

# WHAT IS A FORM 10-K AND HOW DO YOU READ IT?

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VP EDUCATION, ROCKY MOUNTAIN CHAPTER  
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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

# Four Parts of 10-K

		<b>Page</b>
	<u><b>PART I</b></u>	
<a href="#">Item 1.</a>	<a href="#">Business</a>	1
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>	12
<a href="#">Item 1B.</a>	<a href="#">Unresolved Staff Comments</a>	21
<a href="#">Item 2.</a>	<a href="#">Properties</a>	21
<a href="#">Item 3.</a>	<a href="#">Legal Proceedings</a>	22
<a href="#">Item 4.</a>	<a href="#">Mine Safety Disclosures</a>	22
	<u><b>PART II</b></u>	
<a href="#">Item 5.</a>	<a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	22
<a href="#">Item 6.</a>	<a href="#">Selected Financial Data</a>	24
<a href="#">Item 7.</a>	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	25
<a href="#">Item 7A.</a>	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	35
<a href="#">Item 8.</a>	<a href="#">Financial Statements and Supplementary Data</a>	36
<a href="#">Item 9.</a>	<a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	58
<a href="#">Item 9A.</a>	<a href="#">Controls and Procedures</a>	58
<a href="#">Item 9B.</a>	<a href="#">Other Information</a>	58
	<u><b>PART III</b></u>	
<a href="#">Item 10.</a>	<a href="#">Directors, Executive Officers and Corporate Governance</a>	59
<a href="#">Item 11.</a>	<a href="#">Executive Compensation</a>	59
<a href="#">Item 12.</a>	<a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	59
<a href="#">Item 13.</a>	<a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	60
<a href="#">Item 14.</a>	<a href="#">Principal Accounting Fees and Services</a>	60
	<u><b>PART IV</b></u>	
<a href="#">Item 15.</a>	<a href="#">Exhibits, Financial Statement Schedules</a>	60

# 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

## 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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5

## 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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6

## 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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7

## 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 Principles (GAAP), find out why
- Footnotes often have interesting information

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8

## 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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9

## What to Look For

- Business Section:
  - Do you understand what the Company does?
  - 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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10

## Where to Find the 10-K

- SEC website: [www.sec.gov/edgar/searchedgar/companysearch.html](http://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

THANK YOU!