ON POINT

SCHNEIDER DOWNS

FALL 2014
VOLUME 32
ISSUE 03

FEATURE ARTICLE

THE M&A BUSINESS IS BACK

IN THIS ISSUE

KEY TAX DATES

10.31.2014
EMPLOYERS' TAXES. Employers of nonagricultural and nonhousehold employees must file return on Form 941 to report income tax withholding and FICA taxes for the third quarter of 2014.

12.15.2014
ESTIMATED TAX. Payment of last installment of 2014 estimated tax by calendar-year corporations.

1.15.2015
ESTIMATED TAX. Final installment of 2014 estimated tax by individuals, trust and estates and certain residuary trusts in existence more than two years.

Continued on Page 7

RIDING FOR CANCER RESEARCH

We are proud that our first Peloton "Team Schneider Downs" consisted of 13 riders, one virtual rider, three volunteers and countless financial supporters throughout both offices. This small, but determined, group successfully raised over $22,200 for cancer research through work-related events, community outreach and individual fundraising. The money raised will be added to the Pelotonia14 total, which raised over $13,353,000 this year and consisted of 7,270 bicycle riders. It's also important to recognize that Pelotonia has raised over $74.4 million for cancer research since its inception in 2009.

Where Does Our Money Go?
The model of Pelotonia remains simple: Pelotonia's operating expenses are covered by the funding partners so that 100% of every dollar raised by Pelotonia riders and volunteers goes directly to fund cancer research at The Ohio State University Comprehensive Cancer Center—Arthur G. James Cancer Hospital and Richard J. Solove Research Institute.

In 2008, research physician Mike Caligiuri recognized the need to expand current funding, and proposed a grass roots cycling event in Ohio. The simple mission is to end cancer in the next three decades, and the Pelotonia rallying-cry has become "One Goal→End Cancer." Between 2009 and 2013, $61 million has been raised for cancer research, and their current goal is to raise $100 million over the next five years.

A sincere thank you goes out to everyone who supported Team Schneider Downs this year.

- Mark Shumaker, Marketing Manager

U.S. ADOPTION OF EMV CREDIT CARD STANDARD

*BY
CHRISTOPHER DEBO
TECHNOLOGY ADVISORS
SENIOR MANAGER*

For those who have travelled abroad lately, you may have noticed a difference in how credit cards are constructed and processed at point-of-sale terminals. Adoption of the new EMV (Europay, MasterCard, and Visa) standard – using electronic chip-based cards instead of the traditional magnetic strip – has been rapidly growing since being introduced in 1995. Although the EMV specifications are complex and varied (contact vs. contactless cards, tokenization), the concept is simple: Replace the swipe-and-sign paradigm with a more secure chip-and-pin architecture that requires users to have two forms of secure authentication: 1) An encrypted electronic chip embedded in the card and 2) a pin number only known by an authorized user of the card. Now on version 4.3, the contact-based EMV specification is mature and has already been implemented throughout most of Europe and other countries worldwide. And the primary benefit of EMV is easy to discern: Improved security of transactions, leading to a reduction in fraud.

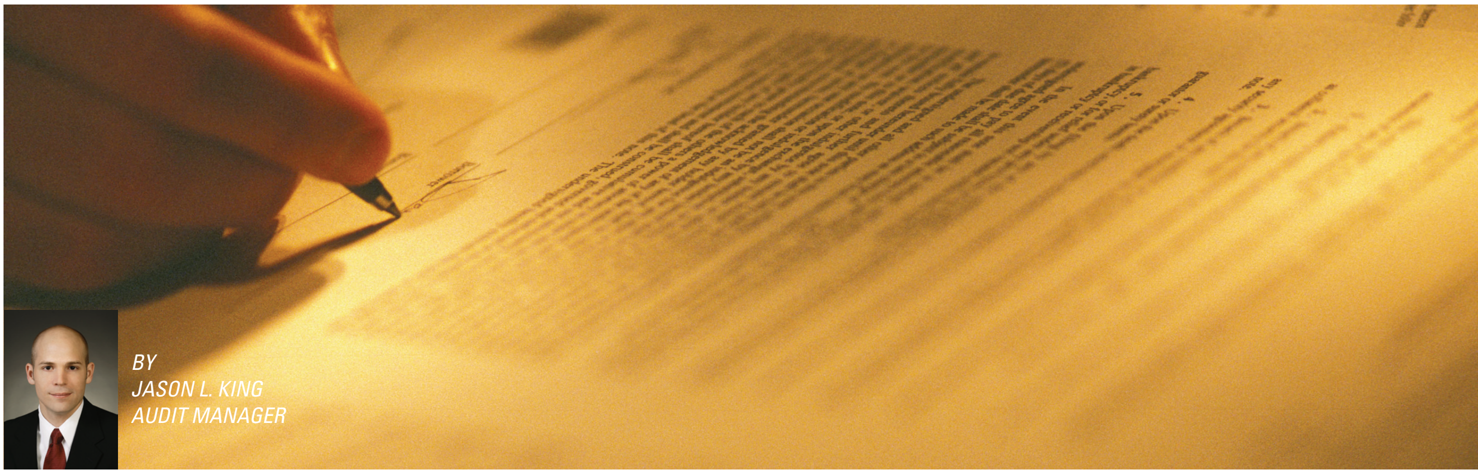
As it stands now, the U.S. is the last of the G-20 nations to adopt EMV technology, and it should come as no surprise that almost half of the world's credit card fraud occurs in America. So why is the U.S. lagging so far behind its modern counterparts? The answer is simple: Cost. According to a study from Javelin Strategy & Research, the cost to U.S. merchants to implement EMV will be $2.6 billion, with some 1.2 billion cards and 12 million point-of-sale terminals requiring updates to be EMV-enabled. Rather than absorb the costs of implementing EMV nationwide, merchants are willing to accept the huge losses associated with magnetic card fraud. This is in spite of evidence showing the impact that the introduction of EMV cards can have. Since implementing the chip-and-PIN architecture in 2004, face-to-face card fraud has declined by 69% in the United Kingdom and 50% in France (source: The Observatory for Payment Card Security).

This is set to change in 2015. In the United States, all non-petroleum MasterCard merchants must be able to process EMV cards by October of 2015 (petroleum merchants have until 2017). If the merchant is unable to accept EMV cards and allows consumers to use magnetic strip cards as a form of payment, they could be held liable for any subsequent fraud committed with the card. Due to the increased level of security offered by EMV cards, banks and credit card issuers have been shifting liability to merchants for any fraud resulting from non-EMV card transactions. In the European Union, this "liability shift" has been in place since 2005 for MasterCard users and 2006 for Visa. So plan on making extra room in your wallet for the thicker EMV cards. You'll still be signing for now, but the new system also enables the use of PIN-numbers-card issuers decide to add them to their cards.

TOP STORY

NEW REVENUE RECOGNITION STANDARDS

by Jason L. King



The FASB recently issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, in conjunction with a near identical pronouncement for International Financial Reporting Standards (IFRS). The issuance of these standards completes the long anticipated joint effort by the FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and IFRS. This ASU will affect entities that enter into contracts with customers to transfer goods or services and replace a plethora of industry-specific guidance.

The core principle of the new revenue recognition standards is that an entity should recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

While the core principle may seem simple at first glance, developing a standard robust enough to address contracts in all industries and situations simultaneously results in a lot of technical guidance for everybody to wade through (much of which may be confusing or irrelevant).

Some of the more challenging technical issues include accounting for multiple contracts with the same customer, variable compensation arrangements, contract modifications, non-cash compensation issues, and management estimates needed to allocate transaction prices to performance obligations.

Accounting for the new standards also includes new balance sheet and income statement concepts, (i.e., contract assets and liabilities and transaction price), and will require significant additional disclosures.

Industries expected to be most significantly impacted include real estate, software, telecommunications, construction, and defense contractors. While some entities may not see a significant impact to their revenue recognition when they are required to adopt the new revenue recognition guidance, all should start making plans to evaluate the impact of the new standards.

So how should an entity best prepare for the adoption of the new standards? Fortunately, the standard includes several examples to assist with implementation, and additional resources and clarifications will be on the way. While there is no magic formula for every entity to follow, developing an inventory of contractual arrangements with customers, and designating responsibility internally for evaluating and developing a plan to implement the new standards seems like a great place to start. And of course, consulting with your CPA firm early in the process is strongly advised.

For public entities, the new standards are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For all other entities, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017. A nonpublic entity may elect to apply this guidance in accordance with the public entity effective date. Upon adoption, entities will be required to present prior periods retrospectively (with options to elect certain practical expedients), or retrospectively with the cumulative effect of the change recognized at the date of initial application with enhanced disclosures.

FEATURE

BY
PETER J. LIEBERMAN
SCHNEIDER DOWNS CORPORATE FINANCE, LP
MANAGING DIRECTOR AND CHIEF COMPLIANCE OFFICER

After the disaster of the financial crisis in 2008 and 2009 and an inconsistent, stuttering recovery through 2012, Mergers and Acquisitions markets have surged over the last 12 months, generating the strongest volumes and valuation multiples in 8 years.

Global transaction volume was up 14% in the first half of 2014 versus last year, according to Capital IQ. More dramatically, the value of M&A deals announced in the first half of 2014 surged 59% from the first half of 2013.

With more deals have come higher prices. Valuation multiples in the first half of 2014 were up 10% versus the first half of 2013.

Several conditions are driving the resurgence.

Sellers are Selling Again

Over the last two years, the biggest constraint in the M&A markets has been lack of sellers. More recently, sellers have come back, particularly in two sectors – public companies and private equity. In those sectors particularly, sellers are highly motivated by returns to shareholders and investors. Slowly growing public companies that have cash they can't invest become targets, and then are obligated to take a big acquisition premium if offered. Private equity owners, which plan to own a business for five to seven years, are nearly always opportunistic about selling into a hot market and maximizing returns.

Private business owners, on the other hand, have been slower to return to the M&A market. GF Data, a research firm that tracks private equity statistics, suggested in an article earlier this year that the mindset of closely held business owners has shifted toward retaining ownership for a longer period of time. GF Data surmised that: owners are more acutely aware that owning a profitable business is good; having survived the crisis, they are more comfortable with wealth concentrated in the business; and technology is allowing owners to continue operating the business into later ages.

Corporations are Very Profitable and Flush with Cash

Companies are still benefiting from cost and employment cuts made during the recession of 2009 and 2010. Once the recovery started, the U.S. unemployment rate has not rebounded, in part, because employers found they could generate the same revenue but make more money with

THE M&A BUSINESS IS BACK

by Peter J. Lieberman

fewer people. That's bad news for the unemployed, but has meant that cash flow for businesses that have recovered from the recession is robust. The companies have built up cash reserves and paid down debt and need to find places to invest.

Slow Economic Growth Equals Slow Organic Growth

In spite of all those profits, organic revenue growth has been challenging to generate outside of hot sectors like energy and health care. This is particularly true for traditional manufacturers that rely on broad based economic growth. As a result, corporations need to buy revenue to generate growth.

Capital is Cheap and Abundant

Not only are companies flush with cash from profits, but banks, lenders and investors are nearly falling over themselves to give companies more money. This has been the case since late 2012. The availability of cheap capital has fueled private equity, which relies on debt to finance deals, to pay prices that meet or exceed traditional corporate buyers.

A hot environment makes is easier to close deals, especially for sellers. But there are still lessons for buyers and sellers.

Sellers: Don't be Slow and Don't be Shy

M&A deals for closely held companies typically take six to nine months to complete, from the day the seller commits to the sale process (typically by hiring an advisor) to the closing. Hot M&A markets build slowly, run hot for a couple of years and burn out in a flash. For example, prior to the great recession of 2009, M&A activity accelerated gradually from 2003 to 2005, ran hot in 2006 and 2007 and crashed in mid-2008 as the financial crisis peaked. Many business owners who held off on starting a process in 2007 to squeak out one more year of profits missed the window.

But now that the market is strong and buyers are demonstrating a willingness to stretch, sellers should take advantage by engaging in the best practices to generate value in an M&A process: create competition among buyers by using an advisor and once in negotiations, use the leverage from the competitive process to be assertive in asking for deal terms that are favorable. Nothing comes to those who don't ask for it. And more comes to those who have enough leverage to demand it.

Buyers: Be prepared to Pay for Quality and be Prepared to Work for Bargains

If your target is a high-quality, well-managed business with strong growth prospects and a sustainable advantage, you are probably not the only one bidding. Be prepared to pay a full price for high-quality companies.

There continue to be opportunities for buyers that are not seeking to pay fully loaded values for businesses. They are in two places, fixer uppers and smaller businesses. While the discounts for minor issues are less dramatic than in the past, they still present an opportunity for a buyer with operating expertise to generate value.

With respect to size, market data show a meaningful discount for smaller companies. In the First Quarter of 2014, the private equity buyers surveyed by GF Data paid an average of 8.5x EBITDA in deals valued between $50 million and $100 million. The average multiple for deals between $10 million and $25 million was 5.1x EBITDA. That's a huge discount, but for a large buyer attempting to make a big impact on revenue, it's one-third of the work to make one $75 million acquisition versus three $25 million deals.

Looking ahead, there is little on the near-term horizon that would appear to constrain the M&A market. The U.S. economy is growing, but relatively slowly. After some bumpy days in late July and early August, equity markets have settled. That said, every M&A advisor knows that time is the enemy. If you are contemplating a sale or a purchase, be prepared to move fast and take advantage of the receptive environment. It won't last forever.

NEWS YOU NEED

SCHNEIDER DOWNS WEALTH MANAGEMENT ADVISORS, LP QUARTERLY COLUMN

HAPPY 40TH BIRTHDAY - IRA

BY
NANCY L. SKEANS, CFP®
PARTNER, SCHNEIDER DOWNS
WEALTH MANAGEMENT
ADVISORS, LP

The Individual Retirement Account (IRA) was created in 1974 by the Employment Retirement Income Security Act (ERISA). At birth, it provided a mere $1,500 maximum tax-free contribution to employees who were not covered by an employer retirement plan. In 1981, the rules were broadened to cover any employee, and the maximum contribution was raised to $2,000. Over its life, several changes have been legislated: income limitations were added, contribution amounts rose, and catch-up provisions for employees age 50 and over emerged.

Behind all of the legislation and regulations governing the IRA lies its true gem – tax-deferred growth. Isn't that what we really seek – socking away assets for years and allowing those investments to compound free from the eroding effect of individual income taxes.

Nothing is ever that easy, especially where the government is concerned. Of course, we all know about the age-70.5 trigger that requires the original owners to begin making distributions over their remaining life expectancy. Most of us also know that if we are married, we can name our spouse as the beneficiary of our IRA, and our spouse can treat that IRA as if he/she was the original owner. This is particularly advantageous if the surviving spouse is younger.

But do you know what happens when an IRA is left to someone who is not a spouse? Do your heirs know the rules? If not, a simple mistake can bring a quick end to the benefit of tax deferred growth or worse, it can result in the entire balance of the IRA being taxed immediately.

Here are just a few of the minefields your heirs can avoid if everyone knows the rules:

(1) No beneficiary is named. If a beneficiary is not named, the IRA will be paid to the owner's estate. Generally, this means that the entire balance of the IRA will be paid out in a lump sum to the estate and passed through the estate in accordance with the will. Even if the spouse is the beneficiary under the will, the spouse will not be able roll the monies back into his/her own IRA. The tax-deferred balance will be subject to tax either at the estate level, if distributed, or at the tax rate of the heirs who receive it. If the executor is savvy, he may know that the IRA does not have to be distributed immediately, but instead can be withdrawn over a period of up to five years. This option may certainly create a better tax answer for the heirs, but it also means that the estate of the deceased must remain open and file tax returns until the entire account is distributed.

(2) Many beneficiaries are named, but the account is not divided into separate accounts for each by December 3lst of the year following the year of death. For example, if an IRA has a 65-year-old beneficiary and a 40-year-old beneficiary, future required distributions for all beneficiaries' accounts will be distributed over the life expectancy of the 65-year-old. This obviously does not prolong tax-deferred growth for the 40-year-old.

(3) A non-person entity is included as a beneficiary along with individual beneficiaries. It is not uncommon for an owner to include a charity to receive a portion of the IRA. If this is the case, the charity's share must be distributed not later than September 30th following the year of death. If this does not occur, the individual beneficiaries' ability to take their share out over their remaining life expectancies is forfeited. Leaving a charity a portion of a taxable IRA can be a great idea because the charitable gift amount escapes income tax. However, a better way to accomplish this is to carve out the desired gift and hold it in a separate IRA with only the charity as the beneficiary.

(4) A non-spouse beneficiary takes a distribution and attempts to roll it over into her own IRA. A non-spouse cannot "rollover" an inherited IRA. A separate account must be opened reflecting in the title that the account is an inherited IRA. Before any money is moved, it is best to have the current IRA custodian open inherited IRAs for all of the named beneficiaries and deposit into each the respective shares. Then, if the beneficiary wants to move the assets, he or she can open a like-titled account at a new custodian and have the custodians execute the transfer.

(5) Beneficiaries fail to take required distributions from their inherited IRAs. A beneficiary of an inherited IRA must begin taking annual distributions in the year following the death of the owner at a minimum rate

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ADDITIONAL TAX DATES

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BENEFIT PLAN DUE DATES
Forms 5500, Annual Return/Report of Employee Benefit Plan.

Year-End	Due Date	With 5558 Extension
2/28	9/30/14	12/15/14
3/31	10/31/14	1/15/15
4/30	12/1/14	2/17/15

Processing of corrective distributions relative to failed 401(k) ADP/401(m) ACP discrimination testing, so as to avoid a 10% employer-imposed excise tax.

Year-End	Due Date
6/31	9/15/14
7/30	10/15/14
8/31	11/17/14

HAPPY BIRTHDAY IRA

CONTINUED FROM PAGE 6

based upon the beneficiary's life expectancy. Failure to take timely distributions results in penalties.

(6) A trust is named as the beneficiary of an IRA. A trust can be a beneficiary; however, naming a trust adds additional minefields and is beyond the scope of this article. Just be aware that if the trust is terminated, the IRA must be distributed and cannot be retitled into inherited IRA accounts for the trust beneficiaries. It will be taxed in the year of termination to beneficiaries of the trust assets.

Yes, it is true that the Individual Retirement Account has hit the big 4 - 0. Birthdays are a good time for reflection, so I recommend that this year, you reflect upon the long-term plan for your IRA. At the very least, review beneficiary designations to ensure that you and your heirs can continue to protect the tax-deferred growth of these investments for as long as possible.

GETTING TO KNOW YOU

BIG CHANGES AT THE TOP!

Effective August 12, 2014, Timothy J. Hammer and Steven D. Thompson became the co-managing shareholders of Schneider Downs as Raymond W. Buehler, Jr. moves to chairman. Get to know Tim and Steve!

TIMOTHY J. HAMMER

What was your first job? Busboy for a catering service
Favorite ice cream flavor? Chocolate chip
Dream vacation? Germany, Switzerland and Austria
When I play Monopoly, my favorite game piece is: the dog
Favorite candy? M & M's
You may be surprised to know that… I like to cook
When I was 10, I wanted to be... a professional hockey player
Childhood hero? Bobby Orr
What is the best advice you've ever received? You can achieve your goals if you truly, really want them
Best book you've read this year? *My Story* by Bobby Orr
Best thing you can cook? Spaghetti and meatballs
Place I could eat anytime? Craft Steakhouse - MGM Las Vegas

STEVEN D. THOMPSON

What was your first job? Busboy – Red Bull Inn (Curinga's) on Route 19 near the Meadows race track. Although I mowed lawns for the years before that.
Favorite ice cream flavor? Without a doubt, Hersheys Cappuccino Crunch
Dream vacation? I have been to London and Paris so my dream would be to visit more of Europe (probably Italy and Germany) with my wife.
When I play Monopoly, my favorite game piece is: the shoe
Favorite candy? I don't really eat candy but when I do, it's hard to beat the Heath Bar
You may be surprised to know that…. I grew up in Southwestern PA (Peters Township) but I went to an all-boys boarding high school in Wheeling, WV (Linsly) graduating with 52 students.
When I was 10, I wanted to be...just like my dad
Childhood hero? My dad
What is the best advice you've ever received? Two great pieces of advice (1) treat people with kindness and respect. And (2) take care of your health for without it, you could lose your independence
Best book you've read this year? *Bruce* by Peter A. Carlin. My kids bought it for me for Fathers Day. It was a great behind-the-scenes view of Bruce Springsteen's career.
Best thing you can cook? Probably something on the grill, but the reality is that my wife is a better griller than I am.
Place I could eat anytime? The Tavern at Penn State

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PROFESSIONAL NEWS

ANGELA M. GILLIS, Internal Audit and Risk Advisory Services Manager, was elected as Vice-Chair of the Board of the Central Ohio Chapter of the Institute of Internal Auditors.

JASON M. RELJAC, Technology Advisors Manager, presented on the cloud at the Catalyst Connection - Technology Megatrends in Manufacturing conference in Pittsburgh in September.

EDWARD R. FRIEL, Audit Shareholder, was appointed to the AICPA Independence-Behavioral Standards Subcommittee.

EUGENE M. DEFRANK, Audit Shareholder, attended and served as a discussion leader for multiple sessions at the PrimeGlobal Construction and Real Estate Conference held in St. Louis from July 9-11.

MICHAEL S. COLLINS, Human Resources Assistant Director, graduated from Leadership Pittsburgh - Class XXX in June.

JAMES B. YARD, Internal Audit and Risk Advisory Services Shareholder, spoke at the PACB National Convention in September. Jim was also appointed Chairman of the Board for Junior Achievement of Western Pennsylvania.

AMY S. KLETCH, Audit Manager, was appointed Co-Treasurer of the Wylandville Elementary School Parent Faculty Association.

PAUL M. MATVEY, Tax Shareholder, was elected to the Board of Directors of the Pittsburgh Field Club for a third term and was elected as Treasurer by the board.

SUSAN M. KIRSCH, Tax Shareholder, was admitted to the International Women's Forum Pittsburgh Chapter. Sue was also appointed to the United Way of Allegheny County's Impact Council. Sue was recently named one of five finalists for the annual Greater Pittsburgh ATHENA Award, which recongizes women who demonstrate excellence in their professions, contribute to their communities and help other women succeed through mentorship.

RAYMOND W. BUEHLER, JR., Chairman, was named Chairman of the 2014-2015 United Way of Allegheny County's annual fundraising efforts.

MARY D. RICHTER, Tax Shareholder, was named as Vice-Chair of the ACHIEVA Board of Trustees.

DEBRA A. STOCKDALE, Director of Client Development, **AMY S. KLETCH**, Audit Manager, **CHRISTY L. SAMEK**, Business Advisory Manager, **ELAINE M. LATOWSKI**, Controller, **JENNIFER R. COWLES**, Tax Senior Manager, **RUTH F. SANKO**, Manager, Internal Financial Reporting, and **MARY D. RICHTER**, Tax Shareholder, participated in the United Way Women's Leadership Council's Day of Caring on September 10th.