

Shenandoah Asset Management, LLC

EPS Reporting Analysis: (Calendar 2008)

121 Shockoe Slip
Richmond, VA 23219
(804) 343-1400
cmclennan@samllc.com

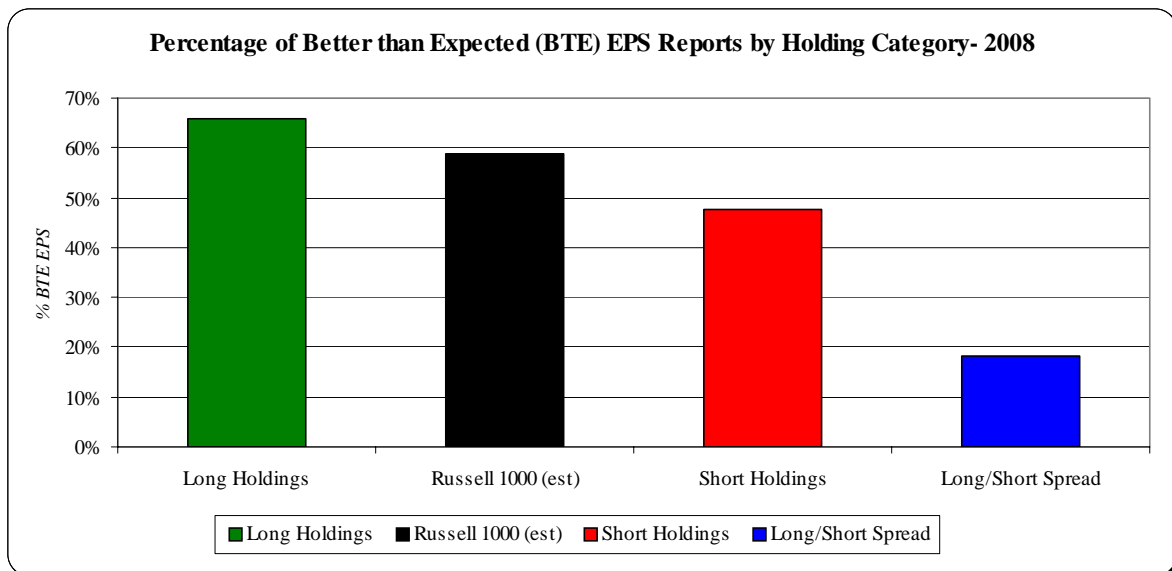
At Shenandoah we monitor the quarterly earnings reporting performance of our benchmark relative stock positions. We do this to measure the capacity of our Earnings model, which is an important component of our stock selection algorithm, to predict non-consensus, better than expected (BTE) and weaker than expected (WTE), quarterly earnings results. In addition to measuring the earnings reporting performance of our benchmark relative positions, we also estimate the earnings reporting performance (% BTE) of the market, proxied by stocks that comprise the Russell 1000 index.

The focus of this analysis is to 1) highlight the percentage of companies that were able to beat the quarterly consensus EPS estimate and 2) to estimate the performance impact pre and post of a BTE or WTE EPS report on a company's stock price.

Highlights:

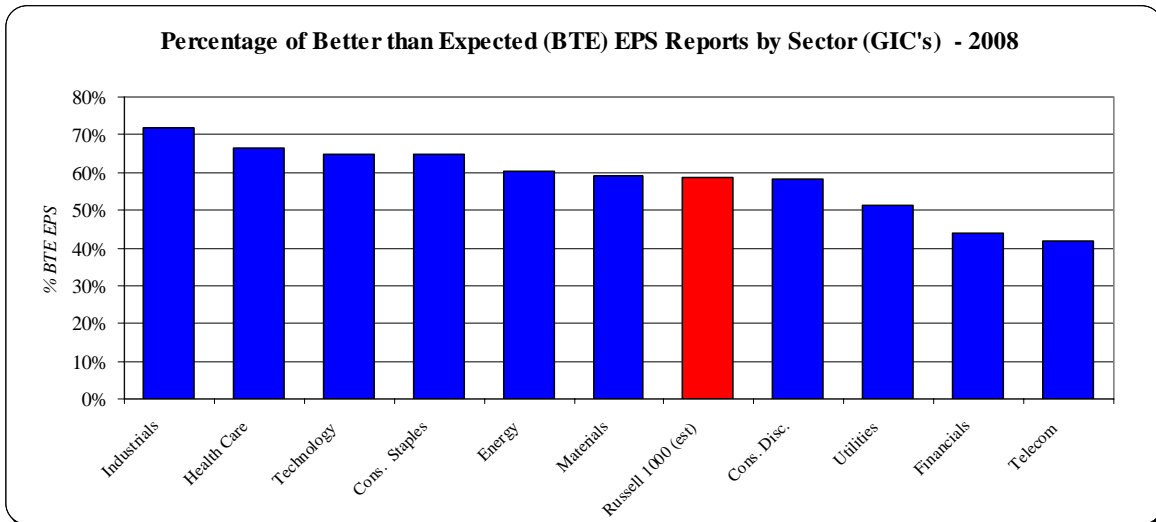
- A greater percentage of our benchmark relative Long positions reported BTE EPS results vs. Short holdings and the market.
- An historically low percentage of BTE EPS reports in the Financial sector dampened the aggregate level of BTE EPS reports throughout 2008.
- After a strong start, the percentage of BTE EPS results (ex Financials) decreased as the financial and economic crisis worsened. This result indicates that managements and analysts underestimated the impact of the crises on non-financial companies.
- On average, the one day performance spread gained by holding companies that reported BTE EPS results and avoiding (shorting or benchmark relative under-weights) stocks that reported WTE EPS results was +4.6%.
- Through March 2009 we have seen further deterioration in the percentage of companies reporting BTE EPS results.

EPS reporting Performance by Holding Category vs. Russell 1000 index



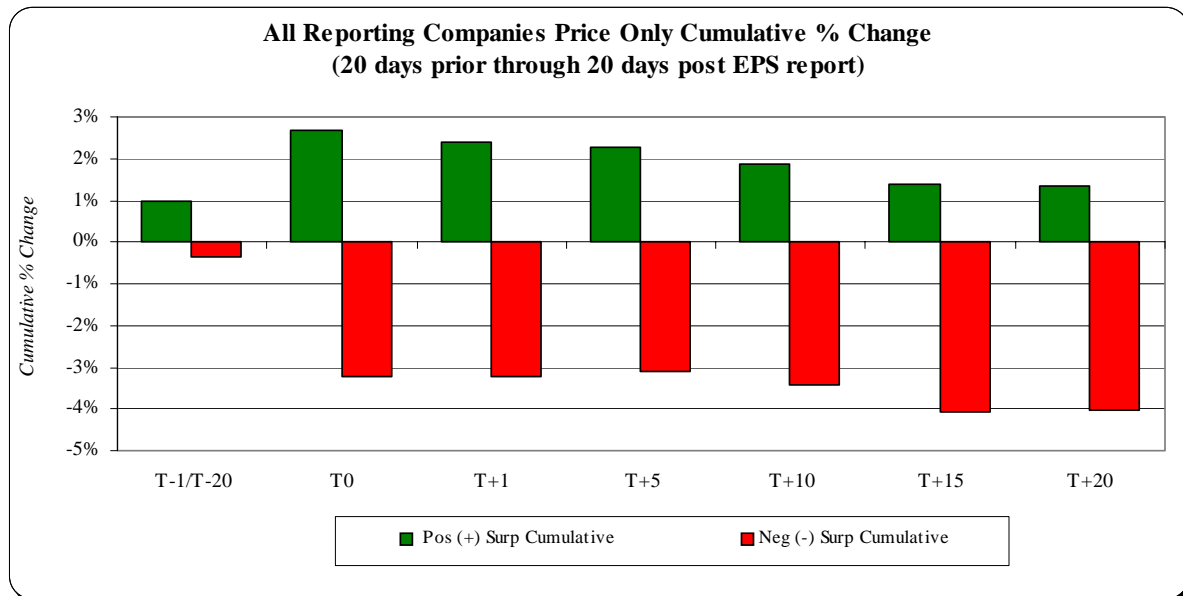
- While down slightly from the historic average of 70%, our Long holdings (66%) reported BTE EPS results more often than the broad market (59%) and our Short Holdings (48%).
- The positive 18% spread between Long and Short holdings reporting BTE EPS results was modestly above the 15% historical average.
- As the financial and economic crisis deepened we saw a decrease, across all reporting categories, in the percentage of companies that reported BTE EPS results.
- The downward trend in BTE EPS results has continued into the first quarter of 2009.

EPS Reporting Performance by Sector (GIC's) - Russell 1000 Index



- Weakness in Financial sector EPS reporting (BTE 44% vs. 70% historically) was a drag on benchmark reporting performance throughout 2008.
- As the financial and economic crisis worsened, companies from a broad range of sectors found it more difficult to beat consensus earnings estimates. The result was a downward trend in ex Financial sector BTE EPS results; down from 63% pre-June '08 to 58% in the second half of the year.

Average Stock Performance for Companies Reporting BTE or WTE EPS results



- Companies that reported BTE/WTE EPS results outperformed/underperformed (market adjusted) in the 20 trading days prior to their EPS release - indicating some market expectation of a BTE/WTE EPS report.
- **Significant average one day return (T0) for BTE (+1.7%) and WTE (-2.9%) EPS reports.**
- T-20 through T0 spread for BTE EPS vs. WTE EPS = +5.9%, comprised of +1.3% prior to the EPS release and +4.6% on day of the EPS release.
- Performance of companies that reported BTE EPS and WTE EPS drifted lower in the 20 trading days following the EPS report. This is likely, due in part, to the generally negative performance of the equity market. Although the returns used in this analysis are market (beta) adjusted, there was likely some slippage (given the higher than average volatility) in the longer-term relationship used to generate the historical beta's vs. the more recent relationship.
- These results indicate that, on average, holding companies that report BTE EPS results and avoiding (shorting or benchmark relative under-weights) companies that report WTE EPS results prior to the EPS report date remains an important source of market relative return.

Notes:

- This study includes quarterly earnings results reported during calendar year 2008 (01/01/08 to 12/31/08), independent of the time period in which the earnings were generated. With that in mind, **earnings reported** during the 12 month period of this study would generally be considered to represent **earnings generated** in the four “calendar” quarters Q4’07 through Q3’08 by the reporting companies and Wall Street. **Note:** While this analysis does not focus on the quarter in which the company earnings were generated, the earnings model used in the Shenandoah investment process DOES take into account the specific quarter in which earnings were generated and the impact of these results on future quarterly and full year earnings estimates.
- Russell 1000 index estimated results are based on Shenandoah’s internal analysis of quarterly EPS reporting performance of companies that comprised the Russell 1000 index as of 12/31/07, 03/31/08, 06/30/08 and 09/30/08.
- The universe used for the cumulative trading day spread analysis includes 1,600 observations across a broad range of sectors and industries of quarterly EPS results reported during the period 01/01/08 to 12/31/08, recorded by Shenandoah staff.

Definitions: Cumulative performance time periods

- T-1/T-20 = Cumulative performance in the 20 days prior to a company’s EPS report date.
- T 0 = Cumulative performance from T-20 through the close of trading on first trading day following an EPS report, i.e. for companies that reported after the close of a trading day, T 0 would be the next trading day, however; for companies that reported prior to the market open, the date for T0 would be the same as the EPS report date.
- T+1 = Cumulative performance from T-20 through the first trading day following T0.
- T+5 = Cumulative performance from T-20 through five trading days following T0.
- T+10 = Cumulative performance from T-20 through ten trading days following T0.
- T+15 = Cumulative performance from T-20 through fifteen trading days following T0.
- T+20 = Cumulative performance from T-20 through twenty trading days (approximately one calendar month) following T0.
- The time period from T-20 to T+20 was chosen to a) include the potential impact of information released to the market in the period leading up to the EPS report, i.e. company or competitor EPS pre-announcement and b) provide enough time to see to the performance improvement or slippage post the EPS release, while reducing the opportunity for subsequent events, i.e. EPS related news concerning future periods, to impact relative performance that may occur were a longer period used.
- Sources for EPS reporting information internal tracking of company EPS reporting and Zacks comparisons.