



DIX & EATON

BEST PRACTICES FOR QUARTERLY EARNINGS RELEASES

(September 2008)

While there are no rules or regulations specifying what companies must include in their quarterly earnings releases, we believe public companies are best served by providing clear, insightful, timely and consistent information to facilitate transparency and further enhance investor confidence. Providing the right information has proven to be the most effective way to build credibility, disarm critics and ensure accurate perceptions about the company's performance.

Because companies differ fundamentally in their business models, management teams must use their best judgment on what information will provide stakeholders the appropriate level of transparency as well as enhance the quality and understanding of their earnings releases. The principal objective is to encourage an open and effective flow of information between corporations and all of their stakeholders.

The following is a detailed overview of the information that should be included in a quarterly earnings release:

Headline and Subheads

- Headlines present the most important news first. Keep in mind that sometimes the headline is the only part of the release that investors catch a glimpse of over the wire services. A good headline may prompt the investor to want to read more. Dix & Eaton usually recommends, if possible, that headlines not just read "X Company Announces Earnings," but rather something like "X Company's Fourth-Quarter Earnings Reach \$0.36 Per Share."
- Subheads can provide additional clarity. Two or more subheads, or highlights, that provide key information to supplement the headline can be helpful to the reader. Subheads could reflect pertinent financial information, developments that reflect the company's goals or strategies, or other key messages. The objective is to enable the reader to quickly get the general idea of the most important aspects of the release. Note, however, that a subhead is just a quick summary of a key point, and anything mentioned in a subhead should be discussed in more detail in the body of the release.

Opening Paragraph

The introduction should include:

- The city and state the company is headquartered in
- The complete date of the release
- The company's complete name, followed by the company's equity market and ticker symbol
- A brief business description of the company, if appropriate
- A brief summary of the most important news, usually sales and earnings performance, before addressing explanatory details in subsequent paragraphs

Discussion of the Quarterly Financials

Reporting of the current quarter's results should follow a consistent format:

- Sales/revenues and the percentage change compared with the year-ago quarter's sales/revenues
- Net income and the percentage change compared with the year-ago quarter's net income
- Diluted earnings per share and the percent change compared with the year-ago quarter's diluted earnings per share

The comparisons specified should be with the year-ago comparable quarter rather than sequentially with the prior quarter. Sequential comparisons can also be included when they add particular insight or perspective on performance or a key trend. With few exceptions, in making comparisons of periods, the terms "compared with," "versus," "vs.," or "over," are all acceptable while "compared to" is not.



Discussion of the Year-to-Date Financials

The year-to-date results should follow a similar consistent format:

- Current-year sales/revenues, the prior year's year-to-date sales/revenues and the percentage change
- Current-year net income, the prior year's year-to-date net income and percent change
- Current-year diluted earnings per share and the prior year's diluted earnings per share

Discussion of Charges/Gains/Losses

If there are significant charges/gains/losses that impacted financial results, the quarterly (and/or year-to-date) results should specify:

- Aggregate amount of charges, extraordinary gains or losses
- After-tax profit from operations (profit before charges and gains, not operating profit), compared with the year-ago period's profit from operations, and percent change
- Do not cite profit from operations on a per-share basis. SEC guidance suggests that companies avoid this calculation, as its use may confuse some investors about the company's earnings.
- Explain the charges, extraordinary gains or losses and identify which quarter(s) were affected.
- Note and explain all the components that are included, and specifically say that they are included in the total amount. Also, it is wise to explain how these charges or other items impact year-to-date (or full-year) results. Such items include:
 - Charges and what they are for
 - Extraordinary gains
 - Extraordinary losses
 - Equity losses
 - Accounting changes that cause a restatement of current or prior-year results

Non-GAAP Financial Measures

- Under recent SEC regulations (Regs. G and S-K), if a company uses non-GAAP financial data in earnings releases, the information must be reconciled with the relevant GAAP data in the release.
- The GAAP information must be presented with the same or greater prominence as, and in close proximity to, the non-GAAP information.
- Explain why the non-GAAP information is useful.
- Non-GAAP information should not appear in the release headline.
- Although discrete non-GAAP measures can be included in disclosures with the appropriate GAAP reconciliations, according to recent SEC Staff comment letters it is inappropriate for a company to include a full non-GAAP income statement in its releases and filings.

Senior Management Quotes

One or more quotes are typically provided by the Chairman, CEO or President to:

- Place the quarter's results in the context of the company's goals and/or strategies. Allude to/reiterate the company's goals and strategies, reminding readers what the company is trying to achieve, e.g., "Our first-quarter results reflect the success of our strategy to", or "I am pleased to report that we achieved our goal for sales growth...." Aim to position senior management as strategic leaders by having the selected representative comment on the results from a strategic perspective.
- Provide insight or perspectives on the financial performance or industry conditions. In the quote, never simply state or restate results or other information that is better addressed elsewhere in the text.
- Show that management is in control and the company is not at the mercy of market conditions. Although it may be noted that external factors or conditions contributed to the results, they should not be blamed (or credited) as the sole reason for the results.
- Answer the question, "What is management doing to maximize results in the current situation?"



Key Events and Changes

- Explain key events and changes, how they affected results, and what actions are being taken to address them, if appropriate.
- Identify any share or debt repurchase activities.
- Include significant events such as acquisitions or restructurings that were announced during the quarter. Do not assume that all readers are aware of earlier announcements.

Gross Profit, Cash Flow and Other Measures

- Include gross profit or margin compared with the prior-year quarter, and percent change.
- Include cash flow compared with cash flow for the prior-year quarter, and percent change.
- Discuss other ways to measure business performance, such as capital expenditures, R&D expense, order backlog, and non-financial measures such as intellectual capital and patent awards.

Segment/Line of Business Information

Investors expect performance updates on the segments that a company reports in its 10-K and 10-Q filings. The segment information varies by industry, but should be consistent for a company from release to release and generally should include:

- Segment sales/revenues for the quarter and year-to-date period, comparisons with year-ago quarterly and year-to-date periods, and percent change
- Segment operating profit for the quarter and year-to-date period, comparisons with year-ago quarterly and year-to-date periods, and percent change
- Price, volume, product mix and currency exchange impacts
- Major market factors and trends affecting results
- Growth strategies
- An optional quote can provide additional insight into a segment's performance. To avoid redundancy, however, the quote should be used only to highlight points that apply to the specific segment. Messages relating to all segments should be summed up in a general quote outside the segment sections.

Outlook

Most often, the outlook section consists of a quote or quotes from senior management as well as other statements attributed to the company. Information in this section typically includes:


- Forward-looking insights (perspectives on the company and/or market conditions) at least for the next quarter, and for the year, if possible.
- Financial guidance, if the company is willing to provide it. This guidance should be included in the release and not just discussed in the earnings conference call. Consider providing estimate ranges for sales/revenues and earnings per share for the next quarter, the full year or both.
- Explanation of the assumptions on which the estimates are based.
- Discussion of any changes to prior forecasts and the drivers of those changes.

Conference Call/Webcast

- Include the date and time (avoid "standard" or "daylight," simply use "Eastern time" or "ET," or the appropriate time zone).
- Supply the webcast URL for anyone who wishes to listen to the live call or replay on the Web site. If desired, include the telephone number and access code (if any) for those who wish to participate in the call, as well as the call-in replay information.

Forward-looking Statement

- A written statement that uses the safe-harbor language to reduce liability for forward-looking statements should include specific risk factors that may cause results to differ materially from those suggested by the forward-looking statements.
- List the major company-specific and situation-specific risk factors. Judgment may dictate listing more or fewer risk factors depending on the situation.

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- It is not permissible to refer readers solely to SEC filings for the safe-harbor statement and risk factors; this is allowed only for oral statements.
 - The forward-looking statement should not be “boilerplate” text that is identical from one release to another. It should only be included when a release contains a forward-looking statement and should reflect a good-faith attempt by management to list those specific factors which may impact future performance discussed in that release.

About the Company

The company description should include:

- Company’s complete name and a brief description of its principal business or businesses
- Leadership positions in markets served
- Sales for the previous year
- Company Web site URL

Contact Information

- Provide the contact’s name, title, telephone number and e-mail address.
- Some companies identify one contact for the investment community and a separate contact to serve the needs of the media.
- The contact information can be listed at the top of the release or at the bottom of the final text page.

Financial Statements

- Provide a complete income statement, with current and year-ago quarterly numbers, and current year-to-date and prior-year year-to-date comparable period numbers. The income statement should include number of diluted and primary shares outstanding for each time period listed.
- Provide a complete balance sheet, with current quarter and end of prior-year numbers.
- Provide a cash flow statement if the information is available.
- Include consistent supplemental company or segment information.
- If providing non-GAAP information, include the necessary reconciliation statements.
- To avoid confusion, label quarterly and year-to-date numbers on all the financial statements as either audited or unaudited.
- Be sure that the dates at the top of each column of numbers are correct.
- Carefully proofread everything in the financial statements -- words as well as numbers.
- Compare statements with the previous quarter’s or year’s statements to ensure nothing is omitted.

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