Anne –

Thanks for reaching out. Couple of thoughts. These are anecdotal observations not based upon an empirical analysis. Some of my colleagues and I may undertake a more systemic review this week.

1) ***FIRST QUARTER VS. SECOND QUARTER*** – ***As we expected, the first quarter results were a tale of two cities or tale of two quarters*****.** With more normal operations for the first 2-2 ½ months of the quarter versus the second ½ of March. For some essential business they benefited for others they collapsed.

2) ***EARNINGS CALLS*** – ***Most of the earnings calls focused on the historical results of the past quarter – with indications of cash and liquidity position at the balance sheet date, the pause on share repurchases, the decrease in capital expenditures going forward, and additional borrowings. Interestingly, some companies have provided reassurance on dividends (JPM, UNP) without providing forward-looking information to support how that might be possible***.

   There were a few remarks regarding "facts" or events as of the April reporting date. There was more discussion of the impacts into April (as they had already occurred) and the go forward-look or prospects in the Q&A session of the earnings call than in the prepared remarks on the calls I listened to. For example:

   a) JP Morgan noted their economic prospects were event worse at the day of the earnings release than at the date of the quarter close. See Item 4 below.
   b) Berkshire Hathaway noted they sold their airline stocks in April.
   c) Union Pacific noted their traffic was down 22-25% in April and that they had stored and embarrassingly large number of locomotives in April (no number provided) and furloughed workers (specifics were sparse.)

   See the discussion of guidance and forward-look below.

   Also see the subsequent events information.

3) ***THE FORWARD LOOK: GUIDANCE VS. PANDEMIC OUTLOOK AND SCENARIOS*** – As has been widely reported companies are pulling guidance. One of my advisory council members wrote an interesting blog on guidance on Friday. Organizationally, we support long-term rather than short-term guidance. Our colleague reminds us of the perspective in his blog that if companies don't provide the guidance, investors will make it up.

While I get a company's desire not to provide guidance with such a high degree of uncertainty, I found the Union Pacific earnings (transcript and audio) call fairly representative of the dance between what investors want and what companies are not willing to give them. It's a long call, but you might tell the SEC its worth a listen not only for the discussion about guidance and forward-looking information but about the US supply chain. As with most of the calls the limited discussion post March 31 is about facts that have occurred in April. Not much on what they expect beyond that. The most interesting discussion in all the calls on this point is in the Q&A with analysts. With UNP you learn:

1) They have scenarios regarding impacts of the pandemic on business - and that they have shared them with credit rating agencies as a part of their debt issuance – but they explicitly say they are not sharing this or several other forward-looking metrics. The question is explicitly asked by investors.
2) Investors also ask a series of questions with respect to the nature of fixed versus variable costs. Only discussed in broad strokes.
3) There is discussion of impacts on revenue for various industrials segments (oil and gas, automotive, coal etc.)
4) As noted above, the most instructive thing they said is that train traffic is down 25%.
5) Interestingly, though widely reported there is no discussion in the earnings call of the fact that compensation has been cut 25% across the board for management and the BOD and they are requiring 1 week a month of unpaid leave for non-union employees. There is brief mention of it by an analyst at the very tail-end of the call. I have yet to look to see and study the degree discussed in the Form 10-Q. There is no Form 8-K on the matter.
6) They reassure investors of their desire to keep the dividend. They note a target payout ratio of 40%, but they don't give you a complete picture as to the earnings prospects that will support that.

Overall, there are nuggets of information for investors to attempt to model the future results – which gets to the point of the blog by my advisory committee member above – but not a clear forward-looking line of sight.

On many calls there was discussion of whether the recovery would be a V, a W, or a hockey stick, but limited discussion, understandably, of their view – but I'm sure they have modelled the possibilities. See also comments of JPM excerpted below where they note a recovering in back half of the year.

The SEC has encouraged companies to provide information not only for investors but for policymakers. UNP moves a vast majority of goods in the supply chain from California to Illinois and the Gulf of Mexico to Canada. The SEC may want to listen to the call and see if they – along with other companies – have met the spirit of their request.

4) ***EARNINGS RELEASES, FILING DATES & SUBSEQUENT EVENTS*** **–** Union Pacific filed their Form 10-Q on the day of the earnings release (4/23) so they have no communication update requirement between the earnings release and the filing of the Form 10-Q. As noted above, they provide some indicators of the slow-down in traffic through the April earnings release date.

Other companies have a substantial time period between their earnings call and filing of the Form 10-Q. JP Morgan is an example of that. Their earnings release was 4/11. As of 5/2 they had not filed their Form 10-Q. The world is moving quickly so the question is one of what, if any update, should be provided during this month of extreme financial down-turn between the earnings release and the Form 10-Q filing.

If you consider the remarks JP Morgan made in its 1Q call, you will note that when the quarter closed they expected a 25% GDP decline and unemployment above 10%. In the call – some 11 days after the quarter close – they now expect a 40 % GDP decline and unemployment above 20%. They articulated this in the analyst Q&A but did not provide an update of the impact on their credit losses.

So, Mike, as we closed the books for the first quarter, just to give a context, we were looking at an economic outlook that had GDP down 25% in the second quarter, unemployment above 10%. It's just important to note that that kind of gives you a frame of how to think about it, but there's a lot more that goes in to our reserving, including management judgment about some — like, world-class risk management and finance people and also other analytics. And so, that just kind of gives you a frame of reference. But there, we did think about a number of other scenarios that we should contemplate in reserving and we also thought about the impact, what's our best estimate of the impact of these extraordinary government programs as well as our own payment relief programs.
Since then, as I noted in my prepared remarks, our economists have updated their outlook and now have GDP down 40% in the second quarter and unemployment 20%. That's obviously materially different. Both scenarios though do include a recovery in the back half of the year.

I know from some discussion regarding the CECL model – that was held with the SEC regarding the need to update the January 1, 2020 adoption amounts – that the events of the first quarter were not consider a Type One (or adjustable subsequent event) but a Type Two (non-adjustable) event. Here you have a bank saying in the 11 days since the quarter close, but before the release of the numbers, their expectations have deteriorated but they have not incorporated that into their model, but that there will likely be another charge. As a trained accounting I understand a decision has been made about type one versus type two – I'm not sure I follow the detailed technical argument in the literature.

Irrespective of that, as an investor if the Form 10-Q is to be issued May 15, or for other companies availing themselves of the deferral possibly later, the SEC may want to remind companies that the filing date being 4-6 weeks, or more, from the earnings release date means companies have more insight and what their obligations are to share that insight.

5) ***NON-GAAP MEASURES*** – I have had a couple of calls from reporters on non-GAAP measures. Below are several examples. I share them as I think ***the SEC may need to remind companies of what are explanations of impacts of COVID-19 and what constitutes the creation of a new Non-GAAP measure when making that explanation that necessitates a reconciliation. Some helpful reminders may be useful***.

ATT EXAMPLE – Consider for example the case of ATT. In their earnings release – prominently displayed on the second bullet at the top of page one – they provide a COVID adjustment to their Adjusted EPS. I guess that's adjusted-squared.

News Release

AT&T Reports First-Quarter Results

First-Quarter Consolidated Results

- ***Diluted EPS*** *of $0.63 as reported compared to $0.56 in the year-ago quarter*
- ***Adjusted EPS*** *of $0.84 ($0.89 without COVID-19 impact) compared to $0.86 in the year-ago quarter*
- ***Cash from operations*** *of $8.9 billion*
- ***Capital expenditures*** *of $5.0 billion*
- ***Free cash flow*** *of $3.9 billion*
- ***Consolidated revenues*** *of $42.8 billion*

"The COVID pandemic had a 5 cents per share impact on our first quarter. Without it, the quarter was about what we expected — strong wireless numbers that covered the HBO Max investment, and produced stable EBITDA and EBITDA margins," said Randall Stephenson, AT&T Chairman and CEO.

ATT provides this double-adjusted EBITDA but goes on later to say they did not "adjust" for it. That statement is unclear.

First-quarter net income attributable to common stock was $4.6 billion, or $0.63 per diluted common share, versus $4.1 billion, or $0.56 per diluted common share, in the year-ago quarter. Adjusting for $0.21, which includes merger-amortization costs, a one-time spectrum gain, merger- and integration-related expenses and other items, earnings per diluted common share was $0.84 compared to an adjusted $0.86 in the year-ago quarter. The company did not adjust for COVID-19 costs of about $0.05 in the quarter, with more than half of those costs expected to have only short-term impacts.

What we presume from further review of their investor presentation is that it means they did not isolate and adjust the segment information.

COVID-19 is mentioned 9 times in the investor presentation. Several times in the discussion of revenue, expenses and metrics in the discussion of segments – without quantification. (See clips in **Appendix A**.) A separate slide is then presented that outlines the impacts. While ATT explains in the press release, and in the start of the text to the table, the approximately $400 million, and $.05 impact of expenses, they start this table with the impact on revenue. The top of table is an analysis of the impact on revenue along with an estimated EBITDA impact – with discussion or highlight of these in the segment analysis. Further, the revenue analysis is labeled differently from the expenses analysis/impact which says these items were included in reported results. So, were these not included in the results? If it was revenue lost then probably not, but they take if further to say the impact on the hypothetical EBITDA. And, in some cased the impact to revenue is negative but the impact to EBITDA is positive. They clearly need a reconciliation of this item or a more complete description. They aren't backing something out but giving you an projection of what was not included.

Q1 2020 AT&T EARNINGS

INVESTOR BRIEFING

COVID-19 Financial Impacts

COVID-19 UPDATE

In March 2020, the World Health Organization designated the coronavirus (COVID-19) a pandemic and the President of the United States declared a national emergency. To date, COVID-19 has surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns.

Interruption caused by COVID-19 and measures taken to prevent its spread both domestically and internationally have impacted our results of operations. In the first quarter of 2020, we recognized approximately $430 million, or $0.05 per share, of incremental costs associated with bad debt reserves, voluntary corporate actions taken primarily to protect and compensate front-line employees and contractors, and WarnerMedia production shutdown costs. In addition to these incremental costs, our operations and comparability were impacted by (1) the cancellation of the NCAA Division I Men's Basketball Tournament, resulting in lower advertising revenues and associated expenses, (2) closures of retail stores, contributing to a decline in wireless equipment sales, with a corresponding reduction in equipment expense and (3) the imposition of travel restrictions, driving significantly lower wireless roaming services that do not have a directly correlated expense reduction.

Three Months Ended March 31, 2020		
Dollars in millions	**Estimated Revenues Impact**	**Estimated EBITDA Impacts**
Revenues:		
WarnerMedia Advertising and Other	$ (400)	$ 5
Wireless Equipment	(175)	35
Wireless Service	(30)	(25)
Total	**$ (605)**	**$ 15**

Three Months Ended March 31, 2020	
Dollars in millions	**EBITDA Impacts Included in Reported Results**
Expenses:	
Bad Debt	$ (250)
Commissions/Compassion Payments	(114)
Production Shutdown Costs	(56)
Other Costs	(13)
Total	**$ (433)**

Boston Beer Example – Boston beer explains in their [earnings release], the impact on revenue and expenses of COVID-19 which is fine, but they then go on to provide the gross margin with and without the impact of COVID-19. They don't provide a reconciliation to the numbers used in the computation. In my view that is a non-GAAP gross margin that necessitates a reconciliation. This is less egregious, but still something that would be useful to investors to provide.

> **Highlights of this release include:**
>
> - Reported depletions increased 36% from the comparable 13-week period in 2019. Excluding the addition of the Dogfish Head brands beginning July 3, 2019, depletions increased 30% from the 13-week comparable period in 2019.
> - Reported shipments increased 32.2% from the 13-week period in 2019. Excluding the addition of the Dogfish Head brands beginning July 3, 2019, shipments increased 27.5% from the 13-week period in 2019.
> - First quarter gross margin of 44.8% was 4.7 percentage points below the 2019 first quarter margin of 49.5%. Excluding the Company's current assessment of the impact of estimated COVID-19 returns and other related direct costs, first quarter gross margin was 46.8%.

6) ***FORM 8-KS*** **–** There have been many interesting Form 8-Ks. We have not yet had the time to translate all of these back to earnings releases and the Form 10-Qs are only now just coming in. These seem to be of items that are unequivocally significant. ***How these have manifested into the details of the earnings call, financials and results is something we haven't undertaken yet.*** There are many interesting items to consider.

7) ***FORM 10-QS*** – Many times, the Form 10-Qs are an after-thought for investors. This should not be the mindset for companies or investors this quarter. Companies obligations under the Securities Acts for the Form 10Q are more substantive than for the earnings release. Investors should expect companies to reconsider all the disclosures made in the Form 10-K as everything that existed in February when most were filed is completely different today. Risks have now become realities. If you read my blog on JP Morgan's earnings release, I highlight items such as fair value disclosures that are not included in the earnings release but should be of interest to investors when they appear in the Form 10-Q.

Personally, I think analysts and investors should read these documents more closely than the first quarter earnings release. Based upon my review of CalcBench Data, the Form 10-Qs began flowing on 4/28 with a heavy drop of them on Thursday (4/30) and Friday (5/1). Even this morning there are a lot. So, not much time to consider these. Probably about ½ for the SP500 and DOW are in.

Most footnotes are an analysis of the balance sheet not the income statement – and that may be a good thing now. We will be looking at segment disclosures, risk disclosures, MD&A and liquidity disclosure more on that later. ***I might recommend the SEC consider the Form 10-Q disclosures after investors have had time to assimilate and integrate the information in Form 8-Ks, earnings calls, and Form 10-Qs. There is a lot to put together and digest for investors right now – but those learnings may be useful for 2Q.***

8) ***IMPAIRMENTS*** – We are hearing anecdotally that many people did very cursory first quarter impairment analysis unless there was a complete capitulation in the market for their products as in the case of Baker Hughes. Its hard to say the future is going to be better than today when oil futures are negative. We understand a more serious analysis may be underway for the second quarter, but

I wanted to pass this along. If there is goodwill, it should be discussed first, second, third quarter (when the traditional) analysis is undertaken.

I did a quick extract for 1Q 2020 of the goodwill impairments for the S&P 500. Of the 259 companies reporting, there is nearly $23 billion of impairments. $15 billion is Baker Hughes with the oil sector making up another $3 billion-ish. The others are Carnival, about $700 million, and some retail (Estee Lauder). But in total only 14 of 259 companies have a charge you can detect through XBRL. The SEC may want to shed some light on this.

9) ***MD&A PROPOSED RULE*** – On a related but ancillary note, at **Appendix B** I have included a draft of an article/blog that I will likely have placed this week that also highlights this related issue. That issue being, that the SEC needs to re-evaluate the Proposed Rule to remove items such as the contractual obligations table. The COVID-19 pandemic highlights its importance.

There will be more insights after we get into the Form 10Qs, but these are a few I can offer in this short time frame. I hope you and the SEC will find useful. I've tried to include examples to illustrate the points.

I may ask that we do a survey of members in the coming weeks to gather more insights before the production of 2Q. I can't promise anything. I will let you know.

Again, thanks for reaching out. Please convey our thanks to the SEC for their efforts to remind companies of their reporting obligation and that we believe the importance of the quarterly reporting process is more evident than ever at this time. Even with limited forward-looking information so far, there are insights on the earnings calls and the related dialogue.

Feel free to share this with SEC Staff. I would add that I focused on content and not form or grammar – so no judgements. Substantive over form and all that.

Best,

Sandy

APPENDIX A – ATT EXAMPLES

Communications

FINANCIAL HIGHLIGHTS

Revenues	▸ $34.2 billion, down 2.6% year over year due to declines in Entertainment Group, wireless equipment and Business Wireline that were partially offset by gains in wireless service revenues
Operating Expenses	▸ $26.0 billion, down 4.1% year over year reflecting lower Entertainment Group and Mobility expenses
Operating Income	▸ $8.2 billion, up 2.4% year over year; operating income margin of 24.0% compared to 22.8% in the year-ago quarter

Note: All subscriber counts exclude customers for whom we have agreed not to terminate service under the FCC's "Keep Americans Connected Pledge." For reporting purposes, the company counts these subscribers as if they had disconnected service.

MOBILITY

Revenues	▸ $17.4 billion, up 0.2% year over year due to an increase in service revenues more than offsetting declines in equipment revenues ▪ **Service revenues:** $14.0 billion, up 2.5% year over year, driven by prepaid subscriber gains and postpaid phone ARPU growth ▪ **Equipment revenues:** $3.4 billion, down 8.0% year over year with continued low postpaid upgrade rates, including impacts from COVID-19 store closures
Operating Expenses	▸ $11.6 billion, down 3.7% year over year due to lower equipment costs from lower volumes, lower advertising and promotional costs, and cost efficiencies, partially offset by higher bad debt expense
Operating Income	▸ $5.8 billion, up 9.0% year over year; operating income margin of 33.3%, compared to 30.6% in the year-ago quarter
EBITDA	▸ $7.8 billion, up 7.0% year over year; EBITDA margin: 45.0%, up 280 basis points versus the year-ago quarter (EBITDA margin is operating income before depreciation and amortization, divided by total revenues) ▸ Wireless EBITDA service margin: 56.1% compared to 53.7% in the year-ago quarter (EBITDA service margin is operating income before depreciation and amortization, divided by total service revenues)

ENTERTAINMENT GROUP

Revenues	‣ $10.5 billion, down 7.2% year over year due to declines in premium and over-the-top (OTT) TV subscribers and legacy services ▪ **Video:** $7.4 billion, down 8.4% year over year due to declines in premium and OTT TV subscribers, partially offset by higher premium TV and OTT ARPU ▪ **IP Broadband:** $2.1 billion, up 1.9% year over year due to higher ARPU resulting from pricing actions and an increase in high-speed fiber customers
Operating Expenses	‣ $9.2 billion, down 6.8% year over year due to lower content costs resulting from fewer subscribers and ongoing cost initiatives partially offset by higher annual content rate increases and higher deferral amortization expense, including a second-quarter 2019 update to expected subscriber lives
Operating Income	‣ $1.3 billion, down 9.7% year over year; operating income margin: 12.7% compared to 13.0% in the year-ago quarter
EBITDA	‣ $2.6 billion, down 6.3% year over year due mostly to lower video revenues and higher deferral amortization expense; 25.0% EBITDA margin, up from 24.7% in the year-ago quarter

SUBSCRIBER METRICS

- **Premium TV** subscribers (which includes DirecTV, U-verse and AT&T TV subscribers): 897,000 loss due to competition and customers rolling off promotional discounts as well as lower gross adds from the continued focus on adding higher-value customers
- **AT&T TV NOW** subscribers: 138,000 net loss due to higher prices and less promotional activity
- Total broadband subscribers: 73,000 net loss impacted by competition in slower speed territories and loss of bundled video subscribers, partially offset by recent higher demand and lower churn due to the COVID-19 crisis
  - 209,000 fiber net adds
- 90% of all broadband subscribers on AT&T's fiber network subscribe to speeds of 100 megabits or more. Broadband customers with speeds of 100 megabits or faster increased more than 50% in the past year.
- AT&T now markets its 100% fiber network to 14 million customer locations in parts of 85 major metro areas. Broadband penetration in the fiber footprint continues to trend significantly higher than in AT&T's non-fiber footprint, with penetration rates increasing the longer we have fiber in a market.

HOME BOX OFFICE

Revenues	• $1.5 billion, down 0.9% year over year reflecting flat subscription revenues and a decrease in content and other revenues • **Subscription:** Essentially flat year over year reflecting digital and international growth, partially offset by lower domestic linear subscribers • **Content and other:** Decreased due to lower content licensing
Operating Expenses	• $1.1 billion, up 13.9% year over year primarily due to higher programming and expenses related to the upcoming launch of HBO Max, partially offset by lower marketing expenses
Operating Income	• $423 million, down 25.4% year over year; operating income margin of 28.3% compared to 37.5% in the year-ago quarter

WARNER BROS.

Revenues	• $3.2 billion, down 7.9% year over year due to declines in theatrical revenues, partially offset by higher television revenues • **Theatrical product:** Decreased primarily due to unfavorable comparisons to the prior-year quarter, which included carryover revenues from the theatrical release of *Aquaman* in addition to a more favorable mix of home entertainment releases • **Television product:** Increased primarily due to higher revenues driven by licensing
Operating Expenses	• $3.0 billion, up 0.7%, primarily due to higher bad debt and film and television production costs, including the impact of the production hiatus related to COVID-19, partially offset by lower marketing expenses
Operating Income	• $249 million, down 54.5% year over year; operating income margin of 7.7% compared to 15.5% in the year-ago quarter

APPENDIX B – PROPOSED MD&A RULE

COVID-19 HIGHLIGHTS SEC'S PROPOSAL TO ELIMINATE IMPORTANT INVESTOR INFORMATION IN MD&A NEEDS SUBSTANTIAL RECONSIDERATION

The comment period for the SEC's *Proposed Rule: Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information* ("Proposal") closed this week. Investors weighed in.

In broad strokes, the Proposal seeks to reduce the "burden" on preparers of providing information such as removing the contractual obligations table and selected financial data and provides flexibility for registrants in the quarters they choose to compare results. The thing is, the burden isn't being removed, just shifted from preparers to investors, and it is more than a shift, there is a net information loss to investors. Investors, not management, pay for these disclosures and they want them to remain.

CFA Institute, along with the Council of Institute Investors, weighed in with a comment letter and noted that removal of such information is a net ***subtraction*** for investors. Key items like the contractual obligations are being removed at a time that the COVID-19 epidemic proves they are more valuable than ever. We believe they should be enhanced, not removed. Before finalizing this Proposal, we believe it is essential that the SEC consider how such changes would disadvantage investors in times of market stress such as we are experiencing with the COVID-19 pandemic.

Contractual Obligations – The Proposal would **eliminate** the requirement to present contractual obligations in a single, complete table, on the theory that the information is already contained in the financial statement footnotes or somewhere else in the document. While that might save a registrant some time, it really just transfers the burden to investors and analysts. The COVID-19 situation highlights the need for this table as investors need to have at the ready a single disclosure that shows the totality and timing of a company's contractual obligations. Imagine not having this table amidst the economic and liquidity crisis brought on by the pandemic – investors would be scrambling to compile the information by picking through registrant filings. We highlight in our comment letter academic research that demonstrates the usefulness of this information in periods of economic stress. Further, the table is a valuable tool for management in assessing their obligations in a single location. As they say, what gets measured and disclosed gets monitored. Rather than eliminating the table, we believe it should be enhanced to include purchase obligations, off balance sheet obligations and other cash requirements.

Selected Financial Data – The Proposal also would **eliminate** the five-year selected financial data, again on the premise that this a burden on preparers and that investors can get the information from other sources. This is not true. If current period financials are modified for accounting changes or reclassifications – such as those related to discontinued operations – there is no comparable information available to investors in the information ecosystem. Important information would be lost.

Comparable Quarters – The Proposal also allows companies to **choose** comparison of current period results to either the prior quarter (sequential) or the prior year quarter. We don't believe this flexibility should be allowed as the period chosen is likely to be the one with the most favorable changes.

Tabular Presentation of MD&A Would Highlight Skimpy "Analysis" – Our view is that Management Discussion and Analysis is often woefully short on "Analysis." Such analysis is essential in the current economic environment. We believe the SEC needs to go further in requiring companies to provide discussion of the root causes of changes in results. We also believe the SEC should require a tabular presentation of the dollar and percentage changes in line items, as it will likely show that, once tabularized, MD&A includes very little *analysis* and is simply a rote recitation of increases and decreases in financial statement line items.

Structuring the Data – Hand-in-hand with tabular presentation is the need for tagging of tabular and textual data in all sections within MD&A as well as the selected financial data and contractual obligations. The Proposal doesn't include a requirement to tag and structure the data and so doesn't move forward the electronic consumption of data or reflect how investors consume registrant filings.

In short, CFA believes that now is not the time to eliminate important investor information; rather, it is a time to enhance and improve some of the key sections of registrant filings.