C.B.G.B OVERVIEW

C: Cash Flow
- Understand your cash flow needs
- Although PPP funding is for 8 weeks, run weekly Cash flow for 13 Weeks
- Know the critical cash needs of the business

B: Baseline Budget of the PPP Funds
- Isolate the identified uses of the PPP funds and budget over the 8-week coverage period
- Prioritize
  - Payroll (at least 75%)
  - Health Benefits
  - Retirement Benefits
  - Rent
  - Utilities

G: ‘Giveness (Forgiveness)
- Calculate the Forgiveness based on PPP Budget
- Adjust PPP deployment based on longer term cash needs
- Run Sensitivity analysis (Forgiveness vs. Viability)

B: Be Diligent
- Be diligent in the tracking of all PPP expenditure
- Determine if the use of a separate bank account is optimal
- Document all PPP spend with support
Cash Flow

- Keeping the PPP deadline is May 18th?
  - The analysis assumes you have done a long term impact analysis to confirm that the PPP funds are needed in light of the current economic uncertainty.
- Goal: Life exists beyond 8-Week PPP “covered period”
- Run a 13-week cash flow to understand your projected cash flow at least a month past the covered period
- Run Sensitivity analysis
  - Best case
  - Worse Case
  - Most likely Case
- Understand the Tax implications and effects on cash flow
- Understand impact on other programs (Employee Retention, unemployment, paid sick leave, etc.)
- Begin to Understand the Critical Path Balance
  - Forgiveness vs. Viability
  - Forgiveness maximization is great but not if it means you can no longer sustain the business
Baseline PPP Budget

Prioritize and Budget the Approved Uses of the PPP Proceeds:

• Payroll (Needs to be >75% of total uses for maximum forgiveness)
  • Salary (salary, commission, wage, etc.) Capped at $100k annualized: $15,385 per individual.
  • Health Benefits
  • Retirement Benefits
  • State and Local Taxes

• Rent
  • Business rent
  • Lease payments pursuant to lease agreements for real or personal property

• Mortgage Interest

• Interest on Debt Obligations (Not eligible for forgiveness)

• Utilities
  • Electric/Gas
  • Telephone
  • Internet
  • Transportation (May include gas for vehicles)

• Refinance of EIDL Loan (EIDL Advance Amounts will be reduced from the PPP forgiveness amount)
Compare Baseline PPP Budget to Loan Proceeds

- Loan amount is based on 2.5 x average monthly payroll
- Coverage Period is only 2 months
- Difference is what can be paid for other approved uses
- What if there are leftover funds? (Awaiting Guidance)
  - Potential Scenario 1: Lender may require payback
  - Potential Scenario 2: SBA may allow approved uses past covered period
  - Potential Scenario 3: SBA may allow any business use past Covered period
C.B.G.B: ‘Giveness (Forgiveness)

‘Giveness

The Balance between Forgiveness and Viability

Forgiveness

• Maximize Forgiveness
• Full Employment (>75% of deployed funds)
• Will still allow for other uses such as rent and utilities.
• Employees may be able to get more on unemployment

Viability

• Stretch Cash
• Allow employees to take advantage of enhanced unemployment
• Focus on other approved uses
• Caveat: Not sure whether lenders will require repayment of unused funds in covered period
C.B.G.B: ‘Giveness (Forgiveness)’

‘Giveness

- Forgiveness Reduction
- Approved Use
- PPP Loan
- Amount

PPP Loan

Spend
‘Giveness Reduction Factors

Factor 1: Salary/Hourly Wage Reductions

5/15 Update: SBA Loan Forgiveness Application

- Forgiveness will be reduced dollar for dollar for average annual salary or hourly wage reductions greater than 25% as compared to the full prior quarter
- Salary/Wage Reduction Exceptions:
  - Safe Harbor - No impact to forgiveness if salaries or wage levels are restored to less than 25% reduction by June 30, 2020
  - Any employees who made more than an annualized rate of $100k during 2019 is excluded from the reduction calculation.
‘Giveness Reduction Factors

Factor 2: Reduction in Full Time Equivalents (FTEs)

• Understand FTE calculation
• Compare average FTEs in the covered period with
  • Average FTE: 2/15/19 – 6/30/19, OR
  • Average FTE: 1/1/20 – 2/29/20

5/15 Update: SBA Loan Forgiveness Application
• FTE based on 40 hours per week or “simplified method”
• FTE Reduction Exceptions:
  • Safe Harbor - No impact to forgiveness if FTE reductions that occurred between 2/15/20 and 4/27/20 are restored by June 30, 2020
  • Positions not filled by June 30, 2020 will not reduce forgiveness if during the covered period (1) the borrower makes a good-faith, written offer to rehire an employee which was rejected by the employee; and (2) an employee (a) is fired for cause, (b) voluntarily resigns, or (c) voluntarily requests and receives a reduction of their hours
‘Giveness Sensitivity: How to Maximize Desired Outcome

There are several ways to look at forgiveness. Borrower should run some sensitivity analyses to see what works best. Here are a few examples:

**Scenario 1: Full deployment and minimum of 75% payroll**
- **Pros:**
  - Practically Full forgiveness
  - Keep employees
- **Cons:**
  - May not be able to pay other necessary funds
  - Exhaust Full PPP funds
  - Deplete other cash faster

**Scenario 2: Full deployment and 50% payroll:**
- **Pros:**
  - Can double deployment to non-payroll related approved uses
  - Frees up additional non-PPP funds for future uses
  - Keep most employees at reduced salaries
- **Cons:**
  - Only 53% forgiveness
  - Salary reductions or layoffs

**Scenario 3: IF SBA allows uses after covered period. Significant layoffs until June 30.**
- **Pros:**
  - Stretch out PPP funds for longer period (more blue area below)
  - Keep other cash longer
  - Can minimize forgiveness reduction % but on lower amount
- **Cons:**
  - Potential pool of Forgiveness reduced significantly
  - Salary reductions or layoffs
‘Giveness Sensitivity: How to Maximize Desired Outcome

There are several ways to look at forgiveness. Borrower should run some sensitivity analyses to see what works best. Here are a few examples:

<table>
<thead>
<tr>
<th>Average Monthly Payroll:</th>
<th>$40,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount:</td>
<td>$100,000</td>
</tr>
<tr>
<td>Monthly Other Approved Uses:</td>
<td>$25,000</td>
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</table>

<table>
<thead>
<tr>
<th>Employment</th>
<th>100%</th>
<th>50%</th>
<th>25%</th>
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<tbody>
<tr>
<td>COVERED PERIOD USES:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Payroll Uses of PPP</td>
<td>$80,000</td>
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<td>$20,000</td>
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<tr>
<td>Other Uses of PPP</td>
<td>$20,000</td>
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<td>$50,000</td>
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<tr>
<td>Total Uses of PPP</td>
<td>$100,000</td>
<td>$90,000</td>
<td>$70,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Forgiveness</th>
<th>$100,000</th>
<th>$53,333</th>
<th>$26,667</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>53%</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Funds after 8 weeks</td>
<td>$-</td>
<td>$10,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Cash Deployed for Approved Uses</td>
<td>$130,000</td>
<td>$90,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Loan Deployed</td>
<td>$100,000</td>
<td>$90,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Corp Cash needed</td>
<td>$30,000</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Excess Loan Remaining</td>
<td>$-</td>
<td>$10,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Corp Net Cash position June 30</td>
<td>$(30,000)</td>
<td>$10,000</td>
<td>$30,000</td>
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<tr>
<td>Loan Repayment no forgiveness</td>
<td>$101,480</td>
<td>$101,480</td>
<td>$101,480</td>
</tr>
<tr>
<td>Loan not forgiven</td>
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<td>$46,667</td>
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<tr>
<td>Estimated payments with forgiveness</td>
<td>$-</td>
<td>$47,357</td>
<td>$74,419</td>
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<tr>
<td>Net Cash after 2 years</td>
<td>$(30,000)</td>
<td>$(37,357)</td>
<td>$(44,419)</td>
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</tbody>
</table>

Notes:
1. Scenarios 2 and 3 assume return to full employment by June 30, 2020
2. Forgiveness based on payroll being 75% of total forgiven amount
3. Does not factor in cost of money

But First: TO KEEP OR NOT TO KEEP!

• Required certification that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.”

• All loans over $2 million are targeted to be audited (affiliation rules apply).

• Borrowers have until May 18th to return PPP funding for a safe harbor

5/15 Update: SBA Loan Forgiveness Application specifies:

- Documents that each borrower 1) must submit with the application or 2) must maintain, but is not required to submit
- Requirement to retain documentation for 6 years after the date the loan is forgiven or repaid in full

Some recommended approaches once the loan is funded:

- Establish a separate bank account for the loan proceeds. This will help in the tracking of the use of the loan proceeds. As qualifying payments are made from a general or a payroll account, amounts can be transferred from the PPP cash account.
- Identify in advance which recurring expenses will qualify to be paid with the PPP proceeds and which may be forgiven
- Accumulate the invoices and cancelled checks for the qualifying payments and keep in a centralized location
- Complete a spreadsheet that tracks the expenditures by qualifying expenditure which corresponds to the checks, invoices and transfers from the PPP account. This will assist in monitoring the spending to ensure the proceeds are being used properly
- Document and maintain support for FTE calculations
- Calculate the payroll for employees during the most recent full quarter prior to the covered period for the forgiveness reduction calculation
- Document any correspondence regarding bringing employees back to work
Some Open Issues

Additional Guidance?

• Whether costs during the 8-week covered period need to be incurred and paid, or incurred or paid? *(5/15 Update: SBA Loan Forgiveness Application)*
• What happens if the loan proceeds are not expended by June 30, 2020?
• What is the definition of transportation for purposes of utilities, and what other types of utilities might qualify?
• For purposes of the gross payroll limitation, does gross pay need to be annualized for each pay period to determine if an employee is in excess of $100,000 in payroll?
• In light of the stay at home orders,
  • Will there be any relief to the 8-week covered period?
  • Will the 25% cap on nonpayroll costs eligible for forgiveness be adjusted?
• Stay tuned: SBA plans to issue further guidance and regulations to assist borrowers and lenders

Additional Resources:

• Treasury [https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses](https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses)
YOUR GPS ON THE ROAD TO RECOVERY

The current health crisis presents significant operational and financial strain on businesses. In these unprecedented times, we are positioned to help our clients navigate the upcoming weeks and months of recovery. We are all in this together, and we are here to help plan your road to recovery in a post-pandemic economy.

Visit [www.uhy-us.com/crisis](http://www.uhy-us.com/crisis) to learn more about how we can help.

Team Biographies
Michael Poveda

Michael has over 24 years of experience providing accounting, advisory, and assurance services to clients in various industries. Prior to joining UHY, Michael was the managing partner of the Albany market for another top-tier international professional services firm. He also served as partner at a Big Four firm in Metro-NYC before relocating back to his home in Upstate New York.

PROFESSIONAL EXPERIENCE:
- Business advisor with experience in transformational and high growth organizations.
- Advised clients on structured transactions, including strategic investments, business acquisitions and financing arrangements.
- Advised clients on corporate governance, internal controls and business process redesign.
- Assisted clients with the implementation of complex accounting standards (US GAAP and IFRS), including revenue recognition, leasing, financial instruments, structured finance, consolidations and fair value measurements.

BACKGROUND:
- Licensed CPA in the states of Connecticut, New Jersey and New York
- Chartered Financial Analyst (CFA)
- B.S. in Accounting, University at Albany

ACTIVE CIVIC MEMBERSHIPS:
- University at Albany School of Business Advisory Council, Board Chair
- Siena College School of Business Advisory Committee, Board Member
- Junior Achievement of Northeastern New York, Board Member
- Positive Coaching Alliance - New York Chapter, Board Member & Finance Committee Chair
- Albany Business Review Leadership Trust, Member
- Real Men Wear Pink of the Capital Region

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INDUSTRY EXPERTISE:
- Privately-owned companies
- SEC companies
- Private Equity
- Financial services
- Technology
- Energy

PROFESSIONAL MEMBERSHIPS:
- New York State Society of Certified Public Accountants
- American Institute of Certified Public Accountants
- CFA Institute
Patrick Farrelly is a principal at UHY advisors. He has over a decade of experience managing and developing audit strategies for some of the most high profile clients at a “Big 4” accounting firm.

Mr. Farrelly has been involved with many global transactions. He was the lead audit senior manager for both a large financial institutions with over $1 billion in assets and a multi-national mass media and information firm. Additionally, also helped transition regional audit services internationally from a London, UK office to one in Madrid, Spain.

PROFESSIONAL EXPERIENCE:

• Managed and developed audit strategies for large SEC filers in both Financial Services sector (the Adirondack Trust Company) and Entertainment/Media sector (The Interpublic Group of Companies). Additionally managed audit engagements for Bank of Richmondville, Bloomberg LLP and MLB revenue share (AUP procedures)

• Analytically reviewed annual and quarterly financial statement results to gain insight into the company’s performance/trends in order to pin-point potential areas of heightened risk of material misstatement.

• Extensive experience with SEC 10-K, 10-Q, 8-K, Call Reports, FINRA & SIPC-7 filings, SEC comment letters and vast knowledge of Sarbanes-Oxley (‘SOX’) 404 and internal controls over financial reporting.

• Drafted and reviewed accounting policy memos for new technical accounting standards including Revenue from Contracts with Customers (ASC 606), ASU 2016–13 – Financial Instruments – Credit Losses, and Leases (ASC 842).

• Experience reviewing purchase price allocation (ASC 805) models and methodologies for marketing and advertising companies.

• Developed and monitored budget, billing and collections for engagements with annual client revenues in excess of $18.0 million.

• Performed research and analysis of complex accounting matters to facilitate the resolution of various issues including revenue (ASC 605), business combinations (ASC 350), goodwill impairment (ASC 350–20–35), ASC 718 (Stock-Based Compensation) and fair value accounting (ASC 820)

• Solid working knowledge of IFRS, UK GAAP and Clarity ISAs (UK&I)

BACKGROUND:

• Licensed CPA in the State of New York

• PricewaterhouseCoopers LLP, New York City, NY 2006-2017

• PricewaterhouseCoopers LLP, London, UK, 2012-2014

• B.S., Concentration: Accounting and Business Management, Manhattan College
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