SAVVY INVESTORS

FUNDAMENTAL ANALYSIS

Reading an Earnings Report

What matters — revenue, EPS, guidance, and margins — and how earnings set up long or short trades.

REVENUE EPS MARGINS GUIDANCE SETUPS

@Smokeytrades11

1. Why This Guide Exists

Earnings are when a public company tells you how the last quarter (or year) actually went, and often what it expects next. For large-cap shorts, the report and the guidance can move the stock overnight. For small-cap shorts, the same print can matter less than cash on the balance sheet — or it can be the spark for a halt, a squeeze, or an offering.

This is a reading guide, not a signal service. The edge is knowing **what to look at**, then waiting for a trade that fits your plan. A "great" short thesis on the numbers is still a losing trade if you size it wrong or hold it through a gap.

EDUCATIONAL ONLY

Nothing here is financial advice or a recommendation to buy or sell any security. Hypothetical figures later in this guide are made up and labeled that way.

2. Where the Numbers Show Up

An "earnings report" is usually a **press release**, not the full SEC quarterly report. The typical path looks like this:

1. Press release
Headline numbers, often with a non-GAAP view and a short outlook.

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2. Form 8-K, Item 2.02
The company furnishes the release as a current report, usually the same day.

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3. The call
Management walks through results and takes questions. Tone and slide decks matter.

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4. Form 10-Q or 10-K
The full financials arrive later. This is where footnotes, cash, and share count get harder to hide.

Under Form 8-K, Item 2.02 covers "Results of Operations and Financial Condition." Companies generally have **four business days** to file or furnish an 8-K, but earnings releases are almost always posted the same day as the announcement. Item 2.02 information is typically **furnished, not filed**, unless the company says otherwise — a legal distinction that does not make the numbers any less important to you as a trader.

The audited (or, for a quarter, reviewed) financial statements, Management's Discussion and Analysis (MD&A), and updated risk factors live in the 10-Q or 10-K, which can come weeks after the print. If something in the press release feels off, wait for the filing.

3. The Four Things to Read First

Revenue

Revenue is the top line: what the company sold in the period. Compare it to the same quarter last year, to the prior quarter when seasonality allows, and — for large caps — to what the company or analysts were expecting. A headline EPS beat with shrinking revenue is a different story than a clean revenue beat.

Earnings per share (EPS)

EPS is net income divided by shares. Watch two versions:

- **Basic vs. diluted.** Diluted EPS counts potential shares from options, warrants, convertibles, and similar instruments. If the share count is rising, "EPS growth" can be weaker than net income growth.
- **GAAP vs. non-GAAP (or "adjusted").** Companies often highlight an adjusted EPS that adds back items they call one-time or non-cash. Always read the GAAP number too, and read *what was excluded*. Adding back "one-time" costs that appear every year is a yellow flag, not a rounding difference.

Margins

A margin is a profit line divided by revenue. The three you will see most:

- **Gross margin** = (revenue − cost of goods sold) ÷ revenue. This is the first place pricing pressure or rising input costs show up.
- **Operating margin** = operating income ÷ revenue. This includes selling, general, and administrative costs, and often R&D.
- **Net margin** = net income ÷ revenue. Interest, taxes, and one-time items live here.

Expanding margins can support a long. Shrinking margins with "growth" still coming in can support a short — if the chart and the risk allow it. Compare margins to the year-ago quarter, not just to last week's story.

Guidance

Guidance is what management says about the next quarter or the year. For many large caps, **the guide moves the stock more than the quarter just reported**. A beat plus a cut is a classic fade candidate. A miss plus a raise can bounce. Many small caps give little or no formal guidance; then cash, the share count, and any financing language in the 10-Q matter more than a missing "outlook" bullet.

4. Quality Checks Behind the Headlines

- **Cash from operations vs. net income.** The cash flow statement tells you whether earnings are turning into cash. Persistent profits with weak or negative operating cash flow deserve a closer look.
- **One-time items.** Gains on asset sales, tax benefits, or "adjustments" can manufacture a beat. Read the footnotes and the GAAP/non-GAAP reconciliation.
- **Share count.** More shares make each dollar of profit work harder. A rising weighted-average share count is a dilution tell, especially on small caps.
- **Balance sheet and going-concern language.** Cash, debt, covenants, and any "substantial doubt" about going concern often matter more than EPS for a small-cap short.
- **The call vs. the release.** If the release is glowing and the call is cautious — or the opposite — believe the tension, not the headline.

LARGE CAPS VS. SMALL CAPS

Large caps usually have a real consensus, a formal guide, and a liquid reaction you can plan around. The stock can still gap past a stop overnight, so holding a short into a large-cap print is a choice about gap risk, not just about the thesis.

Small caps often have thin coverage, wide spreads, and halt risk. A "beat" on a runner can squeeze first and fade later — or never fade. Offering risk does not take the quarter off. Size down, and do not treat a press release as a substitute for the 10-Q.

5. How Earnings Set Up Long or Short Trades

The report is the catalyst. The trade is the reaction. Plan the setup before the number, then let the stock tell you whether the plan is alive.

Setups that can favor a long (after the number)

- Revenue and margins beat, guidance is raised or reaffirmed cleanly, and the stock **holds the gap** and does not give back the opening range.
- A feared miss comes in better than the worst case, and the stock reclaims a key level (for example VWAP or the premarket high) on real volume.

Setups that can favor a short (after the number)

- **Beat-and-fade:** the headline is fine, guidance is soft or margins break, and the stock cannot hold the spike.
- **Guide cut:** the quarter is acceptable, the outlook is not. Watch for a failed bounce into VWAP or a prior high.
- **Miss-and-breakdown:** revenue or cash is the problem, not just EPS, and the stock accepts lower prices instead of snapping back.

- **Small-cap offering tell:** a weak balance sheet plus “evaluating financing options” in the call or 10-Q. The short is often *after* the stock tips its hand, not into the first green candle.

DO NOT

- Short a large cap into earnings just because “it’s extended.” Overnight gaps ignore your stop.
- Short a low-float runner into the print because you disagree with the story. Halts and squeezes do not care about your thesis.
- Size a post-earnings short off the headline alone. Wait for the first failed hold or the first acceptance of lower prices.

6. A Made-Up Walkthrough

HYPOTHETICAL EXAMPLE — NOT A REAL COMPANY OR REAL PRICES

All figures below are made up for illustration. “NORTHCO” is a fake ticker.

NORTHCO reports: revenue **$120 million** vs. a made-up expectation of $110 million and $100 million a year ago. GAAP EPS **$0.40** vs. $0.38 expected. Gross margin slips from 48% a year ago to **44%**. Next-quarter EPS guidance is **$0.32** vs. a made-up expectation of $0.40.

The quarter “beat” on revenue and EPS. The **guide was cut**, and margins got worse. That combination is why traders fade some “beats.” It is not, by itself, an order to short.

A planned short, if the stock gaps up and fails: wait for a rejection at the opening range or VWAP, define a stop above the failed high, and size from dollar risk — not from how sure you feel about the guide. If the stock holds the gap and trends, the setup is not there. Skip it.

7. The Psychology of Trading Earnings

- **The need to be first.** The opening print is often the worst fill you will get. Being early is not the same as being right.
- **Holding a short into the number** because you are “already in.” That is a new trade: overnight gap risk. Decide before the release, in writing.
- **Confirmation bias.** If you wanted a short, you will over-weight the weak sentence in the release. Read revenue, EPS, margins, guidance, and cash in that order, every time.
- **Revenge shorting the bounce** after a miss that squeezed you. The bounce may be covering. Step away and wait for a new setup.
- **Narrative pride.** “This company is a mess” is not a trigger. The trigger is a failed high, a lost level, or a financing tell — plus a stop you will actually honor.

8. Earnings Checklist

✓	Before the print
☐	I know the date and time, and whether I will be **flat** or holding through it.
☐	I have last quarter’s revenue, margins, EPS (GAAP and adjusted), guidance, and share count written down.
☐	I know if this is a large cap with a real consensus or a small cap with halt, spread, and offering risk.
☐	I have checked cash, debt, and any live ATM or shelf (S-3 / 424B) before I care about the “beat.”
☐	My invalidation and max dollar risk are written down *before* the number.

✓	When the number hits — and after
☐	Revenue, GAAP EPS, diluted share count, gross/operating margins, guidance, and cash — in that order.
☐	I have read what was excluded from non-GAAP, and whether the “beat” needed those add-backs.
☐	I am trading the **reaction** (hold vs. fail of the first move), not my opinion of the report.
☐	If I am short, my stop is above a real level, and I have accounted for halt and gap risk.
☐	I will read the 10-Q or 10-K when it files, not assume the press release was the whole story.

9. Glossary

Term	Meaning
Revenue	The top line: sales in the period before expenses.
EPS	Earnings per share: net income divided by shares. Diluted EPS includes potential shares.
GAAP	U.S. Generally Accepted Accounting Principles — the standard rules behind the official financials.
Non-GAAP / adjusted	A company-defined view of earnings that adds back or excludes selected items. Always compare it to GAAP.
Gross margin	(Revenue − cost of goods sold) ÷ revenue.
Guidance	Management's stated outlook for a future period.
Item 2.02 8-K	The current report used to furnish earnings results and the related press release.
10-Q / 10-K	The quarterly and annual reports that hold the full financial statements, MD&A, and footnotes.
Consensus	A published average of analyst estimates. Common on large caps; often thin or missing on small caps.

Sources

Regulatory and educational sources used for this guide. Always read the primary document; rules can change.

- U.S. Securities and Exchange Commission, *Beginners' Guide to Financial Statements* — https://www.sec.gov/investor/pubs/begfinstmtguide.htm
- Investor.gov, "How to Read a 10-K/10-Q" — https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/how-read
- Investor.gov, "How to Read an 8-K" and "Form 8-K" glossary (Item 2.02; four-business-day general deadline) — https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins/how-read-8 and https://www.investor.gov/introduction-investing/investing-basics/glossary/form-8-k
- SEC, Form 8-K, General Instruction B.1 and Item 2.02 (Results of Operations and Financial Condition; furnished vs. filed) — https://www.sec.gov/about/forms/form8-k.pdf

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@Smokeytrades11