An Overview of the CARES Act
Paycheck Protection Program, SBA
Disaster Loans and the Large
Company Program

Prepared as of
April 3, 2020
Please Note:

The information contained in this presentation has been prepared for IFDA Members and the broader foodservice distribution industry. It is not intended to, and does not, provide tax, legal or professional advice concerning any specific matter. You should not act on the information without first obtaining professional advice and counsel.
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
- SBA Disaster Loans
- Large Company Program
- Questions
Closed 40 foodservice transactions and advised over 120+ other distributors.
Paycheck Protection Program
Paycheck Protection Program

- Current status of the bill

- $349 billion of federally guaranteed loans, up to $10 million per business

- The loans will be administered through the 7(a) program available through SBA lenders or any FDIC insured depository institution, federally insured credit union, and Farm Credit System institution.

- 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 (note difference on application – using 2019 average monthly payroll).

- 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 determine 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

- 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**
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.
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.

Note that in recent guidance, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.
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.
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 2 year amortization term with 1% interest rate – payments can be deferred for six months
- Existing SBA 7(a) loans will have six months of P&I payments made on their behalf by the SBA.

Apply starting April 3, submit application no later than JUNE 30. *(Loans are first come first serve)*
Emergency EIDL Grants
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.
SBA Disaster Loans
Economic Injury Disaster Loans

- Provides working capital loans available to small businesses, small agricultural cooperatives and most private non-profits

Eligibility:
- Employee count
- Must be physically located in a declared county (for COVID) and suffered working capital losses due to the declared disaster

Program is administered directly by the SBA (i.e. no applying through a bank)
General Terms

› Eligible entities may qualify for loans up to $2 million
  › Note: SBA determines amount a business qualifies for by reviewing operating expenses. The applicant does not apply for a specific loan amount.
› Interest rate is 3.75% for small businesses
› Loan payments are deferred for 12 months (interest does accrue)
› Loan amortization for the COVID-19 disaster is 30 years
› Loans are collateralized above $25,000 and if there is insufficient business collateral, will look for personal guarantee
Applying

› Apply directly through the SBA at DisasterLoan.sba.gov
› Application is more complicated than the PPP loans – requires personal financial statements and tax returns for certain owners
› There is no cost to apply and no obligation to take the loan if offered
› Total process is taking ~40 days
› Business must demonstrate ability to pay
Other Considerations

» EIDLs and Paycheck Protection Loans
» Emergency EIDL Grants
Large Company Lending Program
Large Company Lending Program

- Applicable for businesses with over 500 employees
- Waiting on additional information
- Requirements:
  - Maintain a certain employment level thru September 2020 – 90% retention
  - Restrictions on stock buybacks and dividends
  - Restrictions on compensation
Toolbox

- Current banking relationship
- SBA Approved Lenders List
- Keiter Advisors
QUESTIONS?
APPENDIX

Additional Information on PPP Loans
An Example: Calculating Loan Amount Using Payroll Costs: Non-Seasonal Business

Calendar 2019 is now the guidance on the application

$32,400 \times 2.5 = $81,000

Avg. 12 Month Payroll Costs

Loan Amount

Subject to change – consult your banker & attorney
Loan Forgiveness Reduction Calculation: Number of Employees Test

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:

\[
\frac{8}{10} \times 80\% \times 81,000 = 64,800
\]

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 & wages test).
Loan Forgiveness Reduction Calculation: Salary & Wages Test

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).

<table>
<thead>
<tr>
<th>Eligible Employees (1)</th>
<th>Most Recent Quarter Before Loan Period</th>
<th>During Covered Period</th>
<th>% Reduction</th>
<th>Loan Forgiveness Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee A</td>
<td>$15,000</td>
<td>$13,000</td>
<td>-13%</td>
<td>$0</td>
</tr>
<tr>
<td>Employee B</td>
<td>$11,000</td>
<td>$8,000</td>
<td>-27%</td>
<td>($250)</td>
</tr>
<tr>
<td>Employee C</td>
<td>$12,000</td>
<td>$10,000</td>
<td>-17%</td>
<td>$0</td>
</tr>
<tr>
<td>Employee D</td>
<td>$9,000</td>
<td>$6,000</td>
<td>-33%</td>
<td>($750)</td>
</tr>
</tbody>
</table>

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

Subject to change – consult your banker & attorney
Loan Forgiveness Reduction Calculation: Putting it Together

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Loan Amount Used for Allowable Costs</td>
<td>$81,000</td>
</tr>
<tr>
<td>Less: Reduction from Number of Employees Test</td>
<td>($16,200)</td>
</tr>
<tr>
<td>Less: Reduction from Salary &amp; Wages Test</td>
<td>($1,000)</td>
</tr>
<tr>
<td>Amount of Loan Subject to Forgiveness</td>
<td>$63,800</td>
</tr>
</tbody>
</table>

• 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 2 years and at a rate of 1% per annum 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 2 years and at a rate of 1% per annum. It is currently uncertain if these amounts will require some form of collateralization.

Subject to change – consult your banker & attorney