

COVID-19 Disclosure Considerations for Upcoming Quarterly Reports

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As companies prepare their quarterly reports for the second quarter, the SEC has steadily provided disclosure guidance related to COVID-19 and its impacts, including [CF Disclosure Guide Topic 9](#) in March, [CF Disclosure Guide Topic 9A](#) in June, and a Roundtable on the subject at the end of June. With three months of experience, the SEC expects reporting companies to quantify the current and expected impacts of COVID-19. This Alert summarizes the guidance provided since Topic 9 was issued. [Click here](#) for a summary of the disclosure guidance in Topic 9.

The Division of Corporation Finance has urged reporting companies to consider the following, to the extent applicable:

Operations

- the material operational obstacles faced by the company and the extent to which it has altered operations to deal with such obstacles;
- the rationale for implementing executive compensation or staff reductions;
- material supply chain interruptions and the impact travel/work restrictions are having on supplies;
- impact on human capital (i.e., ability to work remotely, health, cost of PPE, if significant, and other specific challenges);
- if impairment testing has been performed and if the fair value of the assessed assets do not substantially exceed their carrying value, disclose the percentage by which the fair value exceeded the carrying value to convey the small amount of change in the fair value estimate that could result in an impairment charge; and
- effect of recent social unrest in light of a company's racial and gender diversity and hiring practices;

Results of Operations

- a monthly breakdown of the second quarter, including a summary of expectations, cash flow and results; and
- impact of staff reductions or changes to workforce.

Liquidity

- expected cash burn and capital expenditures;
- overall liquidity and material impacts of COVID-19 (consider a best, middle and worst case scenario for liquidity);
- short-term and long-term liquidity separately;
- recent capital raising transactions;
- availability under financing facilities and, if applicable, the amount that financial covenants prevent drawdowns or the risk of not being able to satisfy such covenants;
- ability to service debt, including payment deferrals or forbearance periods;
- recent changes to credit facilities such as additional collateral, reduced borrowing base, guarantees and limits on additional financing;
- changes to customer agreements;
- recent reliance on supplier finance programs to manage cash flow;
- impact of federal loans received under the CARES Act and the material terms of such loans;
- impact of recent tax relief;
- suspension of stock buyback program;
- cessation of material business or sale of material assets; and
- forward-looking statements and trend guidance, especially with capital raising;

Going Concern

- conditions and events that give rise to substantial doubt about the company's ability to continue as a going concern;
- whether the company defaulted on outstanding obligations; and
- plans to address these challenges and status of implementation of those plans.

Miscellaneous

- the impact of material events that occurred after the end of the quarter;
- be as transparent as possible on the wide range of outcomes as COVID-19 continues; and
- material changes to internal controls over financial reporting and the potential need to disclose material weaknesses.

For questions about disclosure requirements regarding COVID-19 or any other SEC guidance, please contact your GableGotwals attorney or a member of our [Corporate & Securities team](#).



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