



**Asset Enhancement Solutions, LLC**

*Creative Solutions to Financial Challenges*

Non-Traditional Financing Programs  
Mergers & Acquisitions

Turnaround Consulting  
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## **Are Businesses & Non-Profits with more than 500 Employees and Portfolio Companies of Private Equity Firms Eligible for PPP Loans?**

Businesses and Non-Profits with over 500 employees and portfolio companies of Private Equity Firms **may be eligible** for PPP loans!

For a Business or Non-Profit with over 500 employees and a portfolio company to be eligible for a PPP loan, it must either:

1. Have 500 employees or less whose principal place of residence is the U.S. This includes employees of affiliated companies. However, with respect to businesses in the hotel or food services industries or that are franchises, the affiliation rules are waived. Accordingly, the 500-employee rule is applied to each separate location.
2. Have over 500 employees if the organization or business is in an industry with a standard number of employees is greater than 500 based on SBA standard employee tables ([Click Here](#)), and whose principal place of residence is in the U.S. This includes employees of affiliated organizations and businesses.

Affiliation is determined under 13 CFR § 121.301 ([Click Here](#)) and can arise:

- a. based on ownership.
  - b. under stock options, convertible securities, and agreements to merge.
  - c. based on management; or
  - d. based on identity of interest.
3. Meet the SBA's alternative size standard which is tangible net worth (i.e. net worth less goodwill) of \$15 million or less on March 27, 2020, **AND** average net income after federal income tax for the last two full tax years of \$5 million or less.

If an organization or business meets the net income test but fails the net worth test because adjusted net worth exceeds \$15 million as of March 27, 2020, there still may be an opportunity for the organization or business to qualify. The organization/business should evaluate the economic impact that COVID-19 had on the organization/business between January 1, 2020 and March 27, 2020 to determine if an adjustment to reduce net worth should be made.

The adverse effects that COVID-19 has had on an organization or business are enormous. Revenues have declined drastically, supply chains have been disrupted, employees have been displaced, and the list goes on and on.

Some of the accounting considerations that could impact an organization's or business' net worth as of March 27, 2020 include:

- Impairment of Goodwill and Indefinite-lived intangible assets
- Impairment of the value of financial assets such as debt securities, investments accounted for using the equity method, etc.
- Write-down of Inventory to net realizable value
- Collectability of accounts receivable, notes receivable and donations receivable
- Deferred taxes
- Donations that were pledged are no longer collectible
- Workforce is no longer available to complete work, or services in progress
- Manufacturers include fixed overhead as a component of their inventory cost. Dramatically lower production can have the effect of increasing the amount of fixed overhead allocated to inventory. A business must determine if this cost increase should be treated as a period expense instead of including it in the capitalized cost of inventory.

Many organizations and business with over 500 employees could struggle to meet the first or second standard of eligibility noted above but may have an easier time meeting the third standard.

An important element of a PPP application is the certification that the loan is necessary to support ongoing operations. In recent days, the SBA has announced that a borrower could be asked to substantiate the need for their PPP loan. This should be documented when the loan application is prepared or soon thereafter. Substantiation of the need for the PPP loan can be in the form of a memorandum, projection or cash flow analysis. This documentation should take into account:

- Impact on current and future revenue
- Uncertainty of the collection of receivables
- Increased costs due to operating in the COVID-19 environment
- Employee absenteeism and related labor costs
- Fees paid to external advisors and counsel to evaluate certification and determine need
- Efforts taken to identify sources of alternative funding
- Existing lending restrictions or covenants that would restrict or eliminate the ability to obtain alternative funding

Treasury Secretary Mnuchin recently announced that recipients of a PPP over \$2 million would be audited by the SBA. Thus, it is even more important for borrowers to prepare the documentation necessary to substantiate their need for a PPP loan. PPP loan recipients should consider consulting with their attorneys, accountants and other advisors to ensure they have adequate documentation to support the good faith certification they made when they applied and accepted their PPP loan.

If you would like to assess whether your organization or business with over 500 employees can qualify for a PPP loan, please contact us. We can arrange a complimentary call with the PPP eligibility experts we have retained to advise our clients on these complex issues.

On April 30, 2020, the SBA announced that the maximum aggregate amount of PPP loans it will make to a single corporate group is \$20 million.

This is a general information article. Anything contained herein is not authoritative. Consult your legal, tax and accounting advisors for specific advice on the topics discussed above.