

SBA EXTENDS SAFE HARBOR FOR REPAYING PPP LOANS TO MAY 14, PROMISES MORE GUIDANCE ON CERTIFICATION ISSUE



The Small Business Administration has given borrowers another week to decide whether to repay loans under the Paycheck Protection Program without the risk of penalties.

On Tuesday night, the SBA extended the safe harbor for repaying PPP loans from May 7 to May 14. In addition, the SBA indicated that it would provide before May 14 more guidance for the certification question that has caused much consternation for some PPP borrowers.

Applicants for PPP loans certified that, given current economic uncertainty, the loan was necessary to support the ongoing operations of the applicant. The CARES Act waived for PPP loans the requirement that borrowers be unable to obtain credit elsewhere; however, subsequent guidance from the SBA in its series of Frequently Asked Questions left some borrowers confused about the certification. In FAQ #31 and #37, the SBA indicated that the PPP certification must be made in good faith after taking into account the applicant's business activity and access to other sources of capital, causing complaints from some borrowers that the SBA may be retroactively changing the rules for PPP loans.

The SBA's FAQ #43, which was issued Tuesday night, is below:

43. Question: FAQ #31 reminded borrowers to review carefully the required certification on the Borrower Application Form that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." SBA guidance and regulations provide that any borrower who applied for a PPP loan prior to April 24, 2020 and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith. Is it possible for a borrower to obtain an extension of the May 7, 2020 repayment date?

Answer: SBA is extending the repayment date for this safe harbor to May 14, 2020. Borrowers do not need to apply for this extension. This extension will be promptly implemented through a revision to the SBA's interim final rule providing the safe harbor. SBA intends to provide additional guidance on how it will review the certification prior to May 14, 2020.

O'Neil, Cannon, Hollman, DeJong & Laing remains open and ready to help you. For questions or further information relating to the Paycheck Protection Program, please speak to your regular OCHDL contact, or the authors of this article, attorneys [Pete Faust](#) and [Jason Scoby](#).

\$310 BILLION ADDED TO PAYCHECK PROTECTION PROGRAM AND \$10 BILLION ADDED TO EMERGENCY EIDL GRANT



An additional amount of \$310 billion has been added to the Paycheck Protection Program bringing the total amount allocated for potentially forgivable PPP Loans to \$659 billion, and an additional amount of \$10 billion has been added to the emergency EIDL grant fund bringing the total amount allocated for such EID Loans to \$20 billion. On April 24, 2020, President Trump signed the Paycheck Protection Program and Health Care Enhancement Act to, among other things, increase amounts authorized and appropriated for commitments for the Paycheck Protection Program.

This is good news for eligible businesses that missed out on the first round of PPP funding, which ran out of money in approximately two weeks. It is widely anticipated that this second round of funding will go quickly as well, so eligible businesses seeking to obtain a PPP loan should promptly prepare and submit their loan applications if they did not do so during the first round.

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DON'T WAIVE GOODBYE TO YOUR CONSTRUCTION LIEN RIGHTS



Wisconsin's construction lien law provides contractors, subcontractors, suppliers, service providers, and design professionals with a valuable remedy to help them collect payment for their work. On privately owned projects, the law allows these parties to place a lien against the project property as security for payment. The economic fallout from the COVID-19 crisis has made construction lien rights more precious than ever to construction industry businesses. Yet, everyday contractors mishandle lien waivers and unwittingly forfeit their lien rights with the stroke of a pen.

Lien waivers are an integral and unavoidable part of the construction payment process in Wisconsin and throughout the country. Subcontractors and suppliers are typically required to provide a signed lien waiver along with each application for a progress payment. The prime contractor then delivers these lien waivers, together with its own lien waiver, to the owner along with the prime contractor's progress payment application. A savvy owner will refuse to release payment unless it has received all the necessary lien waivers.

Lien waivers are governed by Wis. Stat. Sec. 779.05, which imposes strict rules that can become a trap for the unwary. The statute mandates a default rule that a lien waiver is deemed to waive "all lien rights" unless the lien waiver "specifically and expressly limits the waiver to a particular portion" of the work. The statute further provides that any ambiguity in the lien waiver shall be construed against the person signing it. Therefore, a contractor must ensure that the express language of each lien waiver specifically limits the scope of the waiver only to the specific work or dollar value for which payment is sought. Otherwise, the default rule will apply, and the lien waiver will be deemed a full waiver, even if only a partial waiver had been intended. Unfortunately, this happens with alarming frequency.

The industry practice is for lien waivers to be provided in advance of payment. Section 779.05 provides that a lien waiver is "valid and binding" regardless of whether or not any consideration was paid for it. That means that the lien waiver is valid and enforceable even if the lien claimant does not subsequently receive the anticipated payment for which the waiver was given. While there is always risk in providing the lien waiver in advance of payment, under normal circumstances the risk is tolerable, especially if the lien claimant is careful to use a properly worded partial lien waiver. But these are not normal circumstances. The economic impact of the coronavirus pandemic requires construction businesses to be

extra careful. If a payment problem is anticipated, special measures should be taken to manage the risk of loss of lien rights through the lien waiver process. This can include the use of an escrow agreement, or a simultaneous exchange of the waiver for the payment.

In these extraordinary times, a construction lien may become a contractor's only hope of collecting payment on a problem project. Therefore, contractors must know how to manage the risks associated with lien waivers.

If you have any questions or need assistance, contact [Steve Slawinski](#) at 414-276-5000 or steve.slawinski@wilaw.com.

WISCONSIN CONSTRUCTION LIENS 101



Most Wisconsin construction contractors know that the construction lien law exists, but few know how it works or how to use it. With the economy reeling from the COVID-19 crisis, construction lien rights will become more vital than ever to businesses in the construction industry.

Wisconsin's construction lien law (provided in subchapter I of ch. 779, Wisconsin Statutes) creates a statutory payment remedy available only to construction contractors, subcontractors, suppliers, service providers, and design professionals engaged in the improvement of real property. Excluding public improvements, a construction contractor is entitled to place a lien against the construction site and the improvements being built as collateral to secure payment for the work it has performed. In case of nonpayment, the lien may be enforced through a legal action for foreclosure just like a mortgage. A construction lien claim puts pressure directly on the owner by placing the owner's title to the property at risk. It also allows non-prime claimants (those that did not contract with the owner) to seek payment directly from the owner, providing them with another deep pocket and another path to collect payment aside from the claimant's contract with a higher tier contractor.

To take advantage of the benefits of the construction lien law, a lien claimant must comply with the express requirements of the statute within the short time limits prescribed by law. These steps generally must be followed to the letter and the deadlines cannot be extended. The statutes prescribe in detail what must be done and how it must be done. A failure to

comply with the statutory requirements will likely result in a loss of lien rights.

The process of creating a lien generally consists of the following steps. The lien is created by filing a claim for lien with the office of the clerk of circuit court in the county where the property is located. This must be done no later than six months after the claimant has last performed work or provided materials. At least 30 days before filing the lien, the lien claimant must serve the property owner with a written notice of intent to file a lien claim. Within 30 days after the lien claim is filed, the claimant must serve the owner with a copy of the claim for lien. Once the lien has been filed, the claimant has two years in which to enforce it through a foreclosure lawsuit.

Respecting small residential projects (up to four family living units), an additional first step may be required—an early notice of lien rights must also be served upon the owner, subject to certain exceptions. A prime contractor must include this notice in its written contract with the owner, or it must serve the owner with a separate written notice within 10 days of commencing work if there is no written contract. A non-prime claimant must serve the owner with two copies of a written notice within 60 days of commencing its work.

Contractors often wait until a [payment problem](#) has festered before scrambling to pursue their lien rights, but that may be too late. It is easy to make a mistake or to miss a deadline, but the Construction Lien Law has zero tolerance for either. With the economic impact of the COVID-19 crisis, construction contractors, suppliers, service providers, and design professionals must take extra care to preserve and to properly exercise their statutory construction lien rights. A failure to do so could mean the difference between getting paid and not getting paid.

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NEW GUIDANCE FROM THE SBA: \$100,000 CAP DOES NOT APPLY TO BENEFITS, AND PAYROLL COSTS SHOULD BE CALCULATED ON A GROSS BASIS

On April 6, the SBA updated its Paycheck Protection Program Loans Frequently Asked Questions, which provides much needed guidance to borrowers and lenders.

Many important questions were answered, including these two listed in italics:

Question: *The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of \$100,000. Does that exclusion apply to all employee benefits of monetary value?*

Answer: *No. The exclusion of compensation in excess of \$100,000 annually applies only to cash compensation, not to non-cash benefits, including:*

- *employer contributions to defined-benefit or defined-contribution retirement plans;*
- *payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums; and*
- *payment of state and local taxes assessed on compensation of employees.*

The \$100,000 cap on payroll costs for each employee used in calculating the amount of a PPP loan under the CARES Act was widely interpreted to include cash compensation and other employee benefits. The SBA, however, clarified that only cash compensation was subject to the \$100,000 cap. Other non-cash employee benefits, such as health insurance premiums and 401(k) contributions, can be included in payroll costs without regard to the \$100,000 cap. This allows borrowers to be eligible for larger loan amounts.

Question: *How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?*

Answer: *Under the Act, payroll costs are calculated on a gross basis without regard to (i.e., not including subtractions or additions based on) federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer's share of payroll tax.*

For example, an employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, would count as \$4,000 in payroll costs. The employee would receive \$3,500, and \$500 would be paid to the federal government. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.

The [FAQs](#) state that borrowers and lenders may rely on the guidance provided by the SBA's interpretation of the CARES Act and PPP Interim Final Rule, which was discussed previously

[here](#). Further, the SBA makes clear that the U.S. government will not challenge actions taken by PPP lenders that conform to the guidance in the FAQs.

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SHOULD A CONTRACTOR STOP WORK DUE TO NONPAYMENT?



As owners and contractors feel the bite of shrinking revenues due to the economic slowdown, contractors are bound to see payment problems arise on ongoing projects. Contractors may find themselves contemplating whether to stop work on-site in response to nonpayment.

At first blush, stopping work on-site may seem like a simple and obvious solution for nonpayment. But in reality, stopping work is fraught with risk, and almost always involves a difficult and complicated decision. If the contractor's entitlement to payment is unclear or in dispute, a work stoppage by the contractor could amount to a breach of contract exposing the contractor to potential liability for substantial damages. For example, the owner may claim to have an arguable contractual right to withhold payment due to some prior alleged breach by the contractor, such as defective work, or a lien claim asserted by a sub-contractor. Particularly on large and complex projects, it may not be difficult for an owner to find some arguable basis justifying nonpayment. A contractor that stops work due to nonpayment faces the risk that a court may later hold that the owner was legally entitled to withhold payment and that the contractor was not entitled to stop work.

The contract documents may govern how, and under what circumstances, a contractor may stop work due to nonpayment. Often, the contract imposes procedural requirements that a contractor may need to comply with before a work stoppage can be justified. For example, under Article 9.7 of the AIA A201-2017 General Conditions, a contractor is required to give the owner and the architect seven days' written notice before the contractor may stop work for nonpayment. Additionally, a contractor may be required to comply with Article 15, which contains a specific procedure for relevant claims and disputes. Similarly, under Article 9.5 of

the ConsensusDocs 200, a contractor must give seven days' written notice to the owner before the contractor may stop work due to nonpayment.

A contractor should always consult legal counsel when considering whether to stop work due to nonpayment. The decision of whether or not to stop work usually requires analysis of the background facts, the contract documents, and the applicable law. The answer is seldom written in black or white, but rather in shades of gray. The contractor and its counsel must carefully identify, judge, and weigh all the risks. If you have questions or need assistance, contact [Steve Slawinski](mailto:steve.slawinski@wilaw.com) at 414-276-5000 or steve.slawinski@wilaw.com.

BUSINESSES SHOULD NOT OVERLOOK ECONOMIC INJURY DISASTER LOANS



Although not getting as much attention as forgivable Paycheck Protection Program loans, Economic Injury Disaster loans are a viable alternative or complementary emergency loan for businesses — especially businesses that do not have many employees, such as real-estate holding companies.

The CARES Act provide an opportunity for borrowers by waiving certain requirements that otherwise renders many businesses ineligible to receive EID loans. Under the CARES Act, a business that does not meet the Small Business Administration's small business criteria can still qualify for EID loans if the business has no more than 500 employees. The CARES Act also waives for EID loans the SBA's requirement that an applicant demonstrate that it is unable to obtain credit elsewhere, often a significant hurdle for potential borrowers.

Other terms of EID loans include:

Loan Amount: Up to \$2 million, as determined by the SBA based on COVID-19 impact on and creditworthiness of applicant.

Payment Terms: Loan term of up to 30 years. Interest rate of 3.75% for businesses and 2.75% for non-profits. Unlike PPP loans, EID loans cannot be forgiven, with the exception of the \$10,000 emergency advance described below. Payments deferred for 12 months after disbursement.

\$10,000 Advance: Applicants are eligible to receive an emergency advance of up to \$10,000 by submitting an application. If application is denied, the advance is forgiven (though the forgivable advance reduces the amount of any PPP loan that can be forgiven).

Use of Proceeds: EID loans are working capital loans and may be used for fixed debts, payroll, accounts payable, and other expenses that cannot be paid because of COVID-19's impact.

Personal Guaranty: Required of owners with 20% or more of equity, except for EID loans of \$200,000 or less.

Collateral : Loans of more than \$25,000 require borrowers to pledge available collateral, but lack of available collateral will not cause an application to be rejected.

Underwriting: Based on SBA review of credit score.

Affiliation Rules: EID loans are subject to the SBA's affiliation rules, which are discussed [here](#).

Other Loans: PPP loan applicants may also apply for EID loans, but the loans are not supposed to be used for the same purpose.

Dates: Application deadline is December 21, 2020. The SBA initially indicated that the \$10,000 advances would be made within three days after submission of application and certification but the SBA now indicates that the advances will be paid "within days" of a final submission of an application. Loan approval is expected within 21-30 days after complete application submitted. Funding of loan will be within four days after approval.

Application Process: Borrowers apply directly to the SBA, not banks, for EID loans. The application can be found [here](#).

A borrower will likely need permission from any existing lender to obtain an EID loan because loan agreements typically restrict a borrower's ability to incur additional indebtedness and or grant additional security interests or mortgages.

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LOAN FRUSTRATION CONTINUES FOR PE AND VC COMPANIES



Many companies controlled by private-equity firms and venture-capital firms still have not received clearance to apply for emergency loans through the Small Business Administration.

Despite bi-partisan support and lobbying efforts by PE and VC firms late last week, there has been no waiver of the Small Business Administration's affiliation rules, which jeopardizes the ability of companies controlled by PE and VC firms to apply for Paycheck Protection Program loans and other SBA Section 7(a) business loans, including Economic Injury Disaster loans. We previously wrote about these efforts [here](#).

The SBA issued guidelines late Friday excluding faith-based and non-profit organizations from the affiliation rules for PPP loans, but leaving intact the affiliation rules for PE and VC companies. Even if a waiver is eventually issued, it may be too little, too late for PE and VC companies because some SBA-authorized lenders have been accepting PPP loan applications since Friday and have already approved PPP loans.

SBA Affiliation Rules

Under the SBA's affiliation rules, the employees of portfolio companies controlled by a PE or VC firm are combined for purposes of determining whether each company has no more than 500 employees. Companies with more than 500 employees are ineligible for PPP and EID loans, with some limited exceptions. The SBA affiliation rules also do not apply to companies with North American Industry Classification System codes beginning with 72 (the hospitality industry).

It is important to note, though, that being owned by a PE or VC firm does not automatically make a company ineligible for a PPP or EID loan. First, the companies must actually be controlled by the PE or VC firm. Accordingly, mere ownership of less than 50% of the voting interests by a PE or VC firm, without additional rights allowing the PE or VC firm to control the company, would not prevent the company from applying for a loan. Second, a PE or VC firm must actually have more than 500 across its controlled companies.

Control by a PE or VC Firm

The first issue is whether the PE or VC firm controls the company. The SBA clarified Friday night that the applicable affiliation rules are under [13 CFR 121.301](#). These affiliation rules are not as strict as the affiliation rules under 13 CFR 121.103.

Under 13 CFR 121.301(f), a PE or VC firm may exert control over a company in several ways, including: (i) owning more than 50% of the voting stock or other voting equity interest of the company, (ii) controlling a majority of the board of directors or managers, or (iii) having veto rights or other protective rights allowing the PE or VC firm to block action by the board or owners of the company.

Combination of Employees

The CARES Act relaxed the eligibility requirements of prospective borrowers by allowing companies with no more than 500 employees to apply for PPP and EID loans, even if they would not have previously satisfied the SBA's size limitations, based, for example, on annual revenues. The SBA, however, combines the employees of all affiliates in determining eligibility. Each part-time employee is counted as one employee.

A company controlled by a PE or VC firm is still eligible for a loan if the combined employees of that company and any other companies controlled by the PE or VC firm are not more than 500.

For example, if a PE firm controls five portfolio companies, and each portfolio company has 75 employees, all of the portfolio companies are eligible for a PPP or EID loan because the combined number of 375 employees does not exceed the SBA's 500-employee limit.

Amendment of Organizational Documents

PE and VC firms frustrated by the lack of an SBA affiliation waiver could consider amending the organizational documents of one or more portfolio companies to waive or remove provisions that grant the PE and VC firms effective control over the company (e.g., veto powers) when the PE and VC firms do not own a majority of the voting interests of the company.

There is no guarantee that the SBA would accept an applicant's last-minute changes to its organizational documents, but to increase the chances of acceptance and to protect the applicant from claims of misleading the SBA, any amendment to the organizational documents should be: (i) fully disclosed to the SBA, (ii) effective prior to the date of application and effective through at least the term of the loan (perhaps longer), (iii) in accordance with general contract principles required for enforceable contracts, and (iv) strictly adhered to by all parties, particularly the PE and VC firms.

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or further information relating to the Paycheck Protection Program and Economic Injury Disaster loans, please speak to your regular OCHDL contact, or the author of this article, attorney Pete Faust.

CARES ACT TEMPORARILY INCREASES DEBT LIMITATION FOR SMALL BUSINESS DEBTORS



The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides much-needed assistance to small businesses affected by the coronavirus pandemic. In addition to providing forgivable loans of up to \$10,000,000, the CARES Act more than doubles the debt limitation under the Small Business Reorganization Act of 2019 (SBRA) for a one-year period commencing March 27, 2020. This change will allow more small businesses to reorganize under the newly created Subchapter V of Chapter 11 of the Bankruptcy Code.

Small Business Reorganization Act of 2019

Chapter 11 of the Bankruptcy Code governs business reorganization. In amendments to the Bankruptcy Code in both 1994 and 2005, Congress distinguished small businesses and attempted to provide for a streamlined small business reorganization process. Unfortunately, these efforts have largely proved unworkable for most small businesses as the amendments were tightly confined within the strictures of Chapter 11.

For many small businesses, a Chapter 11 reorganization is not practical because the traditional proceedings are expensive and cumbersome. The SBRA, which took effect on February 19, 2020, created an entirely new subchapter of Chapter 11—Subchapter V—which eliminates some of the procedural barriers and costs of a traditional Chapter 11 proceeding in an attempt to make reorganization more viable for small businesses. Subchapter V includes the following provisions:

- The court must hold a status conference within 60 days of the petition date to discuss the “expeditious and economical resolution of the case,” and the debtor must file a report 14 days before the conference detailing how it is attempting to obtain a consensual plan of reorganization;
- The debtor has the exclusive right to propose a plan of reorganization and it must be

filed within 90 days of the petition date;

- There is no committee of unsecured creditors unless the court orders otherwise for cause;
- No disclosure statement is required unless the court orders otherwise for cause;
- The debtor is excused from paying quarterly U.S. trustee fees;
- The court may confirm a non-consensual plan of reorganization if the plan does not “discriminate unfairly” and is “fair and equitable” as to each class of impaired creditors that has not accepted the plan; and
- The absolute priority rule is eliminated, which makes it easier for owners to retain their stake in the business.

Cases filed under Subchapter V have similarities to cases under Chapters 12 and 13.

A trustee is appointed to investigate the financial affairs of the debtor, help administer claims, and act as a conduit for the debtor’s payments under its confirmed plan. The debtor remains in possession of its property and continues to operate the business. And a plan can be confirmed without the acceptance of a class of creditors if it treats creditors within the class fairly and the debtor commits all of its projected disposable income to making payments under the plan over the course of a three- or five-year period.

To be eligible under the SBRA, a small business must be engaged in commercial or business activities and cannot have more than \$2,725,625 of secured and unsecured debt. Additionally, 50% of the pre-petition debt must have been generated from commercial or business activities. A small business is ineligible if its primary activity is owning single-asset real estate. Thus, whether a business qualifies as a small business debtor largely depends on its debt threshold.

Debt Limitation Increase Under the CARES Act

While Subchapter V appears to have created a more workable framework for small business debtors looking to reorganize their financial affairs, it remains inaccessible to many businesses that might otherwise qualify because of the debt threshold proscribed in the SBRA. The CARES Act represents a significant step toward expanding the scope of Subchapter V by increasing the debt limitation under the SBRA from \$2,725,625 to \$7,500,000. This increase, however, is only temporary and will sunset on March 27, 2021, unless further action is taken by Congress. Some proponents of the SBRA, such as the American Bankruptcy Institute, lobbied Congress for a debt threshold of \$10 million before the SBRA was signed into law. While it remains uncertain whether Congress will permanently extend or increase the new debt limitation under the SBRA, it is clear that a much greater number of small businesses will be able to take advantage of Subchapter V over the next year.

For further information regarding the SBRA, the impact of the CARES Act on your business, or

insolvency concerns relating to bankruptcy or receivership, please contact attorneys Jessica K. Haskell and Nicholas G. Chmurski.

COMPANIES OWNED BY PE AND VC FIRMS IN LIMBO OVER PPP LOANS



Many companies owned by private-equity firms and venture-capital firms are in jeopardy of being ineligible to apply for Paycheck Protection Program loans unless Treasury Secretary Steven Mnuchin grants a late reprieve from the Small Business Administration's affiliation rules.

Democratic and Republican lawmakers urged Mnuchin on Thursday to waive the affiliation rule and seemed hopeful that Mnuchin would provide the waiver. See [here](#) and [here](#). However, [the additional guidance provided by the SBA late Thursday](#), on the eve of the PPP loan application date, made no mention of the waiver.

Under the SBA's affiliation rules, the employees of portfolio companies controlled by a PE or VC firm are combined for purposes of determining whether each company has no more than 500 employees. Companies with more than 500 employees are ineligible for PPP loans, with some limited exceptions.

For example, if a PE firm controls five portfolio companies, and each portfolio company has 200 employees, none of the portfolio companies or the PE firm would be eligible for a PPP loan. They would all be deemed to have 1000 employees for purposes of a PPP loan.

Under the SBA's affiliation rules, a PE or VC firm may exert control over a company in several ways, including: (i) owning more than 50% of the stock or other equity interest of the company, (ii) controlling a majority of the board of directors or managers, or (iii) having veto rights or other protective rights allowing the PE or VC firm to block action by the board or owners of the company.

The SBA affiliation rules are often viewed in the context of PE and VC firms, but the affiliation rules apply to all affiliated companies (e.g., subsidiaries), not just those owned by PE and VC firms, unless the late waiver is granted.

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