

CARES ACT: HOW TO IMPLEMENT ITS PROVISIONS TO ASSIST IN RECOVERY

May 21, 2020



With you today



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Agenda

- ▶ Paycheck Protection Program (PPP) Loan Forgiveness
- ▶ Overview of Payroll tax credits and deferrals, eligibility, and claim procedures
- ▶ Explanation of liquidity options under Title IV and the Main Street Lending Program
- ▶ What does the CARES Act leave out?





Title I Overview

Paycheck Protection Program

Most Up-To-Date Guidance on PPP Loans as of May 15, 2020

ANSWERS TO SOME FREQUENTLY ASKED QUESTIONS

- ▶ The audit threshold of two million dollars will be applied to the borrower and its affiliates
- ▶ A special payroll run at the end of the covered period is not necessary
- ▶ Certain payrolls can use an alternative payroll covered period
- ▶ Generally, qualifying expenses can be paid or incurred, not both
- ▶ Non-payroll costs can be paid after the covered period but before the next billing cycle
- ▶ Maximum compensation for the 8-week period is \$15,385 ($\$100,000/52*8$)
- ▶ Salary/Hourly Wage Reduction uses rate of pay not actual payments
- ▶ Apply Salary/Hourly Wage Reduction before FTE reduction
- ▶ Forty hours is used to calculate average full-time equivalents by person
- ▶ Employees who choose not to work do NOT reduce FTE count - FTE exception
- ▶ Employees that are re-hired by June 30, 2020 do NOT reduce FTE count - FTE safe harbor
- ▶ The application currently expires on October 31, 2020

How to Obtain Forgiveness

- ▶ Complete SBA Form 3508 Loan Forgiveness Calculation Form and PPP Schedule A and submit on paper or electronically, according to your lender's instructions.
- ▶ SBA Loan application has four (4) components:
 - PPP Loan Forgiveness Calculation Form
 - PPP Schedule A - Summary Information for FTE and Wage/Salary Reductions
 - PPP Schedule A Worksheet - FTE and Wage/Salary Reductions
 - Optional PPP Borrower Demographic Information Form
- ▶ When approaching the application it might be easier to work in reverse order
 - Complete the Schedule A Worksheet, then;
 - Schedule A, and then;
 - Forgiveness Calculation Form.

PPP Schedule A Worksheet

Gather information separately for two groups of employees who's principal place of residence is in the U.S.

- ▶ **Table 1: list each employee during the covered period (or alternative covered period) who received compensation at an annualized rate of \$100,000 or less, for each pay period in 2019; including employees which were hired in 2020**
 - Name, ID, Cash Compensation Paid or Incurred during the period, average FTE, Salary/Hourly Wage Reduction
- ▶ **Table 2: list each employee during the covered period (or alternative covered period) who received compensation at an annualized rate of more than \$100,000, for any pay period in 2019**
 - Name, ID, Cash Compensation Paid, or Incurred during the period, average FTE
 - Not concerned with Salary/Wage Reduction because these employees' wages are not being protected
- ▶ **Supporting calculations are still required to complete the tables**
 - Salary/Hourly Wage Reduction
 - FTE for various periods (February 15-June 30, 2019 and January 1-February 29, 2020 and any chosen 12-wk period for seasonal employers)

Covered Period and Alternative for Some Payrolls

Covered Period General Rule

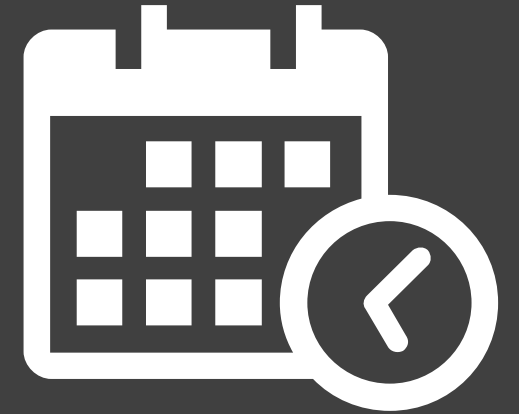
- ▶ Eight-week (56-day) period begins on the PPP Loan Disbursement Date. For example, if the Borrower received its PPP loan proceeds on Monday, April 20, the first day of the Covered Period is April 20, and the last day of the Covered Period is Sunday, June 14
- ▶ This might require payroll periods that cross the first or last day of the Covered Period to be prorated to exact days in the period
- ▶ Professionals are not in agreement on how this is applied

Alternative Payroll Covered Period for weekly or bi-weekly payroll periods

- ▶ Eight-week (56-day) period begins on the first day of first pay period following the PPP Loan Disbursement Date. For example, if the Borrower received its PPP loan proceeds on Monday, April 20 and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26 the first day of the Alternative Payroll Covered Period is April 26 and the last day of the Alternative Payroll Covered Period is Saturday, June 20
- ▶ This avoids the allocation of payrolls to the exact days in the Covered Period under the general rule
- ▶ Election does affect the Covered Period for non-payroll costs

Payroll Costs for Forgiveness- Timing

- ▶ Payroll costs are considered paid on the day that paychecks are distributed or the borrower originates an ACH credit transaction
- ▶ Payroll costs are considered incurred on the day the employee's pay is earned
- ▶ Payroll costs incurred but not paid during the borrower's last pay period of the Covered Period (or Alternative Payroll Covered Period) are eligible for forgiveness, if paid on or before, the next regular payroll date. Otherwise, payroll costs must be paid during the Covered Period (or Alternative Payroll Covered Period)
- ▶ Therefore, no special payroll processing is required on the last day of the Covered Period (or Alternative Payroll Covered Period)
- ▶ For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the covered period ($\$100,000 * 56/365 = \$15,385$)





Adjustments That Reduce Loan Forgiveness

Salary/Hourly Employees Wage Reductions during Covered Period

- ▶ Applies before application of the FTE reduction analysis
- ▶ For each protected employee:
 - Step 1 - Determine if annual salary or hourly wage that applied to Q1 was reduced during the 8-week period by more than 25%
 - Divide 8-week rate by Q1 rate. Compare the annual salary or the hourly wage during the covered or alternative payroll covered period with that of Q1
 - No adjustment needed for employees with result of 75% or more
 - Comparison of rates instead of actual payments, eliminates the issue created by 8 weeks not being 75% of 13 weeks
 - Step 2 - Apply the Safe Harbor
 - Determine if greater than 25% reduction occurred between February 15, 2020 and April 26, 2020, if “yes”, determine if the rate has been restored by June 30, 2020
 - No adjustment needed for employees who’s salary or hourly wage has been restored
 - Step 3 - For those not meeting the safe harbor, determine the Salary/Hourly Wage Reduction
 - Hourly Employee - Average hours worked in Q1 multiplied by the shortfall in the rate
 - Salary Employee - 8/52 multiplied by the shortfall in annual salary

Full-Time Equivalency (FTE) Reduction Calculation

What is a FTE:

- ▶ For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0
- ▶ A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer than 40 hours may be used at the election of the Borrower

Observation:

- ▶ Implies a weekly calculation instead of a per payroll calculation; per the statute
- ▶ Simplified method eliminates most data needs; just need to know who is hired as full-time



Comparison of Regular and Simplified FTE Determination

▶ Example 1

- Previously, 3 employees @ 10 hrs. equals .9 FTE regular method or 1.5 FTE simplified method
- Covered period 1 employee @ 30 hrs. equals .8 FTE regular method or .5 FTE simplified method
- If more work is being done by fewer people regular appears better

▶ Example 2

- Previously, 3 employees @ 20 hrs. equals 1.5 FTE regular method or 1.5 FTE simplified method
- Covered Period 3 employees @ 10 hrs. equals .9 FTE regular method or 1.5 FTE simplified method
- If all non-full-time employees are working fewer hours simplified method appears better

Full-Time Equivalency (FTE) Reduction Calculation

- ▶ If the number of employees or the average paid hours of employees have not decreased between January 1, 2020 and the end of the Covered Period there is no FTE reduction
- ▶ Otherwise, determine the quotient by dividing the total average FTEs during the Covered Period or Alternative Payroll Covered Period by the average FTE during the borrower's chosen reference period but not to exceed 1.0
- ▶ FTE Reduction Exception - any employee
 - That is terminated for cause or voluntarily reduces hours that is not replaced
 - That was laid off February 15-April 26, 2020 and refuses a written offer of re-employment
 - Shall be treated as 1 FTE during the selected covered period



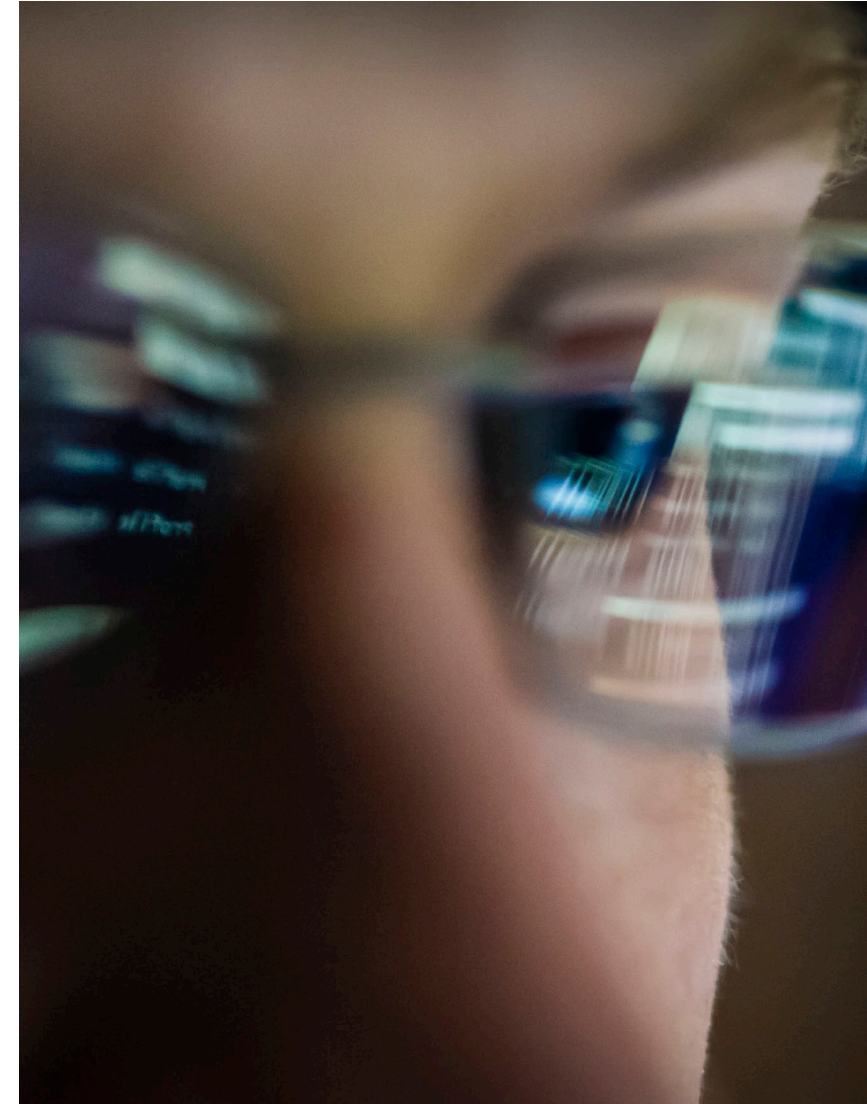
FTE Reduction Safe Harbor for Rehires

- ▶ Borrower is exempt from the reduction in loan forgiveness based on FTE employees described above if both of the following conditions are met:
 - Borrower reduced its FTE employee levels in the period beginning February 15, 2020 and ending April 26, 2020
 - Borrower then restores its FTE employee levels by no later than June 30, 2020 to its FTE employee levels in the borrower's pay period that included February 15, 2020
- ▶ If salary/wages are not restored there may still be a reduction to loan forgiveness under the Salary/Wage reduction rule

Which Employees to Count in FTE Calculations

Count the employees for the employer as used for the PPP

- ▶ Count all employees of the affiliated groups if loan was granted under the general rules
- ▶ Member of affiliated groups that include NAICS code of 72
 - Borrowers that have a NAICS code of 72 should count only the employees at the individual locations used for the PPP loan application
 - Borrowers that are affiliated groups that include businesses with NAICA code 72 should include all employees of the affiliated group except those working for NAICS code 72 locations
- ▶ Include employees who:
 - Receive wages under the employer's EIN(s),
 - Render services but are paid under a different EIN such as a professional employer organization or other similar arrangement
 - Other arrangements might include a payroll trustee agreement or a management companies that pay workers under its EIN but charges back the payroll cost to its customers



Complete the Form 3508

Form 3508 - Schedule A

Enter directly from worksheet

Enter directly from worksheet

New entries

<u>PPP Schedule A</u>	
<u>PPP Schedule A Worksheet, Table 1 Totals</u>	
Line 1. Enter Cash Compensation (Box 1) from PPP Schedule A Worksheet, Table 1:	_____
Line 2. Enter Average FTE (Box 2) from PPP Schedule A Worksheet, Table 1:	_____
Line 3. Enter Salary/Hourly Wage Reduction (Box 3) from PPP Schedule A Worksheet, Table 1: If the average annual salary or hourly wage for each employee listed on the PPP Schedule A Worksheet, Table 1 during the Covered Period or the Alternative Payroll Covered Period was at least 75% of such employee's average annual salary or hourly wage between January 1, 2020 and March 31, 2020, check here <input type="checkbox"/> and enter 0 on line 3.	_____
<u>PPP Schedule A Worksheet, Table 2 Totals</u>	
Line 4. Enter Cash Compensation (Box 4) from PPP Schedule A Worksheet, Table 2:	_____
Line 5. Enter Average FTE (Box 5) from PPP Schedule A Worksheet, Table 2:	_____
<u>Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period</u>	
Line 6. Total amount paid by Borrower for employer contributions for employee health insurance:	_____
Line 7. Total amount paid by Borrower for employer contributions to employee retirement plans:	_____
Line 8. Total amount paid by Borrower for employer state and local taxes assessed on employee compensation:	_____

Source: U.S. Department of Treasury PPP Loan Forgiveness Application - <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>, page 6

Payroll Costs for Forgiveness - Amount

Cash compensation

- ▶ Gross salary, gross wages, gross tips, gross commissions, paid leave (vacation, family, medical or sick leave, other than including leave covered by the Families First Coronavirus Response Act), and allowances for dismissal or separation paid or incurred. Differs from Form W-2, box 1
- ▶ No more than \$15,385 should be counted for an employee during the covered period or alternative payroll covered period

Owner-employees, a self-employed individual, or general partners

- ▶ For each individual, capped at the lower of the eight-week equivalent of their applicable compensation in 2019 or \$100,000 which is \$15,385

Other compensation - Total amount paid by borrower for

- ▶ Employer contributions for employee health insurance, including employer contributions to a self-insured, employer-sponsored group health plan
- ▶ Employer contributions to employee retirement plans
- ▶ Employer state and local taxes assessed on employee compensation (e.g., state unemployment insurance tax), and
- ▶ Do not include employee contributions when calculating payroll costs because employee amounts are included in the gross wages used for cash compensation

Form 3508 - Schedule A (Continued)


2019 SE income times 8/52; not to exceed \$15,385

<u>Compensation to Owners</u>	
Line 9. Total amount paid to owner-employees/self-employed individual/general partners: This amount may not be included in PPP Schedule A Worksheet, Table 1 or 2. If there is more than one individual included, attach a separate table that lists the names of and payments to each.	_____
<u>Total Payroll Costs</u>	
Line 10. Payroll Costs (add lines 1, 4, 6, 7, 8, and 9):	_____
<u>Full-Time Equivalency (FTE) Reduction Calculation</u>	
If you have not reduced the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period, check here <input type="checkbox"/> , skip lines 11 and 12 and enter 1.0 on line 13.	
Line 11. Average FTE during the Borrower's chosen reference period:	_____
Line 12. Total Average FTE (add lines 2 and 5):	_____
Line 13. FTE Reduction Quotient (divide line 12 by line 11) or enter 1.0 if FTE Safe Harbor is met:	_____

A short cut

Source: U.S. Department of Treasury PPP Loan Forgiveness Application - <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>, page 6

Form 3508 Calculation



**Paycheck Protection Program
Loan Forgiveness Application**

OMB Control Number 3245-0407
Expiration Date: 10/31/2020

PPP Loan Forgiveness Calculation Form

Business Legal Name ("Borrower")	DBA or Tradename, if applicable	
Business Address	Business TIN (EIN, SSN)	Business Phone
	() -	
	Primary Contact	E-mail Address

SBA PPP Loan Number: _____ Lender PPP Loan Number: _____

PPP Loan Amount: _____ PPP Loan Disbursement Date: _____

Employees at Time of Loan Application: _____

Employees at Time of Forgiveness Application: _____

EIDL Advance Amount: _____ EIDL Application Number: _____

Payroll Schedule: The frequency with which payroll is paid to employees is:

Weekly Biweekly (every other week) Twice a month Monthly Other _____

Covered Period: _____ to _____

Alternative Payroll Covered Period, if applicable: _____ to _____

If Borrower (together with affiliates, if applicable) received PPP loans in excess of \$2 million, check here:

Borrower might not readily know the affiliates to include

**Note the Alternative Payroll Covered Period is available only if payroll is weekly and bi-weekly

Source: U.S. Department of Treasury PPP Loan Forgiveness Application - <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>, page 3

Form 3508 Loan Forgiveness Calculation

Forgiveness Amount Calculation:	
<u>Payroll and Nonpayroll Costs</u>	
Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):	_____
Line 2. Business Mortgage Interest Payments:	_____
Line 3. Business Rent or Lease Payments:	_____
Line 4. Business Utility Payments:	_____
<u>Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions</u>	
Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):	_____
Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:	_____
Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):	_____
<u>Potential Forgiveness Amounts</u>	
Line 8. Modified Total (multiply line 6 by line 7):	_____
Line 9. PPP Loan Amount:	_____
Line 10. Payroll Cost 75% Requirement (divide line 1 by 0.75):	_____
<u>Forgiveness Amount</u>	
Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):	_____

Source: U.S. Department of Treasury PPP Loan Forgiveness Application - <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>, page 3

Non-Payroll Costs for Forgiveness

- ▶ Eligible non-payroll cost must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.
- ▶ Covered mortgage obligations: payments of interest (not including any prepayment or payment of principal) on any business mortgage obligation on real or personal property incurred before February 15, 2020 (“business mortgage interest payments”)
- ▶ Covered rent obligations: business rent or lease payments pursuant to lease agreements for real or personal property in force before February 15, 2020
- ▶ Covered utility payments: business payments for a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020
- ▶ Eligible non-payroll costs cannot exceed 25% of the total forgiveness amount (this may change by Congress in the next few weeks)

Non-Payroll Costs for Forgiveness - Beginning of Period Example

- ▶ Covered Period begins May 6, 2020 and ends June 30, 2020
- ▶ Telephone Service period is April 1 - April 30, 2020 which is invoiced on May 1, 2020 and due on May 7, 2020
 - Payment is timely on May 1-5, 2020 - not counted because expense was incurred and paid prior to the covered period
 - Payment is timely on May 6-7, 2020 - entire amount counts because it was paid during the covered period
 - Payment is late on May 8 - June 30, 2020 - entire amount counts because it was paid during the covered period
 - Payment is very late after June 30, 2020 - nothing can be included because it was not incurred nor paid during the covered period



Non-Payroll Costs for Forgiveness - End of Period Example

- ▶ Covered Period begins May 6, 2020 and ends June 30, 2020
- ▶ Telephone Service period is June 1 - June 30, 2020 which is invoiced on July 1, 2020 and due on July 7, 2020
 - Payment is timely on July 1-7, 2020 - Entire amount counts because expense was incurred in the covered period and paid before the next billing date of August 1, 2020
 - Payment is late on July 8 - August 31, 2020 - Entire amount counts because it was incurred during the covered period and paid before the next billing date
 - Payment is very late after August 31, 2020 - Nothing can be included because it was not paid before the next billing date notwithstanding the fact that the expense was incurred during the covered period



Documentation

Document Submission to Lender- Payroll

- ▶ Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees
- ▶ Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
 - i. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
 - ii. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state
- ▶ Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the borrower included in the forgiveness amount

Document Submission to Lender - FTE

- ▶ Documentation showing (at the election of the borrower):
 - the average number of FTE employees on payroll per month employed by the borrower between February 15, 2019 and June 30, 2019;
 - the average number of FTE employees on payroll per month employed by the borrower between January 1, 2020 and February 29, 2020; or
 - in the case of a seasonal employer, the average number of FTE employees on payroll per month employed by the borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive twelve-week period between May 1, 2019 and September 15, 2019
- ▶ The selected time period must be the same time period selected for purposes of the chosen reference period
- ▶ Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state
- ▶ Documents submitted may cover periods longer than the specific time period

Document Submission to Lender - Non-payroll

- ▶ Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period:
 - Business mortgage interest payments: copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments
 - Business rent or lease payments: copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments
 - Business utility payments: copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments

Documents to Maintain but not Submitted

- ▶ All records relating to the Borrower's PPP loan, including
 - documentation submitted with its PPP loan application, documentation supporting the borrower's certifications as to the necessity of the loan request and its eligibility for a PPP loan
 - documentation necessary to support the borrower's loan forgiveness application
 - documentation demonstrating the borrower's material compliance with PPP requirements
- ▶ PPP Schedule A Worksheet or its equivalent and the following:
 - Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the "Salary/Hourly Wage Reduction" calculation, if necessary
 - Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000
 - Documentation regarding any employee job offers and refusals, firings for cause, voluntary resignations, and written requests by any employee for reductions in work schedule
 - Documentation supporting the PPP Schedule A Worksheet "FTE Reduction Safe Harbor"

Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request



Overview of Payroll Tax Relief

Employer Payroll Tax Relief

Summary of Tax Provision	General Requirements
FFCRA Sick Leave Payroll Tax Credit	<ul style="list-style-type: none">▶ Employer has less than 500 employees▶ Employees obtain emergency paid sick leave▶ Limited to 10 days of paid sick leave
FFCRA Family Medical Leave Payroll Tax Credit	<ul style="list-style-type: none">▶ Employer has less than 500 employees▶ Employees obtain family medical leave▶ Limited to 12 weeks (adjusted for paid sick leave)
Employee Retention Payroll Tax Credit	<ul style="list-style-type: none">▶ Employer has been closed due to governmental requirements, or the company's gross receipts have decreased by 50%▶ Payments are made to eligible employees▶ Employer has not obtained an SBA loan under the Paycheck Protection Program
Payroll Tax Deferral	<ul style="list-style-type: none">▶ Deferral of payment of employer Social Security (6.25%) beginning March 27, 2020▶ 50% deferral until December 31, 2021 with remainder deferred until December 31, 2022

Reimbursement Procedure - Form 941, Payroll Deposit Offset, or Rapid Refund

Quarterly Form 941

- ▶ Credit amount for the quarter will be reported on Form 941
 - Advanced payments via Payroll Deposit Offset or Rapid Refund Form 7200 will be reported
 - The difference between the two will be settled based on the Form 941
 - Failure to deposit penalty does not apply within certain parameters
- ▶ Payroll Deposit Offset
 - FFRCA and Employee Retention credits can be deducted from federal payroll tax deposits for each pay period that includes the benefit payments
 - Credit can be offset against all taxes required to be deposited, including employee income and employment taxes withheld, and employer OASDI and Medicare
 - Provides immediate funding for the required payment unless credit is larger than the total payroll tax deposit for the period

Reimbursement Procedure - Form 941, Payroll Deposit Offset, or Rapid Refund

Rapid Refund

- ▶ Can request a refund by using Form 7200, Advance Payment of Employer Credits Due to COVID-19
- ▶ No requirement to use Form 7200, IRS recommends offset
- ▶ Multiple requests can be filed for each quarter; up to the end of the month following quarter's end
- ▶ Form 7200 requires
 - Total of each type of leave paid during the quarter that is eligible for the credit and paid this quarter
 - Total amount of offsets and prior Form 7200 requests during the quarter
 - Advance requested (item 1 minus item 2)
- ▶ Do not file amended Form 7200



Title IV Overview

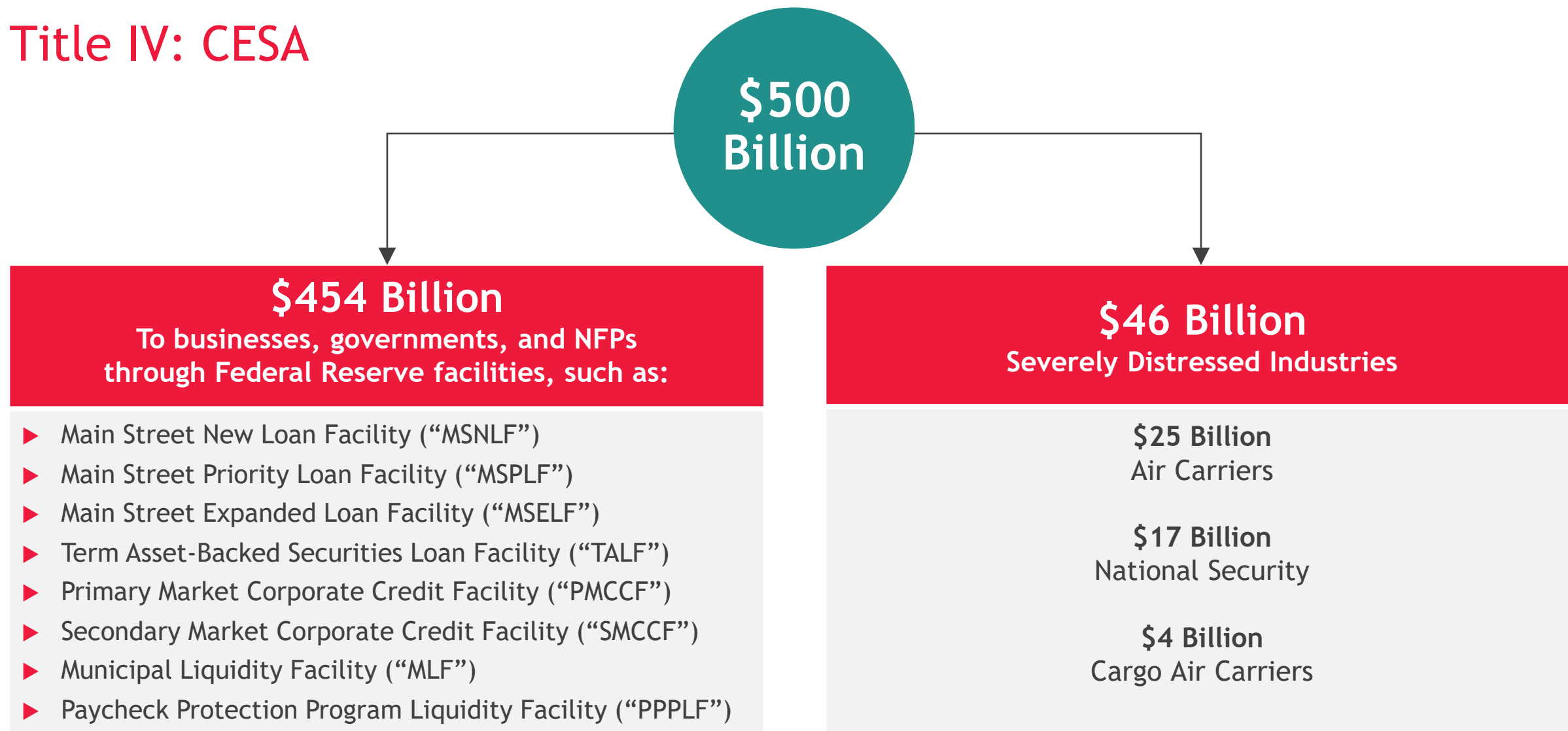
Main Street Lending Program

CARES Act: Title IV - Coronavirus Economic Stabilization Act of 2020 (CESA)

- ▶ \$46 billion in direct Treasury loans to severely distressed economic sectors
 - \$25 billion for passenger air carriers and their contractors
 - \$4 billion for cargo air carriers
 - \$17 billion for businesses critical to national security
- ▶ \$454 billion to provide liquidity to businesses, governments, and nonprofit organizations not otherwise receiving sufficient relief
 - To be administrated through various Fed Reserve facilities



PURPOSE: To provide liquidity to eligible businesses, states, and municipalities related to losses incurred due to the coronavirus. This is a \$500 billion stabilization loan program and gives broad discretion to the Secretary of the Treasury.

Title IV: CESA



Economic Stabilization and Assistance Loans (“ESL”) § 4003

SPECIAL PURPOSE VEHICLES (“SPV”)

Loan Programs	Treasury (Fed Collateral) ³ 	Federal Reserve ⁴ 
Passenger airlines, cargo airlines, aviation repair operators, airline ticket agents, and business critical to maintaining national security	\$46 Billion	N/A
Main Street New Loan Facility Main Street Expanded Loan Facility Main Street Priority Loan Facility	\$75 Billion	\$600 Billion
Term Asset Based Security Loan Facility	\$10 Billion	\$100 Billion
The Primary Market Corporate Credit Facility The Secondary Market Corporate Credit Facility	\$75 Billion	\$750 Billion
The Municipal Liquidity Facility	\$35 Billion	\$500 Billion
The Paycheck Protection Program Lending Facility § 1102	N/A ²	\$659 Billion
In Aggregate¹:	\$241 Billion	\$2,609 Billion

¹Results in excess of \$259 billion (dry-powder) under the \$500 billion program.

²Treasury funding is equal to the amount of federal reserve funding.

³Amount funded by the U.S. Treasury to the Federal Reserve to establish each SPV.

⁴Total Federal Reserve lending limit per facility.

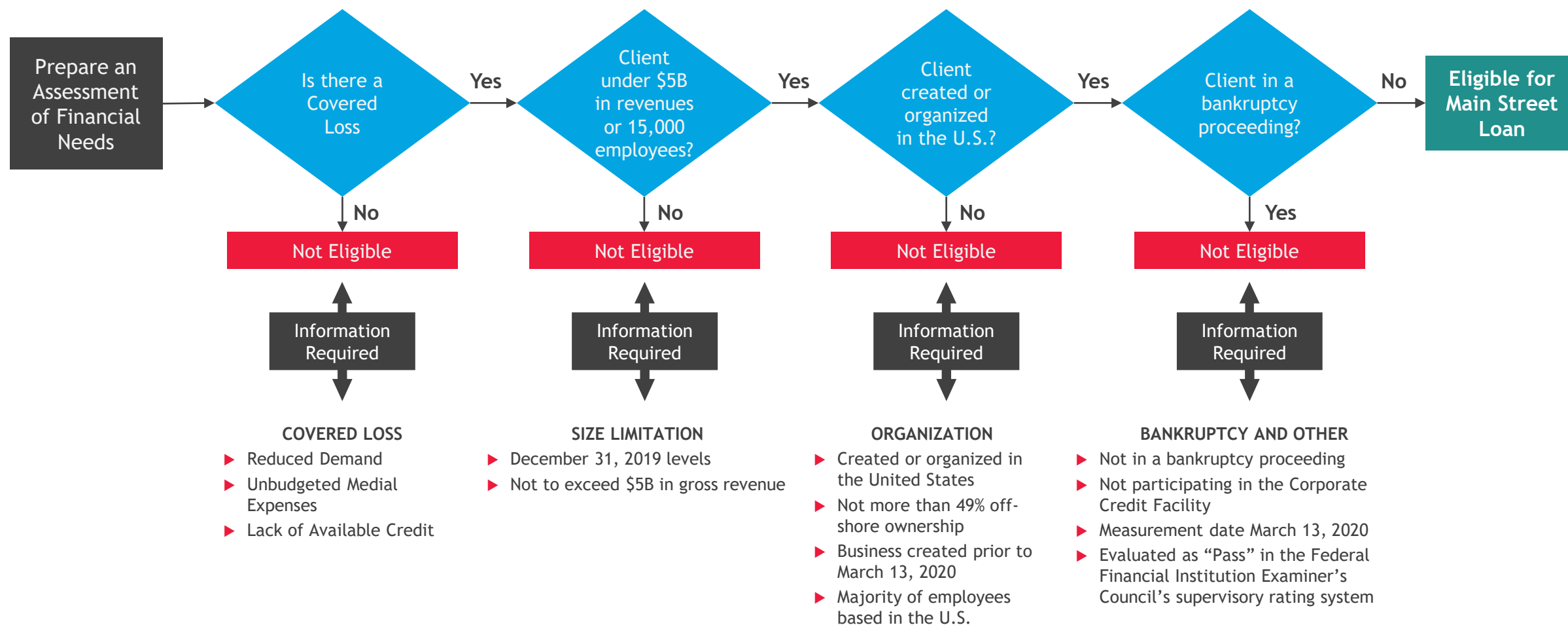
Title IV Loans

MAIN STREET LOAN FACILITIES

Loan Details:	Main Street New Loan Facility	Main Street Priority Loan Facility	Main Street Expanded Loan Facility
Term	4 years	4 Years	4 years
Principal & Interest Payments	Y1 - No P&I Y2-4 - 33.33%/Year	Y1 - No P&I Y2 & 3 - 15%/Year Y4 - 70%	Y1 - No P&I Y2 & 3 - 15%/Year Y4 - 70%
Rate	LIBOR + 300bps	LIBOR + 300bps	LIBOR + 300bps
Minimum Loan Size	\$500,000	\$500,000	\$10.0 Million
Maximum Loan Size	Lesser of (a) \$25 Million; or (b) the amount that does exceed borrower's leverage by 4x Adjusted EBITDA (including undrawn available debt)	Lesser of (a) \$25 Million; or (b) the amount that does exceed borrower's leverage by 6x Adjusted EBITDA (including undrawn available debt)	Lesser of (a) \$200 million; (b) 35% of outstanding & undrawn bank debt; or (c) the amount that does exceed borrower's leverage by 6x Adjusted EBITDA (including undrawn available debt)
Loan Participation	(a)SPV - 95%; Lender - 5%; (b)Seniority - pari passu basis	(a)SPV - 85%; Lender - 15%; (b)Seniority - Senior to or pari passu basis	(a)SPV - 95%; Lender - 5%; (b)Seniority - pari passu basis; (c)Collateral - pro rata basis

Title IV Loans

INITIAL MAIN STREET LENDING EVALUATION FLOWCHART



Title IV Loans Restrictions

LIMITATION ON EMPLOYEE COMPENSATION

- ▶ Restrictions below are applicable to all programs established pursuant to Title IV of the CARES Act § 4004
 - Employees or officers who earned more than \$425,000 in total compensation in 2019
 - The compensation during the restricted period should not exceed their 2019 compensation for 12 consecutive months
 - Severance pay should not exceed 2x the maximum total compensation received in 2019
 - May receive maximum total compensation of \$3 million plus 50% of the excess over \$3 million of the total compensation in 2019
- ▶ Excludes those with collective agreements dated prior to 3/1/20
Total compensation is defined as salary, bonus, awards of stock, and other financial benefits. Further clarification is needed regarding definition of “financial benefits”



Title IV Loans

OTHER TERMS & CONDITIONS

- ▶ No Dividends or Issuance of equity instruments that are dilutive
- ▶ Existing loans with a lender will have a “Pass” rating in accordance with Federal Reserve Standards as of December 31, 2019
- ▶ Cannot be in bankruptcy at time of application
- ▶ Business established prior to March 13, 2020
- ▶ May not participate in multiple Main Street programs or stack other Title IV loan programs
- ▶ Restrictions remain in place for 12 months subsequent to repayment



Title IV Loans

AFFILIATION RULES TITLE IV PROGRAM

- ▶ Many PE sponsors are conflating the affiliation rules for the Paycheck Protection Program (“PPP”) HR748 §1102 to restrictions under the Main Street Lending Program(s)
- ▶ Rules under Title IV § 4019 (Conflict of Interest) do not extend to the financial sponsor, even if the sponsor controls the board, as the loan is focused on the operation of the individual business
- ▶ Financial sponsors may make distribution to investors even if one or more portfolio companies has a loan outstanding
- ▶ BDO is defining an entity by parent company’s Federal Employer Identification Number (FEIN)

Title IV Loans: Preliminary Application Guidance

AIR CARRIERS & NATIONAL SECURITY BUSINESSES

Requirements	Guidance
Debt and Debt Service	Description of existing secured and unsecured debt and scheduled debt service for the next three years
Employment Levels	Total headcount and compensation as of March 24 with any proposed changes during the remainder of 2020
Financial Statements	Consolidated financial statements for the previous three years
Covered Losses, Financial Needs, and Use of Proceeds	Description of the covered losses incurred as a result of the coronavirus and quantitative information regarding financial needs of the business for the remainder of 2020 including the intended use of loan proceeds

Title IV Loans: Preliminary Application Guidance (cont.)

AIR CARRIERS & NATIONAL SECURITY BUSINESSES

Requirements	Guidance
Lack of Credit Elsewhere	Evidence that the borrower cannot secure credit elsewhere
Passenger and Cargo Service Operations	Available seat/ton miles, revenue per seat/ton mile, and cost per available seat/ton mile for 2019 and a forecast of the same for 2020
Security	Identification of collateral to be pledged to secure the loan
Operating and Restructuring Plans	Discussion of how the proposed loan fits within the borrower's business plan and any plans to restructure existing obligations, contracts, staffing or organization to improve the financial condition of the business

Title IV Loans: Preliminary Application Guidance

FINANCIAL PLAN DISCLOSURE



Source: Department of Treasury Airline Loan Application - <https://home.treasury.gov/system/files/136/Airline-Loan-Application-4-6-20.pdf> (pages 6 and 7)

FINANCIAL PLAN

Provide a separate document containing a financial plan that includes each of the following components.

(1) *Use of Proceeds* – an itemized description of the purposes for which the Borrower will use the loan proceeds.

(2) *Financial Needs* – quantitative information on the Borrower’s total financial needs for the remainder of 2020, including expected revenues, expenses, and types and amounts of expected borrowing, and how the loan fits within those needs, including (if applicable) payroll support payments under Section 4111 of the Act and employee retention credits under Section 2301 of the Act.

(3) *Operating Plan* – a discussion of the Borrower’s (and any subsidiary’s) operating plan for the remainder of 2020, if the loan is approved. Include a description of any changes to management, employment, routes and aircraft, as well as any strategic focuses or significant ventures or transactions.

(4) *Cost Restructuring* – a description of any plans the Borrower (and any subsidiary) has to restructure its obligations or contracts with creditors, vendors, or employees to improve the Borrower’s financial condition in 2020.

(5) *Prudent Borrowing* – a justification based on the Borrower’s financial needs and operating plan demonstrating that the loan is prudently incurred.

(6) *Stock Buybacks* – a description of any contractual commitment in effect as of March 27, 2020, obligating the Borrower or any affiliate thereof to purchase, before January 1, 2026, an equity security that is listed on a national securities exchange of the Borrower or any parent company of the Borrower.

(7) *Lack of Credit Elsewhere* – evidence based on market conditions, the Borrower’s circumstances, or relationships with existing or potential creditors that credit is not reasonably available to the Borrower elsewhere.

Special Inspector General for Pandemic Recovery

DUTIES OF THE “SIGPR”

- ▶ Conduct audits and investigations of loans, loan guarantees, and other investments made by Treasury under any CARES Act program collecting and summarizing the following information:
 - Categories of the loans
 - Reasons loans were made
 - Details about each loan

- ▶ SIG may request information from any Federal Government agency



Title IV: Special Inspector General for Pandemic Recovery

POST-APPROVAL ACCOUNTING AND COMPLIANCE

Main Street Application Attestations

- ▶ Compensation restrictions
- ▶ Stock repurchase and capital distribution restrictions
- ▶ Financing required due to exigent circumstances presented by pandemic
- ▶ Use of proceeds
- ▶ Reasonable efforts to maintain payroll & employee headcount
- ▶ Create a snapshot of employee headcount and total compensation as of loan award date, and develop a plan for how to maintain employment levels



Title IV: A Phased Approach



PHASE 1

TITLE IV CARES ACT RELIEF LOAN ASSESSMENT

- ▶ Determine your business's goal to obtain relief and your debt classes and servicing
- ▶ Identify the forms of aid that align with your goals, plan and culture
- ▶ Understand loan disclosures and other implications
- ▶ Set up a recovery plan to restabilize your business

PHASE 2

FINANCIAL ANALYSIS OF ECONOMIC IMPACT AND COVERED LOSSES

- ▶ Set up a centralized repository for application supporting documents
- ▶ Formulate a plan to rapidly collect required application information
- ▶ Calculate incurred and forecasted losses due to COVID-19
- ▶ Compute anticipated revenues and outlays during stymied operations
- ▶ Form a plan to strengthen business and achieve organizational goals

PHASE 3

APPLICATION SUBMISSION AND LENDER FOLLOW-UP

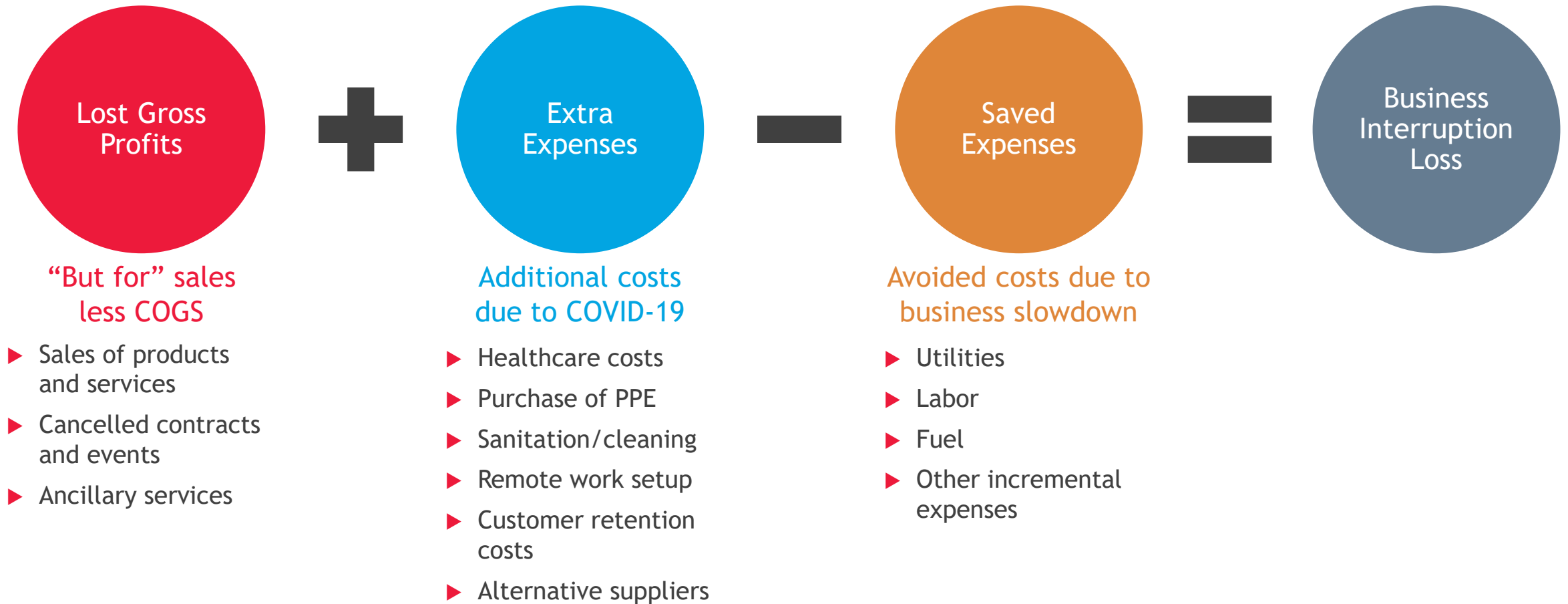
- ▶ Synthesize your collection of documents/analyses
- ▶ Ensure all application forms are completed in an efficient manner
- ▶ Follow up with lender/administrator to avoid delays, hang-ups or misunderstandings

PHASE 4

ONGOING CARES ACT LOAN COMPLIANCE AND MONITORING

- ▶ Establish controls and processes to maintain program compliance

Business Interruption/Economic Loss Analysis



Business Interruption/Economic Loss Analysis

This analysis may be a gateway for accessing the Main Street Lending Program and can be leveraged for CARES Act loan application assistance

Summary of Variable Profit 20XX through 20XX and Benchmark Period									
Variable Profit									
Month									
Year	May	June	July	August	September	October	November	December	Totals
20XX	\$ 390,226	\$ 329,174	\$ 349,933	\$ 379,962	\$ 378,891	\$ 396,033	\$ 310,559	\$ 259,506	\$ 2,794,283
20XX	\$ 427,073	\$ 470,084	\$ 449,602	\$ 408,650	\$ 402,190	\$ 465,896	\$ 426,150	\$ 300,652	\$ 3,350,299
20XX	\$ 416,349	\$ 443,729	\$ 444,016	\$ 480,230	\$ 408,073	\$ 505,917	\$ 401,131	\$ 319,272	\$ 3,418,717
Variable Profit - Benchmark Period									
Month									
Year	May	June	July	August	September	October	November	December	Totals
20XX/20XX/20XX	\$ 411,216	\$ 414,329	\$ 414,517	\$ 422,947	\$ 396,385	\$ 455,949	\$ 379,280	\$ 293,144	\$ 3,187,766

Step 1 Compensation Calculation									
20XX/20XX/20XX Benchmark Period									
Month									
	May	June	July	August	September	October	November	December	Step 1 Compensation
20XX/20XX/20XX Benchmark Period Variable Profit	\$ 411,216	\$ 414,329	\$ 414,517	\$ 422,947	\$ 396,385	\$ 455,949	\$ 379,280	\$ 293,144	
20XX Variable Profit	\$ 263,186	\$ 202,169	\$ 213,904	\$ 229,243	\$ 241,733	\$ 313,278	\$ 263,962	\$ 163,160	
Difference in Variable Profit	\$ 148,030	\$ 212,160	\$ 200,613	\$ 193,704	\$ 154,651	\$ 142,671	\$ 115,318	\$ 129,984	\$ 1,297,132
			\$ 560,804	\$ 606,478	\$ 548,969	\$ 491,026	\$ 412,640	\$ 387,972	
				\$ 754,508	\$ 761,129	\$ 691,640	\$ 606,345	\$ 542,624	
					\$ 909,159	\$ 903,800	\$ 806,958	\$ 736,328	
						\$ 1,051,830	\$ 1,019,118	\$ 936,941	
							\$ 1,167,148	\$ 1,149,102	
								\$ 1,297,132	

Title IV: A Phased Approach



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PHASE 4

ONGOING CARES ACT LOAN COMPLIANCE AND MONITORING

- ▶ Establish controls and processes to maintain program compliance

Measuring the Need

THIRTEEN WEEK CASH FORECAST

Determine effect of the new cash and application of the funds

Sample 13 Week Cash Analysis
Cashflow Forecast
Number of Weeks:
As of week ending (Friday):

13
5/1

Week #	Actual 0	Actual 0	Actual 0	Fcst 1	Fcst 2	Fcst 3	Fcst 4	Fcst 5	Fcst 6	Fcst 7	Fcst 8	Fcst 9	Fcst 10	Fcst 11	Fcst 12	Fcst 13	Total 13
Week Ended	4/17/2020	4/24/2020	5/1/2020	5/8/2020	5/15/2020	5/22/2020	5/29/2020	6/5/2020	6/12/2020	6/19/2020	6/26/2020	7/3/2020	7/10/2020	7/17/2020	7/24/2020	7/31/2020	
Cash Receipts																	
A/R Collections	147,806	326,598	285,051	154,600	183,163	196,111	215,948	272,234	342,250	235,836	269,272	238,546	348,927	351,254	359,888	280,823	3,448,852
Other Cash Receipts	301	24,451	149,616	1,368	1,368	1,368	2,600	2,600	2,600	2,600	2,600	750	750	750	750	1,375	21,478
PPP Loan	-	-	997,658	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Receipts	148,107	351,049	1,432,325	155,967	184,531	197,479	218,548	274,834	344,850	238,436	271,872	239,296	349,677	352,004	360,638	282,198	3,470,330
Operating Disbursements																	
Current AP	35,196	259,076	219,038	136,572	202,137	124,919	96,987	154,975	79,688	219,270	51,909	127,009	-	-	-	-	1,193,468
Payroll and Benefits	87,384	76,545	135,118	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000	1,170,000
Primary Service Line COGS	-	-	-	-	-	-	-	-	-	-	-	34,890	34,890	34,890	27,912	27,912	188,404
Other COGS	4,546	54	1,657	60,000	-	70,000	100,000	50,000	100,000	-	29,467	29,467	29,467	23,573	23,573	23,573	539,120
New COGS	-	-	-	-	-	-	-	-	30,000	(30,000)	144,454	144,454	144,454	115,563	115,563	115,563	780,051
Parts, Repairs and Supplies	296	258	597	-	-	-	-	-	-	-	502	502	502	401	401	401	2,708
Taxes	7,278	-	215	-	7,000	-	-	-	-	7,000	-	-	-	7,000	-	-	21,000
Subcontracting	-	-	-	-	-	-	-	-	-	-	-	1,328	1,328	1,328	1,063	1,063	7,172
Disposal	-	-	-	-	-	-	-	-	-	-	3,953	3,953	3,953	3,162	3,162	3,162	21,344
T&E	-	26	77	27	27	27	42	42	42	42	42	78	78	78	78	139	742
Fuel	-	603	330	-	-	-	-	-	-	-	2,042	2,042	2,042	1,634	1,634	1,634	11,029
Equipment Rental	-	4,875	651	-	-	-	697	697	697	557	557	557	557	557	697	697	6,269
Admin	2,244	4,455	3,420	5,000	5,000	5,000	5,000	5,000	5,000	5,000	31,071	31,071	31,071	28,875	28,875	28,875	214,838
Real Estate	-	-	-	-	-	-	-	-	-	-	2,051	2,051	2,051	1,700	1,700	1,700	11,253
Rent	-	-	-	-	-	-	400	400	400	400	400	500	500	500	500	500	4,500
Donations	-	-	-	607	607	607	100	100	100	100	100	25	25	25	25	-	2,420
Total Operating Disbursements	136,943	345,893	361,102	292,206	304,771	290,553	293,226	301,214	305,927	292,370	392,765	467,926	340,916	302,043	295,182	295,218	4,174,317
Non-Operating Disbursements																	
Cap-Ex	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity Draws	(1,095)	3,049	1,819	3,173	3,173	3,173	3,173	3,173	3,173	3,173	3,173	3,173	3,173	3,173	3,173	3,173	41,247
Interest	-	-	12,604	-	6,250	19,919	7,301	11,213	4,500	1,240	26,098	11,276	4,500	-	27,458	-	119,754
Loan Paydown	-	-	-	-	-	3,581	3,699	24,806	-	260	6,902	24,742	-	-	7,042	-	71,032
Other Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Non-Operating Disbursements	(1,095)	3,049	14,423	3,173	9,423	26,673	14,173	39,191	7,673	4,673	36,173	39,191	7,673	3,173	37,673	3,173	232,034
Total Disbursements	135,847	348,942	375,526	295,379	314,194	317,226	307,399	340,405	313,599	297,043	428,938	507,117	348,589	305,215	332,855	298,391	4,406,351
Net increase/(decrease) in Cash	12,260	2,107	1,056,799	(139,412)	(129,664)	(119,747)	(88,850)	(65,571)	31,251	(58,606)	(157,066)	(267,821)	1,087	46,788	27,783	(16,193)	(936,021)
Beginning Book Cash Balance	62,865	75,125	77,232	1,134,032	994,620	864,956	745,210	656,359	590,788	622,039	563,433	406,367	138,545	139,633	186,421	214,204	
Net increase/(decrease) in Cash	12,260	2,107	1,056,799	(139,412)	(129,664)	(119,747)	(88,850)	(65,571)	31,251	(58,606)	(157,066)	(267,821)	1,087	46,788	27,783	(16,193)	
Book Cash Balance	75,125	77,232	1,134,032	994,620	864,956	745,210	656,359	590,788	622,039	563,433	406,367	138,545	139,633	186,421	214,204	198,011	

Measuring the Need

REFORECASTED BUSINESS MODEL

Determine effect of the new cash and application of the funds

- ▶ Show new funds in re-forecasted business plan
- ▶ Use to evaluate future debt covenants
- ▶ Compare GAAP cash flow to cash basis 13 week forecast
- ▶ Other base financial statements are needed ~ B/S and I/S

Statement of Cash Flow

USD in dollars	Act	Proj	Proj
	FY20 Mar-20	FY20 Apr-20	FY20 May-20
Operating Activities:			
Net Income	(372,202)	43,519	(17,875)
Adjustments to reconcile Net Income to Net Cash from Operating Activities:			
Depreciation	-	-	-
Non-Cash Interest (Deferred Financing Fees)	-	-	-
Accounts Receivable	(360,624)	412,868	259,239
Allowance for Doubtful Accounts	-	99,876	(12,962)
A/R - Insurance	(44,225)	-	-
Customer/Vendor Washout Accts.	-	-	-
Prepaid Insurance	2,404	-	-
PRE Paid Tax Deposit	-	-	-
Purchased Brine Inventory	-	-	-
Accounts Payable	840,597	(742,000)	(65,273)
Accrued Expenses	-	(34,430)	(143,736)
Accrued Interest Expense	-	-	-
Accrued Payroll	-	-	-
Accrued Payroll Taxes	-	-	-
Accrued Taxes - Other	3,124	-	-
State 1 Withholding Taxes - Customer	(4,355)	10,540	-
State 2 Unbilled Sales Taxes	-	-	-
Payroll Liabilities	13,942	(43,216)	-
Sales Tax Payable	1,796	(5,858)	-
		-	-
Net Cash Flow from Operations	50,705	(258,700)	19,393
Investing Activities			
Injection Wells	-	-	-
Real Estate Holdings - Land	(7,441)	-	-
Real Estate Holdings - Buildings	-	-	-
Trucks & Equipment - Net	4,400	-	-
Net Cash Flow from Investing Activities	(3,041)	-	-
Financing Activities			
Loans - Real Estate	(11,512)	(15,092)	(13,368)
Loans - Equipment	(36,681)	(21,774)	(29,414)
Loans - LOC	(111)	-	-
Loans - New Term Loan (MSLP)	-	-	-
Loans - Zero Balance at Feb-20	-	-	-
Equity Draws	(11,477)	(16,667)	(16,667)
Owners Equity	-	-	-
Net Cash Flow from Financing Activities	(59,781)	(53,534)	(59,448)
Net Cash Increase/(Decrease) for Period	(12,117)	(312,233)	(40,055)
Cash and Equivalents, Beginning of Period	83,466	71,349	(240,884)
Net Cash Increase/(Decrease) for Period	(12,117)	(312,233)	(40,055)
Cash and Equivalent, End of Period	71,349	(240,884)	(280,939)

What does the CARES Act Leave Out?

SIGNIFICANT GAPS IN THE LEGISLATION LEFT TO “THE FED” TO INTERPRET


- ▶ Rules around the measurement of EBITDA are insufficient and/or inadequate
 - Negative EBITDA Situations
- ▶ Affirmative covenants are not addressed
- ▶ How are lending institutions going to participate?
- ▶ Do you have to exhaust all other credit facilities to participate?
- ▶ Who is going to determine the appropriate size of the loan?
- ▶ What does the compliance rubric look like?



CARES Act Title IV: Additional Educational Materials on BDO.com

You can stay up-to-date on Title IV through BDO.com, as we report major developments and offer expert insights:

- ▶ [BDO Breaks Down the CARES Act's \\$500 Billion Economic Stabilization Plan](#)
- ▶ [CARES Act Title IV - Preliminary Guidance on the Loan Application](#)
- ▶ [BDOs Summary of the CARES Act Main Street Business Lending Program](#)
- ▶ [Exhausted Your CARES Act Paycheck Protection Program Options? Main Street Lending Can Provide Additional Liquidity](#)
- ▶ [New Federal Reserve Guidance for the Main Street Lending Program](#)




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