill-Rom and Bardy agreement, the payment route includes indemnity escrow and an unpaid earnout, while the specified provision limits further equityholder payment. Neither arrangement establishes a recovery right in another transaction. (www.sec.gov)

A **no-dedicated-escrow structure** needs the same analysis. Enter zero for that fund, then inspect whether the agreement creates a direct payment obligation or identifies another source. Zero escrow is not sufficient evidence of either zero exposure or unlimited exposure. A seller-payment obligation can be settled directly or through escrow; whether that duty exists and how it is restricted require separate analysis. (www.hklaw.com)

Finally, protect against **double recovery**. PwC recommends checking whether liabilities have already affected the closing balance sheet before recovering them again through indemnification. The Comfort Care agreement illustrates a contractual restriction for matters already included in purchase price determination. Keep the accounting issue and the claim category linked in the model so the same economic reduction is recognized once. (www.pwc.com) (www.sec.gov)

Implementation Considerations and Process Changes

Before testing collection, establish a reliable adjustment amount. Contractual closing accounts are not interchangeable with audited statements or purchase accounting. PwC expressly distinguishes the closing statement from a generally accepted accounting principles (GAAP) audited statement. The calculation follows the negotiated definitions and hierarchy applicable to that closing statement. (www.pwc.com) (www.meadenmoore.com)

Working capital also is not automatically every current asset minus every current liability appearing on the company's financial statements. BDO describes cash and financing exclusions under a typical cash-free, debt-free structure. RSM separately highlights cash, indebtedness and transaction-expense definitions. The workbook should therefore use the agreement's account mapping and treatment rather than a generic accounting ratio. (www.bdo.com) (www.rsmus.com)

Build the adjustment input through these checks:

- **Account perimeter:** Map included and excluded accounts to the agreement's working capital schedule. (www.meadenmoore.com)
- **Ledger mapping:** Use actual ledger account names and numbers to reduce ambiguity. (www.hinckleyallen.com)
- **Accounting hierarchy:** Record precedence among negotiated policies, historical practices and GAAP. (www.hinckleyallen.com)
- **Consistent benchmark:** Analyze the tailored policies alongside the calculation that produced the peg. (www.rsmus.com)
- **Worked schedule:** Include an illustrative calculation exhibit consistent with the negotiated method. (www.bdo.com)
- **Formula integrity:** Review signs, hard-coded amounts and spreadsheet ranges. (www.meadenmoore.com)

The reconciliation should show how the estimated closing amount becomes the final closing amount. Recomputing a peg adjustment and subtracting it again from a price already adjusted at closing can overstate the subsequent settlement. BDO's description of the estimated calculation helps explain why both stages must appear in the same workbook. (www.bdo.com)

Use a **final or agreed adjustment** as the settlement scenario input. Keep an asserted amount, an undisputed obligation and a finally determined amount in separate status fields. Lesak Legal draws this distinction in its indemnification-setoff guidance; that discussion does not independently authorize setoff of a working capital claim. A filed AMN provision specifically ties its adjustment offset to final determination under its procedures. (www.lesaklegal.com) (www.sec.gov)

The escrow release instruction is another control. McGuireWoods notes that agents typically require joint written instructions for PPA funds. Confirm that the purchase agreement, escrow agreement and proposed instruction describe the same amount, beneficiary and remaining release. A calculation can be settled while its cash movement still requires documentation. Detailed procedural deadlines are outside this report's scope. (www.mcguirewoods.com)

Seller Stress Test (Hypothetical Example)

Every amount in this section is an **original hypothetical assumption or calculation**, not evidence of a transaction or a market norm. Assume a headline price of **\$30,000,000**, a dedicated PPA escrow of **\$300,000**, and closing cash paid to sellers of **\$29,700,000**. Ignore fees, interest and earnings. For scenarios D and E only, assume another \$1,000,000 of the same headline price is held in another escrow or deferred, reducing closing cash to \$28,700,000. That amount is assumed available for the specified settlement. All other scenarios use the \$29,700,000 closing cash assumption. The final adjustment shown below is incremental to the price used at closing, after any applicable calculation thresholds.

The table assumes a final undisputed adjustment, adequate funds for each specified alternative source, and no competing claims. Each recovery route is an alternative contract design. No actual transaction is represented, and no inference about customary terms is intended.

Table 1 compares alternative settlements using the same starting escrow. “Buyer receipt” includes escrow received and, where expressly assumed, satisfaction through an authorized offset. “Seller cash obligation” means a new cash payment after closing, rather than release of money already withheld.

Scenario	Final adjustment	Applicable cap	Source priority	Buyer receipt or satisfaction	Seller cash obligation	Seller PPA escrow release	Other payment reduced	Unresolved contract term
A: Below fund	\$100,000 to buyer	At least \$100,000 payable	PPA escrow	\$100,000 cash	\$0	\$200,000	\$0	Release instruction must match agreed result
B: Above fund, escrow only	\$500,000 calculated to buyer	Recovery limited to \$300,000 fund; no direct obligation assumed	PPA escrow only	\$300,000 cash	\$0	\$0	\$0	Confirm limitation covers the entire modeled adjustment
C: Above fund, direct payment	\$500,000 to buyer	At least \$500,000 payable	\$300,000 PPA escrow, then seller cash	\$500,000 cash	\$200,000	\$0	\$0	Who owes the deficiency, and in what shares?
D: Above fund, other escrow	\$500,000 to buyer	At least \$500,000 payable	\$300,000 PPA escrow, then authorized other escrow	\$500,000 cash	\$0	\$0	Other escrow reduced \$200,000	Verify access, priority and remaining protection
E: Above fund, setoff	\$500,000 to buyer	At least \$500,000 payable	\$300,000 PPA escrow, then expressly authorized later-payment offset	\$300,000 cash plus \$200,000 offset	\$0	\$0	Later consideration reduced \$200,000	Verify entitlement, availability and authorization
F: Seller favorable	\$150,000 to sellers	Upward limit permits full payment	Buyer pays separately; PPA escrow released	\$0	\$0	\$300,000	\$0	Confirm buyer owes additional \$150,000

The same calculated adjustment can therefore create different funded outcomes. In B, the assumed contract leaves **\$200,000** of the calculation unrecoverable. In C, that amount becomes new seller cash. In D and E, the sellers lose an equal amount from another asset or payment instead. Additional recovery changes the available route; it does not inherently create every route or an unlimited obligation. The Hill-Rom structure is a useful primary example of specified additional sources combined with a limitation on further equityholder payment. (www.sec.gov)

Reconcile Existing Proceeds (Hypothetical Example)

For A, total seller receipts are **\$29,700,000 + \$200,000 = \$29,900,000**. For B, they remain **\$29,700,000** under the stipulated recovery limit. For C, they are **\$29,700,000 – \$200,000 = \$29,500,000**. The original **\$300,000** holdback was already excluded from closing cash and must not be subtracted again.

For D and E, the same **\$500,000** economic reduction arises across the PPA escrow and the named other source. D reduces the assumed **\$1,000,000** other escrow to **\$800,000**. E reduces the assumed **\$1,000,000** later payment, otherwise earned and payable, to **\$800,000**. In either case, aggregate seller receipts become **\$28,700,000 + \$800,000 = \$29,500,000**, against the same **\$30,000,000** headline baseline. Do not also record a **\$200,000** seller cash wire.

In F, sellers receive **\$29,700,000 + \$300,000 + \$150,000 = \$30,150,000**. The escrow release restores withheld consideration; the buyer's separate payment increases consideration. Filed upward-adjustment mechanics provide examples of this distinction. (www.sec.gov)

The calculation identities are simple. First determine the payable obligation after contractual limits. Then allocate it among authorized sources without exceeding that obligation. Remaining PPA escrow equals starting PPA escrow less its actual draw, subject to the release conditions. These are worksheet conventions for the hypothetical model; counsel must translate the agreement's wording into the applicable payment and recovery rules.

Within this illustrative model, use a starting balance for each asset and a separate movement column. An escrow release moves value from held consideration to cash; it is not a new increase to the agreed price. A setoff reduces the named receivable. A direct payment reduces cash. The owner can then compare total value before and after settlement while separately identifying cash needed at settlement. Leave any residual difference visible and explain it before using the worksheet to plan a distribution. This reconciliation is an arithmetic control, not an interpretation of contractual rights.

Pre-Signing Review and Blank Worksheets

Use a **recovery-source matrix** before planning distributions. Goulston & Storrs describes shared and separate escrows; record each fund's purpose and permitted cross-use. (www.goulstonstorrs.com)

Table 2 records sources and document references for adviser verification. Blanks mean unresolved, not authorized.

Potential source	Agreement section and covered obligation	Available balance	Permitted priority or election	Limit and seller allocation	Payment or release reduced
Dedicated PPA escrow	—	—	—	—	—
Other escrow	—	—	—	—	—
Later consideration	—	—	—	—	—

Potential source	Agreement section and covered obligation	Available balance	Permitted priority or election	Limit and seller allocation	Payment or release reduced
Direct seller payment	—	Not a funded account	—	—	—
Representative-held fund, if relevant	—	—	—	—	—

The matrix records rights. A fund can be restricted, and future consideration can be contingent. Fasthoff recommends specifying priority, reductions to other sources and duplicate recovery restrictions. (fasthofflawfirm.com)

Resolve these questions with counsel and accountants:

- **Cap definition:** Which obligation does each limitation cover, and which cross-references incorporate another section?
- **Symmetry:** Are upward and downward payments governed by different limits or sources?
- **Exclusive language:** Does exclusivity concern the procedure, the remedy, a fund, or several of these?
- **Threshold formula:** Does the operative calculation use a no-payment range, a deductible or another formula?
- **Seller allocation:** Identify whether payment is joint and several or allocated among specified sellers.
- **Determination status:** Identify when an adjustment becomes payable and when any setoff may occur.
- **Cross-source access:** Mark every permitted transfer between adjustment escrow, indemnity escrow and later consideration.
- **Release authority:** Check the agreed instructions required for payment and residual escrow release.
- **No double count:** Link each recovered item to its treatment in the closing statement and other claim categories.
- **Funds flow:** Reconcile each actual cash movement and retained balance to the definitive documents.

Table 3 tests final or agreed adjustments. Use separate copies for different contract designs or seller allocations.

Input or calculated output	Scenario 1	Scenario 2	Definition or check
Adjustment direction and amount	—	—	Buyer favorable or seller favorable; incremental to closing estimate
Applicable PPA obligation and cap	—	—	Apply agreed limits and exceptions before source allocation
Starting PPA escrow balance	—	—	Available at settlement, not merely original deposit
PPA escrow paid to buyer	—	—	Actual authorized draw
Other escrow draw	—	—	Identify fund and corresponding reduction
Later payment offset	—	—	Identify payment, entitlement and authority
Direct seller cash payment	—	—	New cash obligation after closing

Input or calculated output	Scenario 1	Scenario 2	Definition or check
PPA escrow release to sellers	—	—	Residual amount releasable under documents
Separate buyer payment to sellers	—	—	Upward adjustment payment, if owed
Unfunded or unresolved amount	—	—	Distinguish a contractual recovery limit from unavailable funds
Document version and review date	—	—	—

Distinguish **economic reduction** from **cash payable today**. Recording an offset and a cash wire for the same obligation overstates exposure. Lesak distinguishes permanent indemnification setoff from temporary withholding; that distinction does not authorize PPA offset. (www.lesaklegal.com)

Worksheet source notes: account mapping follows the cited ledger guidance. **Revision date: October 29, 2026**, the editorial date. No outside lawyer or accountant reviewed these worksheets. Have advisers verify completed versions against executed documents. (www.hinckleyallen.com) (www.rsmus.com)

Data Analysis and Evidence

The relevant quantitative evidence is the **2026 SRS Acquiom Working Capital Purchase Price Adjustment Study**, identified on the originator's study page. Its overview describes data largely outside public reporting. This makes it useful evidence about a serviced transaction population, while leaving important questions about its applicability to any particular seller. (www.srsacquiom.com)

The report covers **1,570-plus** private-target acquisitions totaling approximately **\$385 billion**, closed from **2020 through the third quarter of 2025** with finalized PPAs, on deals SRS serviced. Its **2025** data are preliminary. This is an observational, selected sample, not a universal market census. Printed page **22** concerns PPAs in consideration mechanics; within the separate-escrow branch, **52%** cap recovery there and **48%** allow additional recovery. Printed page **23** identifies different settlement outcomes and possible additional sources. Printed page **30** separately classifies cap references and should not be merged with that branch denominator. (learn.srsacquiom.com)

The study finding answers whether both negotiated structures exist in the observed sample. It does not answer whether the additional-recovery contracts have unlimited direct recourse, whether a particular owner is liable, or whether a particular deferred payment is available. Those are document questions. An authorized setoff route depends on the transaction documents and its conditions, reinforcing the need to model the actual agreement rather than assume any future payment is available. (www.lesaklegal.com)

Use the evidence through these controls:

- **Population:** Describe provider-serviced transactions with finalized adjustments, rather than all acquisitions. (learn.srsacquiom.com)
- **Denominator:** Preserve the separate-PPA-escrow branch when reporting the recovery split. (learn.srsacquiom.com)
- **Originator:** Use the original report for its statistics; its overview identifies the study edition. (www.srsacquiom.com)

- **Contract evidence:** Treat the filed examples as illustrations of permitted designs, not prevalence estimates.
- **Accounting evidence:** Use original professional explanations to check calculations and account mappings. (www.rsmus.com)

The worksheets add a different kind of evidence: transparent, reproducible arithmetic under stated assumptions. They do not use a survey frequency to select a cap. Someone reviewing the model can reproduce the escrow draw, additional source and remaining release, then challenge any unsupported contractual connection. Its value rests on traceability, not on asserting that the illustrative escrow is customary or sufficient.

DealLawyers identifies accounting methodology among the report's drafting subjects. That emphasis fits the stress test: verify what was measured before assigning a recovery route. A settlement figure is insufficient if estimates and final amounts use different account definitions. The sources serve different functions: the study describes sampled contracts, filed agreements show actual structures, and accounting guidance supports calculation checks. They cannot substitute for one another. (www.deallawyers.com)

Implications and Future Directions

The practical implication for a proposed proceeds package is to distinguish **reserved proceeds**, **conditional future receipts** and **new repayment exposure**. A seller can agree to the same headline price and adjustment escrow while facing different settlement outcomes. The source map, rather than the headline holdback alone, identifies which assets bear an adjustment under a particular contract. Practitioner guidance recognizes both exclusive escrow recovery and additional sources. (www.goodwinlaw.com)

An additional-recovery provision can also redistribute the protection remaining for other obligations. If an authorized adjustment draw consumes another escrow, the workbook should reduce that other fund immediately. The same principle applies to a later-payment offset: record the payment reduced and carry its remaining balance forward. Fasthoff specifically recommends addressing source priority and whether recovery reduces another source. (fasthofflawfirm.com)

A useful next step is a version-controlled proceeds bridge shared among the owner's finance team, transaction accountants and counsel. Changes to account definitions, accounting hierarchy or source access should trigger review of the affected scenarios. Meaden & Moore highlights spreadsheet integrity issues, while Hinckley Allen emphasizes hierarchy and precise account identification. These are concrete checks a team can perform without predicting the negotiated result. (www.meadenmoore.com) (www.hinckleyallen.com)

The forward-looking uncertainty is transaction-specific, not a forecast of market direction. A more recent study may eventually change observed frequencies, but it would not amend signed payment provisions. The current originator page identifies its available working capital study edition; owners should verify current documents rather than infer their rights from a market statistic. (www.srsacquiom.com)

No particular cap or escrow size follows from this analysis. If the agreement leaves payment scope, source priority or seller allocation unresolved, the workbook should show an unresolved term. Legal enforceability under the governing law requires counsel; financial definitions and arithmetic require transaction accountants.

The calculation framework helps them identify the questions precisely.

Frequently Asked Questions (FAQs)

What happens when a working capital shortfall exceeds escrow?

Under an escrow-only provision covering the adjustment, recovery can stop at the fund. An additional-recovery structure may permit another escrow, future-payment offset or direct seller payment. Goodwin identifies these possible sources; their availability in a reader's transaction depends on its documents. (www.goodwinlaw.com)

Does a purchase price adjustment escrow cap all seller liability?

A limitation for the adjustment does not establish a limit for every obligation in the agreement. The seller must review the scope of each cap and claim category. Ask counsel to trace any express incorporation of another limitation into the adjustment section. (velawood.com)

Can a buyer offset the shortfall against an earnout?

Only assume that route after counsel verifies the relevant contractual authority and conditions. The AMN agreement expressly addresses earnout offset for an adjustment. Lesak's separate indemnification discussion emphasizes express setoff authority; it does not create a PPA offset right. (www.sec.gov) (www.lesaklegal.com)

Is the working capital adjustment governed by the indemnification basket?

Read the adjustment formula and incorporated limitations. A no-payment range in the PPA and an indemnification basket have different scopes unless the agreement connects them. Stout discusses adjustment thresholds separately, while Vela Wood explains indemnification deductibles and tipping baskets. (www.stout.com) (velawood.com)

Can a seller owe money after closing without an escrow?

A direct repayment obligation depends on the agreement, not the existence of a reserved fund. Legal guidance recognizes direct payment and escrow settlement as different options. Without a dedicated fund, verify the payment obligation, its limits and collection sources rather than assigning a zero or unlimited number automatically. (www.hklaw.com)

Conclusion

The useful answer to “does working capital escrow cap seller liability?” is contractual: **the fund alone does not establish the limit**. The seller needs a supported reading of the adjustment obligation, its cap or exclusive recovery provisions, and every permitted source of payment. Practitioner guidance distinguishes escrow funding from liability limits. (fasthofflawfirm.com)

The stress test turns that distinction into a proceeds decision. Start with the final or agreed adjustment. Apply the actual contractual limitations. Allocate the amount among expressly available sources, record the reduction to each fund or later payment, and identify any new seller cash obligation. For a seller-favorable outcome, show the buyer's payment separately from release of withheld consideration. These entries answer different questions about the owner's receipts.

The study provides context for the range of negotiated structures; it does not supply the missing language in an individual agreement. The completed recovery matrix and scenario worksheet should instead reveal exactly where the model depends on counsel's interpretation or an accountant's calculation. A blank or unresolved entry is useful information before proceeds are distributed.

Owners should retain the reconciled worksheet alongside the relevant purchase agreement, escrow instructions and funds flow. Reviewing these together makes the difference between withheld cash and a potential repayment obligation visible. It also keeps an authorized reduction to one source from being counted again as a separate cash payment. The result is a reviewable proceeds model with clearly stated assumptions, rather than an unsupported conclusion that the escrow account determines every seller's liability. (www.wiggin.com)

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

1. <https://fasthofflawfirm.com/blog/escrows-and-holdbacks>
2. <https://www.stout.com/en/insights/article/post-closing-working-capital-adjustments-planning-and-drafting-considerations>
3. <https://learn.srsacquiom.com/rs/664-KLJ-520/images/SRSACquiom-2026-Working-Capital-PPA-Study.pdf>
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22. <https://www.mcguirewoods.com/client-resources/alerts/2021/12/tech-investing-part-ii-purchase-price-adjustments>
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Laurent Capital advises the owners of lower middle market B2B companies, generally between \$5 million and \$150 million in revenue, across North America.

What it does

Sell-side advisory, buy-side advisory and acquisition search, majority and minority recapitalizations, exit planning and sale readiness, indicative valuation advisory for planning purposes, and management buyouts and succession.

How it works

Fees are agreed in writing before work begins and weighted to the result, and each engagement is led by a partner from the first meeting to closing.

What it is not

Laurent Capital is not a lender, a fund or a business broker for small main-street sales, and its valuation work is not a fairness opinion or a tax appraisal. Where a transaction requires a registered broker-dealer, it works with appropriately licensed parties.

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