



ADAPT & RECOVER:
**MOVING FORWARD
TOGETHER**
WEBINAR SERIES

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SESSION ONE

June 12, 2020 | 11:00 A.M. EDT

➤ Housekeeping Items

- The webinar will be recorded and shared as soon as it is available via email
- All materials were emailed to you this morning – also available on RKL’s Business Recovery Resource Center at rklcpa.com
- All lines are muted
- NASBA CPE requirements – in order to receive CPE for this webinar:
 - Participants must be connected to the session (both audio and presentation) for its entirety
 - Participants must answer three questions/elements of engagement
 - One (1) hour of CPE in the field of business law will be granted if you meet these requirements

DISCLAIMER: The presenters, Bethany Novis, Tricia Richardson and Ryan Hurst, and RKL LLP and its subsidiaries/affiliates are not held responsible for information that has changed or will change and makes no representation or warranty as to the ongoing accuracy of the information presented orally or in writing. Attendees should consult with legal, accounting and other advisors.

➤ Meet Your Team for Today's Presentation

Reopening, Legislative and PPP Update



BETHANY A. NOVIS, CPA/ABV, CVA, CFE | *Partner/Leader, Business Consulting Services Group*

Bethany is Partner and Leader of RKL's Business Consulting Services Group. A Certified Fraud Examiner, Bethany has more than two decades of experience delivering forensic accounting services such as employee theft investigations, reconstruction of financial records and damage calculations for litigation purposes. She is also a highly credentialed business valuator, specializing in valuation of stock for gifting, buyouts and wealth planning.

Payroll and Workforce FAQs



TRICIA RICHARDSON, CPP, SPHR, SHRM-SCP | *Consultant, Human Capital Management*

Tricia is a Consultant in RKL's Human Capital Management Practice. With expertise in payroll and human resources, she works with companies to align their HR policies with the final payroll product. Tricia also helps clients implement and adhere to payroll and human resource regulatory compliance and best practices.

M&A Market Update



RYAN HURST, ASA | *Partner, Business Consulting Services Group*

Ryan is a Partner in RKL's Business Consulting Services Group and an in-demand transaction consultant. Ryan's areas of expertise include advising clients on buying and selling businesses; succession planning; conducting valuations for a variety of transactions and structures; litigation support for shareholder disputes; and strategic alternatives analyses.

REOPENING & LEGISLATIVE UPDATE

➤ Pennsylvania Legislative Standoff

On Tuesday, June 9, the PA General Assembly passed a resolution that directs Governor Wolf to end the COVID-19 disaster emergency that was issued on March 6 and renewed on June 3.

On Wednesday, June 10, Governor Wolf stated that the disaster declaration would continue.

The standoff between Governor Wolf and the Legislature hinges on different interpretations of power under the PA Constitution.

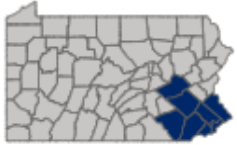


➤ Pennsylvania Legislative Standoff

Questions:

- How will this impact business openings and health and safety measures?
- What services/benefits could be impacted by the end of the disaster declaration?
- What are the unintended consequences?
- Does this signal more changes to come?

➤ How Close is Your County to Full Reopening?



Comparison to surrounding counties within the Health District:

Southeast

County	Stable, decreasing, or low confirmed case counts, past 2 weeks compared to previous 2 weeks	Contacts of cases are being monitored	PCR positivity rate <10% in past 14 days	Hospital bed use is 90% or lower per district population	Metrics met	Status
BERKS	✓	✓	✓	✓	4/4	Turned yellow on 6/5/2020
BUCKS	✓	✓	✓	✓	4/4	Turned yellow on 6/5/2020
CHESTER	☒	✓	☒	✓	2/4	Turned yellow on 6/5/2020
DELAWARE	✓	✓	✓	✓	4/4	Turned yellow on 6/5/2020
LANCASTER	✓	✓	☒	✓	3/4	Turned yellow on 6/5/2020
MONTGOMERY	✓	✓	✓	✓	4/4	Turned yellow on 6/5/2020
PHILADELPHIA	✓	✓	☒	✓	3/4	Turned yellow on 6/5/2020

<https://www.health.pa.gov/topics/disease/coronavirus/Pages/County-Dashboard.aspx>

➤ Current Reopening Status: June 12



Stay at Home lifted
Child care open
In-person work permitted
Indoor recreation closed
School sports can resume with restrictions
Outdoor dining permitted
No gatherings > 25 people

Gyms and hair salons open
Indoor dining resumes
No gatherings > 250 people

CDC and state health guidelines still need to be followed in all phases.

➤ So What is After the Green Phase?

Restrictions in place in the green phase of the reopening plan will not be lifted until a safe and acceptable COVID-19 vaccine is available.

- confirmed by Secretary of Health
Dr. Rachel Levine on June 4, 2020

“We will do everything in our power to figure out how we coexist with this new post-infectious world that we’re in with viruses like the coronavirus, and still lead lives that allow us to go to school, to go to buy something, to go to work...”

– Governor Wolf, June 8, 2020

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“Going to Green is like getting your Driver’s License, only to realize you can only have one friend in your car.”

- Jack Novis, June 12, 2020

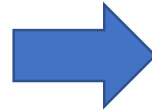
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➤ Pennsylvania DCED \$225 Million Grant Program



\$225 million grant program
from PA DCED



Funds distributed
to 17 CDFIs



\$100 million grants –
Main Street Revitalization



\$100 million grants –
Historically Disadvantaged
Business Revitalization
Program



\$25 million grants – Loan
Payment Deferment and
Loss Reserve Program

➤ Pennsylvania DCED \$225 Million Grant Program

- **Main Street Business Revitalization Program:** For small businesses that experienced loss as a result of the governor's March 19, 2020 order relating to the closure of all non-life-sustaining businesses and have or will incur costs to adapt to new business operations related to COVID-19.
- **Historically Disadvantaged Business Revitalization Program:** For small businesses that experienced loss as a result of the business closure order, have or will incur costs to adapt to new business operations related to COVID-19 (socially and economically disadvantaged individuals must own at least a 51 percent interest and control management/daily operations).
- **Loan Payment Deferment and Loss Reserve Program:** Allows forbearance and payment relief for existing portfolio businesses that are struggling due to the impact of COVID-19, as well as shore up the financial position of the CDFIs that are experiencing significant increased defaults in their existing loan portfolios.

Note: *Small business means ≤25 FTEs or <\$1 million revenue on 2019 tax return (or 2018 if 2019 not filed). There is also a \$50,000 cap on grants.*

PPP UPDATE

➤ PPP Flexibility Act (HR 7010) – *Enacted June 5, 2020*

What We Know

- Existing borrowers have the option to extend the eight-week Covered Period to 24 weeks
- New borrowers will have Covered Period of 24 weeks or December 31, 2020, whichever is earlier
- The deadline for PPP loan applications continues to be June 30, 2020
- The 75 percent payroll expenditure requirement is reduced to 60 percent
- If borrower uses less than 60 percent of the loan for payroll costs, the borrower will be eligible for partial forgiveness, subject to at least 60 percent of the loan forgiveness amount having been used for payroll costs – **New this week: Removes “cliff”**
- Borrowers with the 24-week Covered Period now have until December 31, 2020 to restore any workers that were laid off or furloughed between 3/27 and 4/26
- Repayment period for loan portion can be extended to five years if lender and borrower agree (automatically five years for loans made after June 5, 2020)
- Borrowers can now qualify for the deferral of ER share of payroll taxes under CARES – deferral of Social Security tax (6.2 percent) – 50 percent due in 2021, remainder in 2022

> PPP Open Items

- What we don't know
 - Can you claim FTE workforce restoration was met prior to December 31, 2020?
 - Can you end your Covered Period “early”?
 - When is the PPP Loan Forgiveness Application due?
 - Will expenses paid with a forgiven PPP loan be tax deductible?
 - Does the limit on cash compensation change to $\$100,000 \times 24/52$ from $\$100,000$ to $8/52$? $\$15,385$ to $\$46,153$?

Week 14 Spoiler Alert: We now anxiously await a new *revised* PPP Loan Forgiveness Application as well as more instructions, clarifications and FAQs...stay tuned!

➤ PPP Flexibility Act: New Exemptions for FTE Reduction

- The new exemptions allow you to avoid FTE restoration haircut if you document:
 - Inability to rehire individuals who were employees on February 15, 2020
 - Inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020
 - Return to the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued related to COVID-19

➤ Staying with Eight-Week Covered Period

Q: If I stay with the eight-week Covered Period, does the payroll spend requirement still get reduced from 75 percent to 60 percent?

A: Yes. You are still following the PPP Flexibility Act, which gives you the option to stay with the eight weeks. It also clearly reduces the requirement to spend the PPP funds on payroll from 75 percent to 60 percent.

NOTE: The PPP Flexibility Act presents the 60 percent as a “cliff.” However, this was quickly corrected on June 8 when the Treasury and SBA issued a joint statement allowing for partial forgiveness if payroll spend is below 60 percent.

➤ Correction of the 60 Percent “Cliff”

Q: Can you show me how the actual calculation for the 60 percent payroll costs works?

A: Yes. This is no longer a “cliff”, but your forgiveness can be limited if your payroll costs are below 60 percent of total PPP spend:

Example: XYZ Co. receives \$1,000,000 in PPP funds and spends all of it on qualified expenses during the Covered Period. Of this amount, XYZ spends \$450,000 on payroll costs. The forgiveness limitation will be calculated as follows:

$$\begin{aligned} \$450,000 / .60 &= && \$ 750,000 \text{ forgiveness amount} \\ &&& \$ \underline{250,000} \text{ PPP loan amount} \\ &&& \$1,000,000 \text{ Total PPP funds received} \end{aligned}$$

Note: Above example does not consider any reductions for FTE headcount and salary/wages

➤ Forgiveness Application Due Date

Q: When is my Forgiveness Application due?

A: Per the Revision to the Final Rule just issued June 10, the process will proceed as follows:

- Step #1: Borrower submits Loan Forgiveness Application to lender within 10 months after the end of your Covered Period
- Step #2: Lender submits Forgiveness Application to SBA
- Step #3: SBA determines or “approves” forgiveness amount and remits back to lender (or notifies lender that no forgiveness is allowed)
- Step #4: Borrower is notified of SBA approval and is given the date your first payment will be due

Note: Borrower will NOT have to make any payments of interest or principal on their loan before Step #3 is complete. Interest continues to accrue during the deferment period.

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

PAYROLL AND WORKFORCE FAQs

› Credits Not Available if PPP Loan Money Used

Best Practices

- Track the wages separately for the different credits
- Make sure you include the health insurance as qualified wages

Employee Retention Tax Credit (ERTC)

- Credit of 50 percent for up to \$10,000 in qualified wages paid after March 12, 2020 and before January 1, 2021
- Total credit per employee = \$5,000

› Credits Available if PPP Loan Money Used

Note: You cannot take multiple credits for the same wages

Emergency Paid Family and Sick Leave (EPSL)

- Use PPP loan money to cover the difference between EPSL limits and full salary

Payroll Tax Deferral

- Not a credit – a deferral
- Employer portion of Social Security tax from March 27, 2020 to December 31, 2020
- 50 percent due December 31, 2021; 50 percent due December 31, 2022

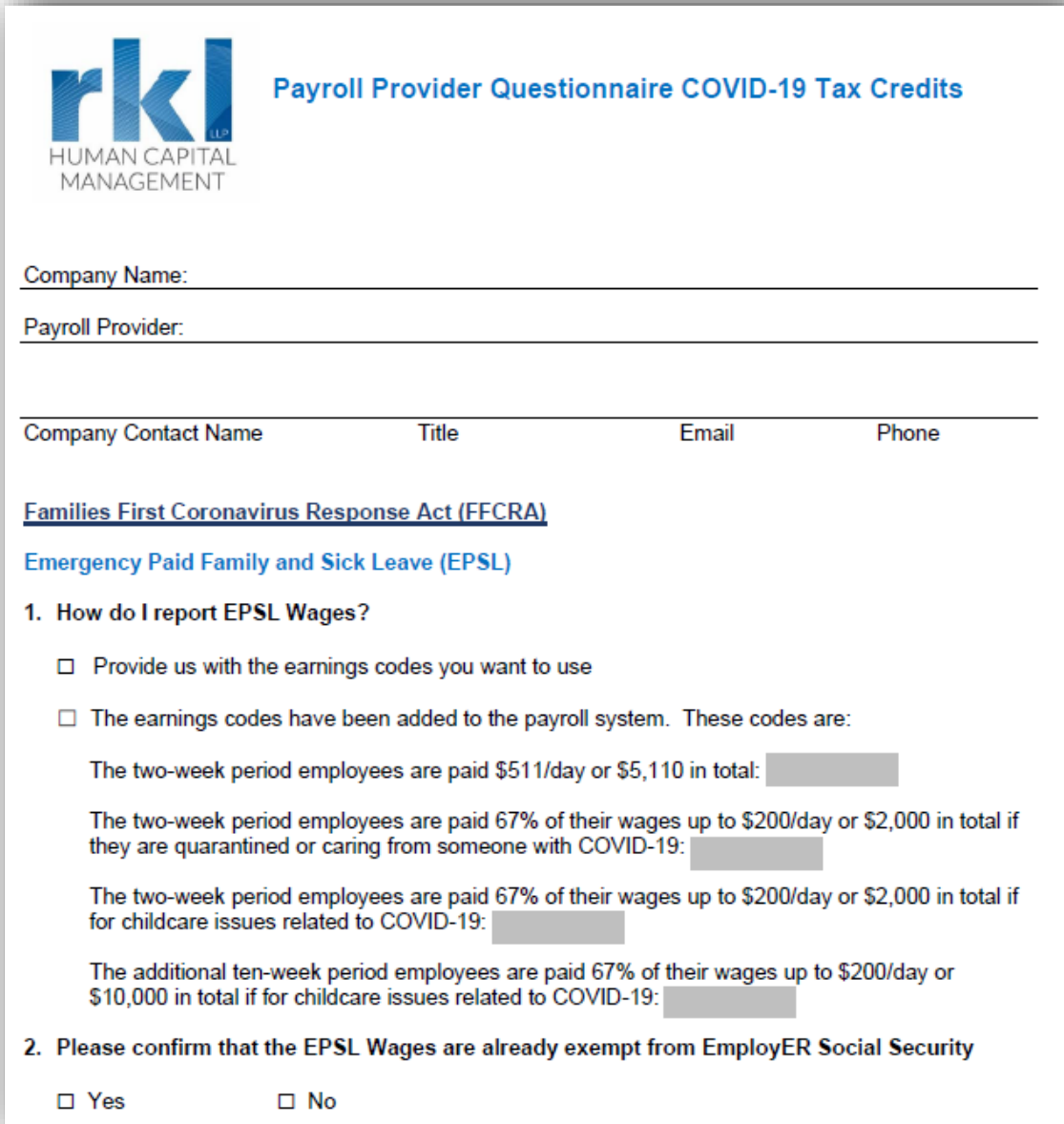
› Credits Available if PPP Loan Money Used

Payroll Tax Deferral

PPP loans: Deferral allowed until the lender issues the decision on forgiveness.

If you choose the 24-week option, you could potentially be eligible to defer all of your employer share of the Social Security tax.

> Receiving the Credits



rkl
HUMAN CAPITAL
MANAGEMENT

Payroll Provider Questionnaire COVID-19 Tax Credits

Company Name: _____

Payroll Provider: _____

Company Contact Name	Title	Email	Phone
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Families First Coronavirus Response Act (FFCRA)

Emergency Paid Family and Sick Leave (EPSL)

1. How do I report EPSL Wages?

Provide us with the earnings codes you want to use

The earnings codes have been added to the payroll system. These codes are:

The two-week period employees are paid \$511/day or \$5,110 in total: _____

The two-week period employees are paid 67% of their wages up to \$200/day or \$2,000 in total if they are quarantined or caring from someone with COVID-19: _____

The two-week period employees are paid 67% of their wages up to \$200/day or \$2,000 in total if for childcare issues related to COVID-19: _____

The additional ten-week period employees are paid 67% of their wages up to \$200/day or \$10,000 in total if for childcare issues related to COVID-19: _____

2. Please confirm that the EPSL Wages are already exempt from Employer Social Security

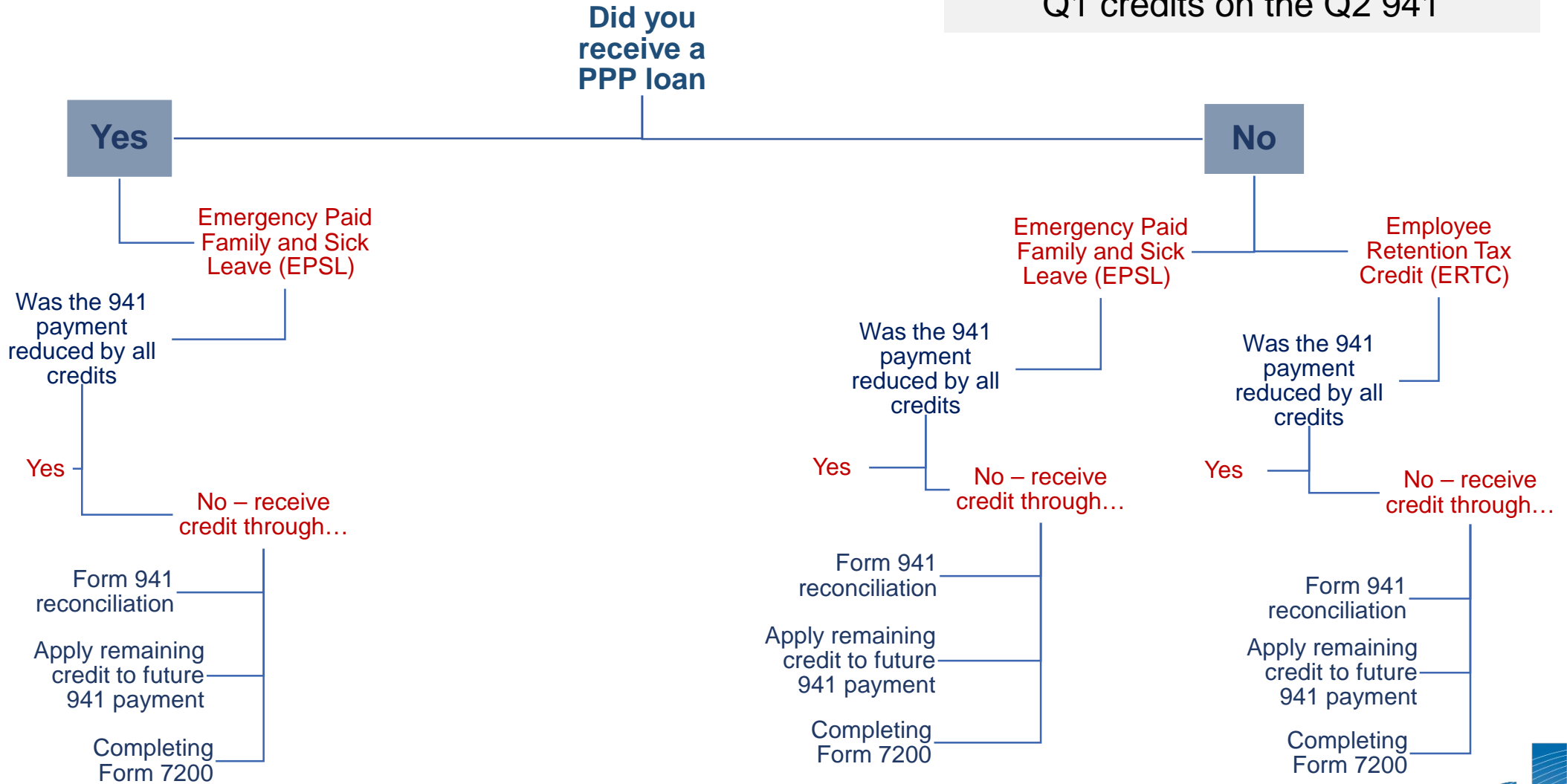
Yes No

Ask Your Payroll Provider

- What is your payroll provider doing/not doing (Form 7200 and 941)?
- Are they reducing 941 payments for available credits?
- How are they handling the payroll tax deferral?
- How are they accounting for health insurance?
- Will they adjust the 941 for the Form(s) 7200 you file?
- Will they add the Q1 2020 credits to the Q2 941?

➤ Receiving the Credits

Make sure you include any Q1 credits on the Q2 941



➤ Receiving the Credits

- Regular wages
- EPSL wages
- ERTC wages

941 Tax Payment Due	
Federal Withholding	\$11,213.72
EmployER Social Security	\$5,387.59
EmployEE Social Security	\$5,387.59
EmployER Medicare	\$1,260.00
Employee Medicare	\$1,260.00
Total 941 Payment Due for Payroll	\$24,508.91
Total EPSL Credit	(\$3,695.28)
Total ERTC Credit	(\$21,435.62)
941 Credit Available	(\$621.99)
No 941 Payment Due	\$0.00
Payroll Tax Deferral (no tax to defer)	\$0.00

➤ Receiving the Credits

Form 7200

- Turnaround time (two weeks?)

Second Quarter Form 941

- Currently in draft form (*latest draft June 3, 2020)
- 19 pages of instructions
- January 2020 – 18 lines
- April 2020 draft – 25 lines
- 941 due July 31

➤ Prepare for Return to Work FAQs: Communication

Q: Do you have any advice for handling employees who do not want to come back to work?

A: Communicate

- Provide them with the new safety policy for reassurance and understanding
- Have a dialogue with your employees for a return-to-work solution
- Be flexible but fair
- Be consistent
- Transition support (redesign the safety committee, EAP)

Document

- Employee request for Emergency Paid Sick Leave
- Recall letter with required PA Form (PA-UC 1609)
- Report to PA Unemployment (PA-UC 1921)
- Recall to work log

➤ Prepare for Return to Work FAQs: Workforce Changes

Q: What if my business is dependent on other industries that are not fully functioning yet and I used all of the PPP funds, can I layoff or furlough my workforce again?

A: Yes. If you find yourself in a position that you cannot afford to continue to pay your employees due to a change in your business operations because of current limitations or supply chain constraints, you may layoff or furlough your workforce.

Just be mindful of the impact this may have on your PPP loan forgiveness.

➤ Prepare for Return to Work FAQs: Job Descriptions

Q: My business and the roles of employees have changed. What should I do?

A: It is important to make sure that roles and job requirements are up-to-date and reflect any changes in your business.

- Discuss any role changes with impacted employees
- Develop job descriptions for new roles and archive those no longer relevant
- Add remote worker or telecommuting requirements to applicable job descriptions
- Include required skills needed for roles
- Obtain employee signatures for new job descriptions

➤ Prepare for Return to Work FAQs: Handbook Revisions

Q: Should we make changes to our Employee Handbook?

A: Think about any workplace processes that are now in place due to COVID-19. Are these policies you would like to make permanent or do they need to go away?

Some policies to consider changing, implementing or adding are:

- Flexible work schedule policy
- Remote worker or telecommuting policy (consider technology requirements, tools for videoconferencing, process for becoming a telecommuter)
- Perhaps develop a non-punitive emergency sick leave policy if you don't currently offer sick leave

➤ Prepare for Return to Work FAQs: Handbook Revisions

(continued)

Some policies to consider changing, implementing or adding are:

- Performance evaluations – how is performance evaluated remotely?
- Implement temporary emergency policies that outline the circumstances when a temporary policy would be implemented and when it would expire
- Update the current safety policy – add new safety guidelines (masks, temperature checks, interaction with vendors and clients, reporting feeling ill, possible exposure)
- Add COVID-19 (or infectious disease) OSHA guidelines and required training
- Review your HIPAA policy
- Obtain a signed acknowledgement form from each employee to affirm that they've read and understand the revised policies and procedures

POLLING QUESTION

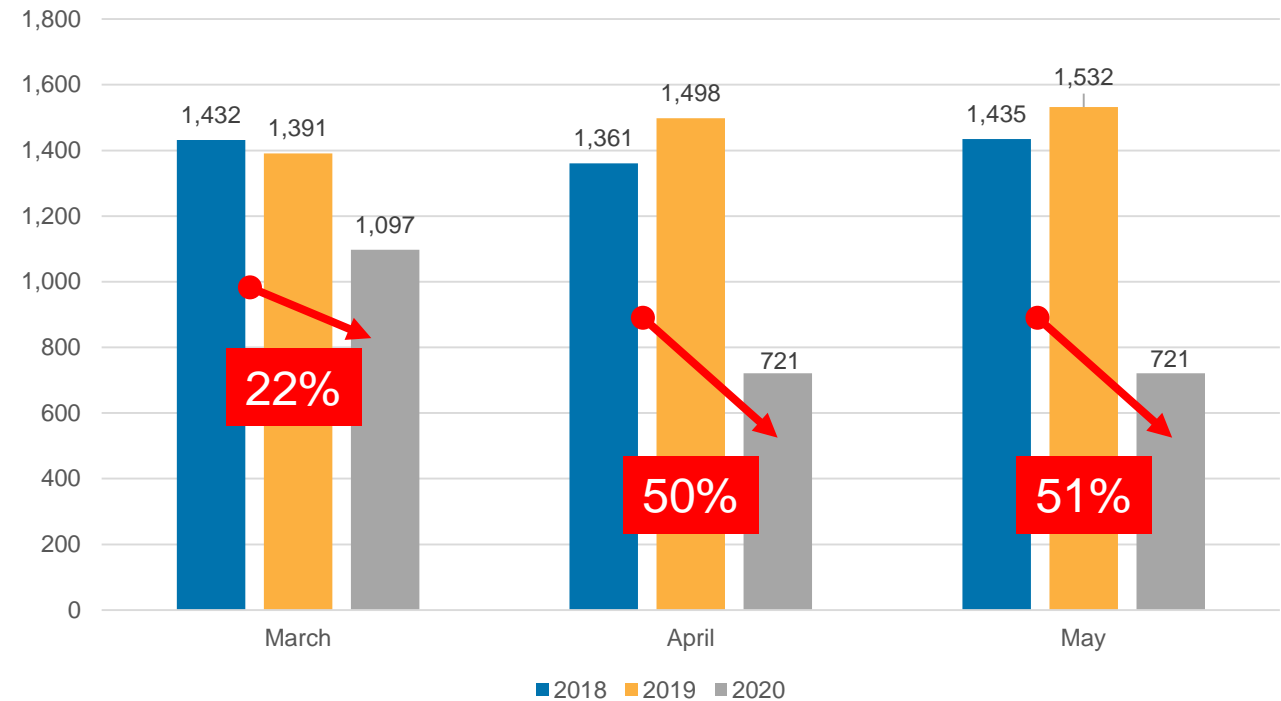
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M&A MARKET UPDATE

> M&A Transaction Decline

- Deal activity plummeted since the onset of COVID-19 in the U.S.
- Decrease of 22% in March 2020 vs. average of prior two years
- Decrease of ~50% in each of April and May 2020 vs. averages of prior two years
- How much of this included deals that forged ahead or had legal requirements to close post-signing?
- How much of this is a postponement rather than a cancellation? When will deal activity re-emerge?

of M&A Transactions: Year-Over-Year Comparison by Month



Source: S&P Capital IQ, data pulled as of June 11, 2020 (subsequent announcements may increase 2020 totals)
M&A transactions with target headquarters in U.S.; timing based on announcement date

➤ Anecdotal Evidence of a Resurgence?

- Lack of a distressed market (for now)
 - Interest remains in webinar topics, hiring in this area of private equity and distressed PE fund formations
- After two months of silence, some re-emergence of buy-side outreach (PEGs and brokers)
 - Initial focus of private equity was looking after portfolio companies
 - Some were opportunistic but most hunkered down
 - Strategics also focused on core operations
- Since mid-May, we've seen a resurgence in our transaction advisory practice
 - Two deals progressed (one closed)
 - One deal back on that went on hold in March
 - Two new deals + one buyer engaging in an acquisition search process + one targeting a sale by year end
 - None of these are distressed situations
 - One that was going strong just died due to affiliate's deal moratorium
 - One remains on hold, targeting Labor Day for buyer contact
 - Not aware of any lower middle market closed deals that originated during COVID-19

➤ What to Expect?

- No longer a seller's market
- Disconnect in value between buyers and sellers
- Deal structuring – earnouts, milestone payments, special holdbacks
- Added due diligence, especially financial due diligence to assess resiliency or proof of recovery
- Special legal language
- Impact of PPP and other stimulus on deals
- More valuation requirements from banks
- Pandemic fatigue
- Distressed activity
- Virtual meetings and site tours (will PEGs do this?)
- A quick post-COVID-19 M&A market resurgence?
- First mover advantage for buyers?
- More targeted processes? Fewer auctions?

➤ What Can I Do?

Buyers

- Stay in close contact with acquisition targets
- Demonstrate the strategic value you bring to the table through helping, not hawking
- Maintain a strong cash position (dry powder)
- Keep your lender relationships strong
- Reassess standard due diligence processes – what's imperative to do in-person and where can you be creative?
- When seeking out distressed opportunities, be prepared to act quickly and be fair (bargains not exploitation)

Sellers

- Reset valuation and process expectations
- Track COVID-19 expenses (EBITDAC)
- Prepare forecasts: 13-week, 18-month, 5-year
- Maintain the critical assets and resources that make the business valuable
- Track pent-up demand
- Use this time for cleanup
- Be prepared for increased due diligence
- Videos of operations
- Consider estate planning and wealth transfers

POLLING QUESTION

To be eligible for CPE, 3 polling questions must be answered.

➤ AICPA TQA 3200.18 Update

- Non-authoritative guidance about how a nongovernmental entity should account for a forgivable loan received under the PPP
- Applies to not-for-profit entities and public and private business entities and discusses acceptable ways to account for such loans
- Covered in [Session Nine](#) (May 15, 2020)



➤ Key Accounting Considerations

There are several U.S. GAAP accounting considerations to focus on regarding PPP funds:

- How should a company record and disclose this debt?
- When should the forgiveness be recognized and what will that look like in the financial statements?
- What about the costs to obtain the loan?
- How should you record the expenses the funds are going to be used for?

➤ Main Street Lending Program Update

- Still not “live”
- Significant revisions made to the Main Street Lending Program on April 30, 2020 and additional revisions June 8
- Available to businesses with $\leq 15,000$ employees or $\leq \$5.0$ billion annual revenue in 2019
- **Five-year term loan**, which could be secured or unsecured
- **Two-year deferral of principal**; one year deferral of interest and unpaid interest will be capitalized
- Rate = LIBOR (1 month or 3 month) + 3%
- Minimum loan size starting at **\$250,000**
- Maximum loan sizes increased (vary by facility)
- Public disclosure of names of lenders and borrowers, amounts borrowed and interest rates charged, and overall costs, revenues and other fees
- Generally less restrictive than PPP but does not feature loan forgiveness



CONSULTING | CORONAVIRUS

Main Street Lending Program: Federal Reserve Outlines New Loan Option for Small to Mid-Sized Businesses

UPDATED: JUNE 9, 2020



The CARES Act contains many stimulus components for individuals, businesses, nonprofits and other groups. Much of the focus to date has been on shoring up the small business and nonprofit marketplace through the Paycheck Protection Program (PPP) and Economic Injury Disaster Loans (EIDL). Recognizing the limitations on size for many businesses, often for those with more than 500 employees or that fell prey to business affiliation rules, the Treasury and Federal Reserve are utilizing a component of the CARES Act to provide access to loan funding to those businesses which were left out.

<https://www.rklcpa.com/main-street-lending-program-overview/>

THANK YOU FOR PARTICIPATING

Questions?

- Contact your RKL advisor.
- Visit RKL's [Business Recovery Resource Center](#) for more updates and guidance.

Want more M&A insights?

- [Register for June 18 webinar](#) co-hosted by Barley Snyder and Boenning & Scattergood featuring Ryan Hurst and other regional M&A experts.

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