

WHAT IS A FORM 10-K? WHY DO YOU WANT TO READ IT?

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What is the Annual Report on Form 10-K?

- Annual Report on Form 10-K is a disclosure document required to be filed with the Securities and Exchange Commission (“SEC”) by companies that are publicly traded (NYSE, Nasdaq, etc.)
- Are specific SEC requirements of what must be included/disclosed
- Must be in “plain English,” i.e., no legalese
- Consists of 4 main parts:
 - Description of the Business of the Company, including risks the Company faces, Management’s Discussion and Analysis of Financial Condition, Legal Proceedings
 - Information on Officers and Directors of the Company (this information is generally set forth in a Proxy Statement and filed separately)
 - Audited Financial Statements
 - Exhibits

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RE INC.
FORM 10-K ANNUAL REPORT

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Annual Report to Shareholders is Not the 10-K

- Form 10-K is not the “annual report to shareholders”
- Annual report to shareholders includes letter to shareholders in which typically the president highlights Company developments and opportunities for the shareholders
- Companies have more latitude in annual report – fewer SEC requirements
- Annual report is often glossy – more of a public relations document
- Often includes the entire Form 10-K as well

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Business Section - Highlights

- Company background
- Description of its products or services
- Competition
- Backlog (where relevant)
- Sourcing/availability of components or materials
- Risk Factors – SEC says “most significant risks that apply to the company or to its securities”
 - Risks specific to the company or its securities are most important, e.g., expiration of a key contract or patent, or patent on a drug
 - General risks, e.g., interest rate fluctuations
- Legal Proceedings

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Management’s Discussion and Analysis (MD&A)

- Three principal objectives:
 - to provide a narrative explanation of a company’s financial statements that enables investors to see the company through the eyes of management;
 - to enhance the overall financial disclosure and provide the context within which financial information should be analyzed; and
 - to provide information about the quality of, and potential variability of, a company’s earnings and cash flow, so that investors can ascertain the likelihood that past performance is indicative of future performance.
- Unaudited
- Present the most important information most prominently

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Directors, Officers and Principal Shareholders

- Identifies Directors (independent and not), brief biographies, number of shares owned and percent of outstanding shares, committee membership (e.g., audit, compensation, nominating), committee reports, director compensation and conflicts of interest
- Identifies Officers, brief biographies, compensation table, employment agreements, and conflicts of interest
- Identifies Principal Shareholders, including third parties (such as hedge funds) which own 5% or more of the Company’s outstanding shares
- This information is often included in the Proxy Statement, filed separately from the 10-K and incorporated by reference

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Audited Financial Statements

- Sets forth the Company’s balance sheets, statements of income, changes in stockholders’ equity and cash flows for last three FYEs
- Financial Statements are the Company’s financial statements
- Auditing firm renders a report on whether the financial statements fairly present the Company’s financial position
- Auditors also opine on whether the Company maintained effective internal control over financial reporting
- Be wary if there are any qualifications in auditor’s report
- If Company deviates from Generally Accepted Accounting Principals (GAAP), find out why
- Footnotes often have interesting information

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Exhibits

- Includes corporate organizational documents, e.g., Articles of Incorporation, Amendments to Articles, By-laws, Employee Stock Option Plans, merger documents, employment agreements with Company officers
- Also includes material contracts - some may be granted confidential treatment and the proprietary or sensitive information redacted
- Cumulative over the years

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WHY YOU, THE STOCK WATCHER, WANTS TO READ THE 10-K

- Business Section:
 - Do you understand what the Company does?
 - Unusual one-time adjustments (eg., intangibles related to acquisitions)
 - Are there serious Company specific risks that could negatively impact the company?
 - Are there lawsuits which may materially impact the Company or its business?
- MD&A provides executive level overview that provides context for remainder of discussion
- Officers Directors and Principal Shareholders: watch for transactions with affiliates, read the compensation table and the perquisites afforded to management
- Financial Statements: review the footnotes

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Where to Find the 10-K



U.S. SECURITIES AND
EXCHANGE COMMISSION

SEC website:

www.sec.gov/edgar/searchedgar/companysearch.html

- Can search by name or ticker symbol
- Company websites usually include a link to Company's SEC filings
- Yahoo Finance and other financial websites link to SEC filings
- Included in the Annual Report to Shareholders

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THANK YOU!

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