

PAYCHECK PROTECTION PROGRAM GUIDE AND CHECKLIST

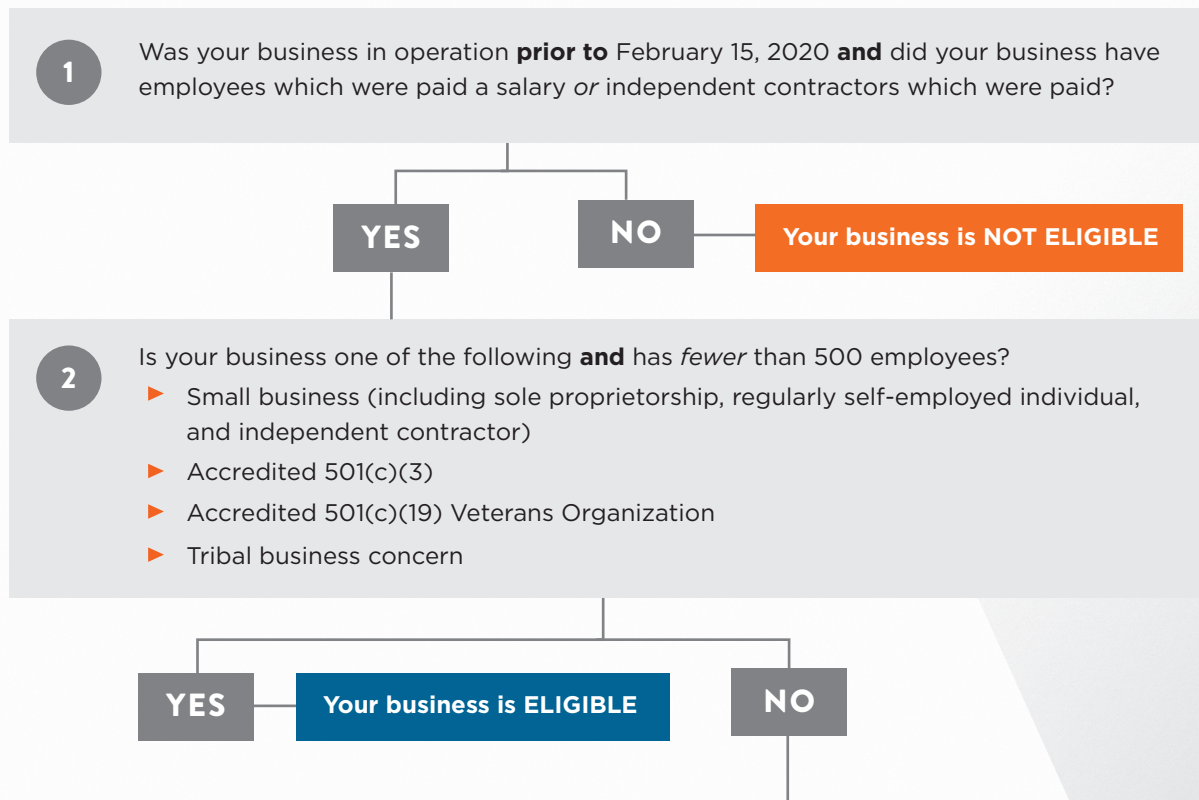
The Coronavirus Aid, Relief, and Economic Security (CARES) Act is slated to provide nearly \$350 billion in aid to incentivize small businesses to retain and pay employees amid the current economic certainty wrought by the COVID-19 pandemic. This aid, which comes through the newly-formed Paycheck Protection Program (PPP) via federally-guaranteed SBA loans, provides small businesses with funds to pay up to eight weeks of payroll costs and benefits, interest on business mortgages, rent, and utilities.

Notably, small businesses that comply with certain use-of-funds guidelines are eligible to have PPP loans forgiven.

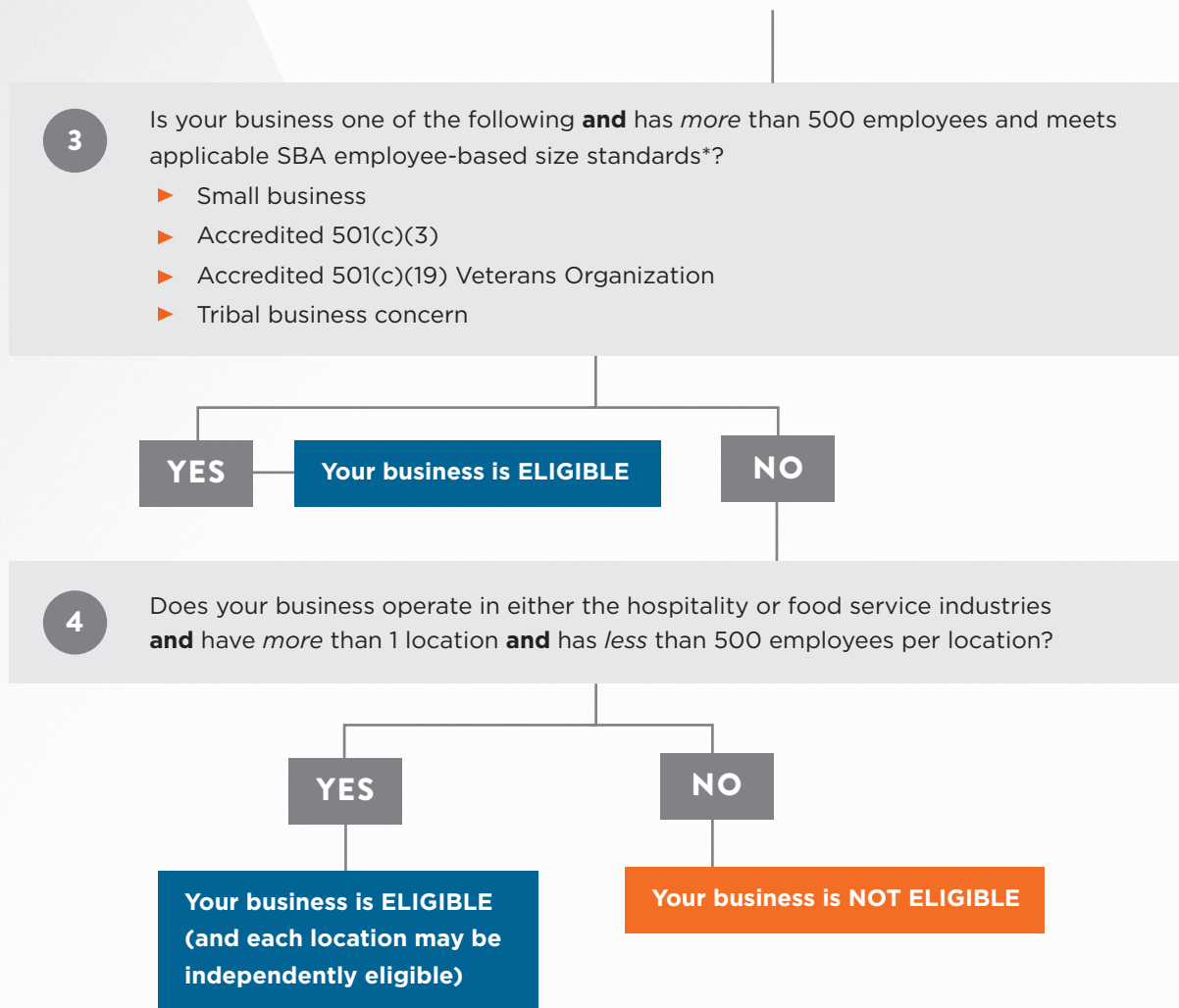
As small businesses work to take advantage of the new program, they are likely to have many questions regarding eligibility, requirements, and actionable next steps. Here are answers to five pressing questions businesses may have regarding the Paycheck Protection Program.

IS YOUR BUSINESS ELIGIBLE?

Under the CARES Act, only certain businesses are eligible for PPP loans. A businesses' eligibility is primarily predicated upon its size. Below is a step-by-step guide to determine whether your business is eligible.



(continue to question 3 on next page)



* See here for more details <https://www.sba.gov/federal-contracting/contracting-guide/size-standards>

IMPORTANT NOTES:

1. The 500-employee threshold noted above includes **all** employees (i.e. full-time, part-time, and any other status).
2. If your business operates as a franchise **or** receives financial assistance from SBA-licensed small business investment companies the SBA's affiliation standards **do not** apply.
3. Outside of the businesses mentioned in #3 of the criteria table above, many portfolio companies controlled by **private equity** sponsors are likely to be aggregated with the other controlled portfolio companies of that sponsor, therefore exceeding the size limitations of businesses eligible for participation in the PPP. Such companies are encouraged to contact applicable trade and industry associations or members of Congress to voice how the coronavirus national emergency has negatively impacted their business.

WHAT WILL LENDERS REQUIRE?

PPP loans differ in some important ways from traditional SBA loans and, after determining that your business is eligible for PPP loans, it is important to understand what PPP loan lenders will be requiring of your business.

Unlike traditional SBA lending programs, lenders will **not** require the following:

- ▶ Certification the credit was sought elsewhere
- ▶ Personal loan guarantees
- ▶ Collateral

As part of its application, your business must make the following good-faith certifications:

- ▶ Current economic uncertainty makes the loan necessary to support ongoing operations
- ▶ The loan will be used to pay for allowable payroll, business mortgage interest, rent, and utility costs
- ▶ Your business does not and will not have a pending application for another loan, for the same purpose and amount applied for under this program.
- ▶ Between February 15, 2020 and December 31, 2020, your business has not and will not receive another loan, for the same purpose and amount applied for under this program

Lenders will also require documentation detailing the amounts of payroll costs and benefits, interest on business mortgages, rent, and utilities.

HOW MUCH CAN YOUR BUSINESS BORROW?

Because of an anticipated extremely high volume of demand for PPP loans, the CARES Act has established borrowing limits for your eligible business. As such, your eligible business can receive **one loan** of up to **2.5x** of **average monthly payroll costs**, not to exceed \$10M. The average monthly payroll costs are equal to the sum of allowable payroll costs less the sum of excluded payroll costs. Below is a listing of allowable and excluded payroll costs.

ALLOWABLE PAYROLL COSTS

- ▶ Salaries, wages, commissions, self-employment earnings, or similar compensation
- ▶ Payment of cash tips or equivalent
- ▶ Employee benefits including costs for medical, parental, sick, and vacation leave
- ▶ Allowance for dismissal or separation
- ▶ Payment for group health care benefits, including insurance premiums
- ▶ Payment of retirement benefits
- ▶ State and local tax assessed on employee compensation

EXCLUDED PAYROLL COSTS

- ▶ Compensation of an employee in excess of an annual amount of \$100,000, prorated for the period February 15, to June 30, 2020
- ▶ Payroll, railroad retirement, and income taxes
- ▶ Any compensation of an employee whose principal place of residence is outside of the United States
- ▶ Qualified sick or family leave wages for which a credit is allowed under the Families First Coronavirus Response Act

BELOW IS A STEP-BY-STEP GUIDE OF HOW TO CALCULATE THE MAXIMUM LOAN AMOUNT:

1

Was your business operational in 2019 **and** did it employ **only** non-seasonal* employees?

YES

NO

2.5 x average total monthly payroll costs incurred during the 12 months prior to the loan date

2

Was your business only operational in 2020 **and** did it employ **only** non-seasonal* employees?

YES

NO

2.5 x average total monthly payroll costs incurred for January and February 2020

3

Was your business operational during 2019 or 2020 **and** did your business employ **only** seasonal* employees?

YES

NO

2.5 x average total monthly payments for payroll costs for the 12-week period beginning February 15, 2019 or March 1, 2019 (decided by the loan recipient) and ending June 30, 2019

4

Was your business operational during 2019 or 2020 **and** employ both seasonal* **and** non-seasonal* employees?

YES

Maximum loan amount will be a combination of either #1 or #2 (depending upon when your business was operational) and #3, above. The average total monthly payroll costs used in the calculations from #1 or #2, above, will be only for non-seasonal employees. The maximum loan amount will be 2.5 x the calculated amounts.

*A seasonal employee is an employee who is hired into a position for which the customary annual employment is six months or less and for which the period of employment begins each calendar year in approximately the same part of the year.

HOW MUCH CAN BE FORGIVEN?

As PPP loans are forgivable, it is important to understand the criteria for forgiveness and the amounts which ultimately may be forgiven. PPP loan forgiveness is dependent upon loan amounts being used for allowable costs and must be requested of the lender. Below is a step-by-step guide to understand the forgivable loan amounts.

1

Were loan amounts used for allowable costs* **and** did your business reduce payroll by **less** than 25% year-over-year?

YES

NO

100% of amounts used for allowable costs used over the 8 weeks after receiving the loan

2

Were loan amounts used for allowable costs* **and** did your business reduce payroll by **more** than 25% year-over-year?

YES

NO

Dollar-for-dollar decrease in forgiveness amounts for reductions in payroll. For example, if your business has \$100,000 in allowable costs*, but the year-over-year payroll amount was reduced by 25%, the amount forgiven would be decreased by 25%, to \$75,000.

3

Were any loan amounts used for **unallowable** costs?

YES

Loan amounts used for unallowable costs are not forgivable. For example, if your business received a \$100,000 loan and used \$75,000 for allowable costs* and \$25,000 for unallowable costs, the only the \$75,000 used for allowable costs* would be forgiven.

In order to further qualify for loan forgiveness, your business has until June 30, 2020 to restore full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

*Allowable costs include allowable payroll, business mortgage interest, rent, and utility costs

WHEN, WHERE, AND HOW CAN YOUR BUSINESS APPLY?

With the knowledge that your business is eligible for PPP loans, along with an understanding of the lender requirements for the loans, the amount which can be borrowed, and the forgiveness requirements, the final step is to apply for a PPP loan. Below is important information regarding when, where, and how to apply.

WHEN?

April 3, 2020 (unless you are an independent contractor or self-employed individual, in which case applications commence April 10, 2020)

WHERE?

Any existing SBA lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Other regulated lenders will be available to make these loans once they are approved and enrolled in the program

HOW?

<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>