

***CARES Act
Paycheck Protection Program***



Keiter
Advisors

Your Mergers & Acquisitions Specialists

***Prepared as of
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Obtaining Liquidity in Uncertain Times





Agenda

- **Introduction to Keiter Advisors**

- **Paycheck Protection Program**
 - Who is eligible?
 - Loan amount
 - What are “payroll costs”?
 - Permitted uses of proceeds
 - Loan forgiveness provisions
 - Potential reduction in forgiveness benefits
 - Rehire exemptions
 - Documentation required
 - Miscellaneous items

- **Questions**



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Advised on over 30 transactions per year across an array of industries.



Paycheck Protection Program

- Current status of the bill
- \$349 billion of federally guaranteed loans, up to \$10 million per business
- Administered through U.S Small Business Administration (“SBA”) 7(a) loan program. Potential for additional lenders, under the direction of Treasury.
- Subsequently forgiven if all of the requirements are met



Who Is Eligible?

“(i) CERTIFICATION.—An eligible recipient applying for a covered loan shall make a good faith certification—

“(I) that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient;

“(II) acknowledging that funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments;

- ✓ Businesses with fewer than 500 employees, unless standard set by SBA for respective industry exceeds 500.
- ✓ Non-Profits with fewer than 500 employees.
- ✓ Sole proprietors, independent contractors, and eligible self-employed individuals.
- ✓ Veteran’s organizations with fewer than 500 employees.
- ✓ Special provisions/exceptions for accommodation and food service businesses, businesses operating SBA approved franchises, and those receiving funding from SBIC programs.



Loan Amount

- 2.5 X the average total monthly payroll costs* incurred in the 1-year period before the date on which the potential loan is made.
- Seasonal employers use the 12-week period beginning February 15, 2019 OR the period March 1, 2019 to June 30, 2019 to determine the average monthly payroll costs*. This figure is multiplied by 2.5 to determined potential loan amount.
- Those not in business between February 15, 2019 and June 30, 2019 can use the average monthly payroll costs* for the period between January 1, 2020 and February 29, 2020. This figure is also multiplied by 2.5 to determine the loan amount.

Loan amount can not exceed \$10 million.

*Payroll costs are defined on the subsequent page



What Is Included In “Payroll Costs”?

- Salaries, commissions, tips, vacation pay, parental leave pay, group health care benefits (employer-paid portion), retirement benefits, state and local tax associated with compensation, and payments to any independent contractor*
- Calculation excludes per employee compensation that exceeds \$100,000 per year.
- Does not include sick leave or qualified family leave wages paid in accordance with Families First Coronavirus Response Act.



Allowable Uses of Loan Proceeds

- Payroll costs;
- Costs related to continuation of group health care benefits during period of paid sick, medical, or family leave;
- Interest on mortgage obligations (w/o prepayment);
- Rent
- Utilities
- Interest on debt obligations incurred prior to February 15, 2020.

****Loan is nonrecourse provided borrower uses funds for allowable uses****



Loan Forgiveness

- Borrower eligible for loan forgiveness in an amount equal to the amount spent on “allowable uses” **IF** payroll retention metrics are maintained during the eight week period beginning on the date of the origination of the loan.



Potential For Reductions of Loan Forgiveness Benefit

- The portion of the loan eligible for forgiveness is reduced if the average number of FTEs during the eight week period after receiving the loan is less than:
 - 1) the average number of FTEs per month from February 15, 2019 – June 30, 2019 **OR**
 - 2) the average number of FTEs per month during January 1, 2020 – February 29, 2020
- The borrower decides which period to use in the calculation
- Seasonal employers can use the period February 15, 2019 through June 30, 2019 in the above-referenced calculation.
- If any employee's salary or wages is reduced by greater than 25% of their total salary or wages in the prior quarter, the amount of loan forgiveness will be reduced.



Rehire Exemption

- If the borrower's potential forgiveness amount is reduced as a result of a reduction in FTEs as compared to the prior year **OR** as a result of a temporary reduction in compensation that is in excess of 25% of the employees prior quarter's earnings, the Act provides ways for the borrower to reduce the FTE deficit and/or the employee compensation deficiency by June 30, 2020 without reducing the portion of the loan eligible for forgiveness.

An Example: Calculating Loan Amount Using Payroll Costs: Non-Seasonal Business

	12 Months Prior to Loan												
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	12 MONTH AVG
Salaries & Wages (1)	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Commissions	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Tips	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Vacation Pay	300	300	300	300	300	300	300	300	300	300	300	300	300
Parental / Family / Medical / Sick Leave Pay	400	400	400	400	400	400	400	400	400	400	400	400	400
Payments for Dismissal / Separation	-	-	-	-	-	-	-	-	-	-	-	-	-
Group Health Benefits	200	200	200	200	200	200	200	200	200	200	200	200	200
Retirement Benefits	500	500	500	500	500	500	500	500	500	500	500	500	500
State / Local Payroll Taxes (2)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Eligible Payroll Costs	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400	\$32,400

\$32,400

(1) Includes all salaries with those over \$100,000 per annum capped. This is still subject to confirmation. Also excludes non-US employee salaries.

(2) Excludes Federal Payroll Taxes.

$$\begin{array}{ccc}
 \boxed{\$32,400} & \times & \boxed{2.5} \\
 \text{Avg. 12} & & \text{Multiplier} \\
 \text{Month} & & \\
 \text{Payroll Costs} & & \\
 & & = \\
 & & \boxed{\$81,000} \\
 & & \text{Loan Amount}
 \end{array}$$

Subject to change



Loan Forgiveness Reduction Calculation: Number of Employees Test

	Prior Period Measurement		Average per Month During Loan Period	On June 30, 2020
	Options			
	2/15/2019 - 6/30/2019	1/1/2020 - 2/29/2020		
Average Full Time Equivalent Employees per Month	10	12	8	10

1. Calculate average full-time equivalent employees (FTEE) during loan period.
2. Take the lower of average FTEE during (a) 2/15/19- 6/30/19 or (b) 1/1/20-2/29/20
3. Perform the following calculation:

8	/	10	=	80%	x	\$81,000	=	\$64,800
Avg. FTEE During Loan Period		Lower FTEE Historical Avg		Loan Forgiveness Percentage		Loan Amount (assuming it was used 100% for Allowable Costs)		Forgivable Loan Amount

4. **EXEMPTION.** If the borrower reduced FTEEs between 2/15/2020 & 30 days after Act enactment and the borrower is able to get its June 30, 2020 FTEE (in this example it is 10) to equal or exceed the amount of FTEE on 2/15/20 (assume it is 10), then 100% of loan is forgiven (subject to the salary test).

Subject to change



Loan Forgiveness Reduction Calculation: Salary Test

Eligible Employees (1)	Most Recent Quarter Before Loan Period	During Covered Period	% Reduction	Loan Forgiveness \$ Reduction
Employee A	\$15,000	\$13,000	-13%	\$0
Employee B	\$11,000	\$8,000	-27%	(\$250)
Employee C	\$12,000	\$10,000	-17%	\$0
Employee D	\$9,000	\$6,000	-33%	(\$750)

Footnote:

(1) Eligible employees is any employee who did not receive during any single pay period during 2019, wages or salary at any annualized rate of pay in an amount more than \$100,000.

Reduction of Loan Amount Forgiveness

\$1,000

1. For eligible employees calculate the salaries/wages for the most recent quarter prior to the loan period. Then calculate the salary during the covered period (loan period).
2. Calculate the % difference between the two.
3. If the difference is 25% or greater, than the loan forgiveness amount is reduced by the salary difference greater than 25% of those employees.
4. EXEMPTION. If the borrower reduced eligible employee salaries between 2/15/2020 and 4/27/2020 (30 days after Act enactment) as compared to 2/15/20 and the borrower is able to get its June 30, 2020 salaries back up to the 2/15/20 level, then 100% of loan is forgiven (subject to the number of employees test).

Subject to change



Loan Forgiveness Reduction Calculation: Putting it Together

Original Loan Amount Used for Allowable Costs	\$81,000
Less: Reduction from Number of Employees Test	(\$16,200)
Less: Reduction from Salary Test	(\$1,000)
Amount of Loan Subject to Forgiveness	\$63,800

- Amount of Loan subject to forgiveness may be 100% if borrower can meet the number of employees and salary exemptions.
- Any amounts that are not forgiven, but were used for eligible costs, will be repaid over a term of up to 10 years and at a rate not to exceed 4% per annum. These amounts will remain non-recourse.
- Any amounts that are not forgiven, but were NOT used for eligible costs, will be repaid over a term of up to 10 years and at a rate not to exceed 4% per annum. It is currently uncertain if these amounts will require some form of collateralization.

Subject to change



Documentation to Gather

- Payroll reports for the various time periods discussed earlier
- Payroll tax filings reported to the IRS
- Documentation around other ‘payroll costs’
- Documentation on covered costs/payments (e.g., documents verifying mortgage, rent, and utility payments)
- Certification from a business representative that the documentation is true and correct and that forgiveness amounts requested were used to retain employees and make other forgiveness-eligible payments



Miscellaneous Items

- No “credit elsewhere” provision
- No personal guarantee
- No collateral required
- Any portion not forgiven has an up to 10 year amortization term with 4% interest rate
- Existing SBA 7(a) loans will have six months of P&I payments made on their behalf by the SBA.



Emergency EIDL Grants & Disaster Loans

Emergency EIDL Grants

- Emergency EIDL Grants are also addressed in the CARES Act. \$10 billion appropriated. Program terminates on 12/31/20.
- Grants are \$10,000 or less.
- Must be in business beginning on Jan 31, 2020.
- Applicant is approved by credit score or alternative means to determine applicants ability to pay – funds can potentially be available in 3 days after receipt of application
- These funds can be used to provide sick leave to employees, maintaining payroll to retain employees, meeting increased costs to obtain materials unavailable from the applicants original source, making rent or mortgage payments and repaying obligations that can not be met due to revenue losses.
- Even though these grants are forgiven, any amounts provided under these Emergency EIDL grants reduce the loan forgiveness amount of PPP loans.
- **Economic Injury Disaster Loans & Duplicative Uses.**

- Current banking relationship
- SBA Approved Lenders List
- Keiter Advisors



QUESTIONS?