



# Lies, Damned Lies, and Annual Reports



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**All presentations at**  
**[BatesInfo.com/SLA2009](http://BatesInfo.com/SLA2009)**

# The ideal world vs the real world

- There are bad people who lie.



# Private vs public

- **Who cares? Let's all show it all!**





# Private vs public

- **They all have stakeholders**
  - **Customers**
  - **Vendors / suppliers**
  - **Dealers / distributors**
  - **Partners / joint ventures**
  - **Contractors / outsourcers**



# Where to start

- "Investor Relations"
- "Financial Information"
- "Shareholder Information"
  - Even if private

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## investor relations home

### Today's Stock Quote

**\$48.78**

▲ 1.57 (3.33%)

**Security**

COST (Common Stock)

**Exchange**

**NASDAQ**

05/20/09 4:00 p.m. Minimum 20 minute delay

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Date	Title
05/07/09	<a href="#">Costco Wholesale Corporation Reports April Sales Results</a>

# Dissecting a 10-K



## PART I

- Item 1. [Business](#)
- Item 1A. [Risk Factors](#)
- Item 1B. [Unresolved Staff Comments](#)
- Item 2. [Properties](#)
- Item 3. [Legal Proceedings](#)
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## PART II

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- Item 6. [Selected Financial Data](#)
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## PART III

- Item 10. [Directors, Executive Officers and Corporate Governance](#)
- Item 11. [Executive Compensation](#)
- Item 12. [Security Ownership of Certain Beneficial Owners and Management and Related](#)
- Item 13. [Certain Relationships and Related Transactions, and Director Independence](#)
- Item 14. [Principal Accounting Fees and Services](#)

## PART IV

- Item 15. [Exhibits, Financial Statement Schedules](#)



# The good stuff...

- **Business overview**
- **Risk factors, legal proceedings**
- **Selected financial data (overview)**
- **Management's discussion/analysis**
- **Financial statements and footnotes**
- **Auditors' report**



# Business description

- **Good for overview**
- **Bad news often buried**
- **Segment, market share info, key brands, sales channels, etc.**
- **Item 1 of 10-K**



# Risk factors

- **Chicken Little, anyone?**
  - **"Our success depends on our ability to attract and retain highly qualified employees."**
  - **"MARTHA STEWART WILL CONTROL OUR COMPANY"**



# Risk factors

- **GM 2006:**
  - ***Economic and industry conditions constantly change and could have a material adverse effect on our business and results of operations.***



# Risk factors

- **Source for market / industry info**
    - *The global automotive industry is estimated to have had excess capacity of 14.8 million units in 2006.*
- (Ford 2006)**

Item 7A of 10-K



# Legal proceedings

- Look for big ticket items
- Class action suit
  - *We are engaged in significant litigation with Johnson & Johnson... Expect to spend \$1 billion in legal matters*
  - Look for plaintiffs' web site

Item 3 of 10-K



# Selected financial data

- **Five-year summary**
- **Operations, balance sheet**
- **Good for quick comparison *year to year***
  - **Can't compare with others w/o Notes**

Item 6 of 10-K

**SELECTED FINANCIAL DATA**  
(dollars in thousands, except per share and warehouse data)

As of and for the year ended(1)	Aug 31, 2008 (52 weeks)	Sept. 2, 2007 (52 weeks)	Sept. 3, 2006 (53 weeks)	Aug. 28, 2005 (52 weeks)	Aug. 29, 2004 (52 weeks)
<b>RESULTS OF OPERATIONS</b>					
Net sales	\$70,977,484	\$63,087,601	\$58,963,180	\$51,879,070	\$47,148,627
Merchandise costs	<u>63,502,750</u>	<u>56,449,702</u>	<u>52,745,497</u>	<u>46,346,961</u>	<u>42,092,016</u>
Gross Margin	7,474,734	6,637,899	6,217,683	5,532,109	5,056,611
Membership fees	1,505,536	1,312,554	1,188,047	1,073,156	961,280
Operating income	1,968,835	1,608,586	1,625,632	1,474,303	1,385,648
Net income	1,282,725	1,082,772	1,103,215	1,063,092	882,393
Net income per diluted common share	2.89	2.37	2.30	2.18	1.85
Dividends per share	\$ 0.61	\$ 0.55	\$ 0.49	\$ 0.43	\$ 0.20
Increase in comparable warehouse sales(2)					
United States	6%	5%	7%	6%	9%
International	<u>15%</u>	<u>9%</u>	<u>11%</u>	<u>11%</u>	<u>14%</u>
Total	<u>8%</u>	<u>6%</u>	<u>8%</u>	<u>7%</u>	<u>10%</u>
<b>BALANCE SHEET DATA</b>					
Net property and equipment	\$10,354,996	\$ 9,519,780	\$ 8,564,295	\$ 7,790,192	\$ 7,219,829
Total assets	20,682,348	19,606,586	17,495,070	16,665,205	15,092,548
Short-term borrowings	134,409	53,832	41,385	54,356	21,595
Current portion of long-term debt	6,003	59,905	308,523	3,225	305,594
Long-term debt, excluding current portion	2,205,952	2,107,978	215,369	710,675	993,746
Stockholders' equity	\$ 9,192,061	\$ 8,623,341	\$ 9,143,439	\$ 8,881,109	\$ 7,624,810
<b>WAREHOUSE INFORMATION</b>					
Warehouses in Operation(3)					
Beginning of year	488	458	433	417	397
Opened(4)	34	30	28	21	20
Closed(4)	<u>(10)</u>	<u>—</u>	<u>(3)</u>	<u>(5)</u>	<u>—</u>
End of Year	<u>512</u>	<u>488</u>	<u>458</u>	<u>433</u>	<u>417</u>



# Mgmt's discussion

- **Lots of detail**
  - **MEGO syndrome**
- **This is where they give the bad news**
- **Look for red flags....**



# Mgmt's discussion

- **Words to watch for**
  - ***Challenging***
  - ***Difficulties***
  - ***Restructuring (woops! our bad)***
  - ***Corrective actions***
  - ***Circumstances***

Item 7 of 10-K



# Financial statements<sup>(1)</sup> and notes

(1) and footnotes

- **There's numbers and there's numbers**
  - **Citigroup recorded \$9.568 billion expense in 2008 for *lost goodwill***



# Look for signs of trouble

## Verizon Communications Inc. and Subsidiaries

For the Years Ended December 31, 2008, 2007 and 2006

Description	Balance at Beginning of Period	Additions	
		Charged to Expenses	Charged to Other Accounts Note (a)
Allowance for Uncollectible Accounts Receivable:			
Year 2008	\$ 1,025	\$ 1,085	\$ 705
Year 2007	1,139	1,047	834
Year 2006	1,100	1,034	1,627



# Compare accounting policies w/in industry

Merchandise inventories consist of:	<u>2008</u>	<u>2007</u>
United States (primarily LIFO)	\$3,856,633	\$3,799,999
Foreign (FIFO)	\$1,182,780	\$1,079,466
Total	\$5,039,413	\$4,879,465

**[Costco 2008 10-K]**



# Financial statements

- **Look for revenue by division / segment / geographic region**

Item 8 of 10-K



# Auditors' report

- **Should be "unqualified" opinion**
- **Watch for red flags**
  - **Change in auditors**
  - **"uncertainties"**
  - **"going-concern problem"**

**Appears with 10-K/AR**

- **See also Item 9 "Changes in & disagreements with accountants"**



# Other "forms" of life

- **10-Q (quarterly report)**
- **Proxy statement (PRE 14A & DEF 14A)**
- **8-K**
- **Forms 3, 4, 5, Schedule 13D & 13G**
  - **Changes in stock ownership**



# Proxy statements

- **Prior to annual meeting**
- **Bio, pay and other compensation of top execs, shares held**
  - **Skin in the game vs all comp based on share price**
- **Shareholder proposals**
  - **Watch for big issues**



# 8-K

- **Anything "significant"**
  - Every press release
  - Consent decree
  - Product recall
  - Executive indicted
  - Impending bankruptcy



# Analyst conference calls

- **Must disclose promptly**
- **Usually just audio, no transcript**
- **How probing are the analysts?**
- **How do the execs respond?**



# SEC's new IDEA

- **Interactive Data Electronic Applications, a.k.a. XBRL**
  - Effective June 15 for largest co's
  - Phased in for the rest
- ***From forms to interactive data***



# SEC's new IDEA

- **Test-drive it at  
[viewerprototype1.com](http://viewerprototype1.com)**
- **More at  
[www.sec.gov/spotlight/xbri.shtml](http://www.sec.gov/spotlight/xbri.shtml)**



# Private companies

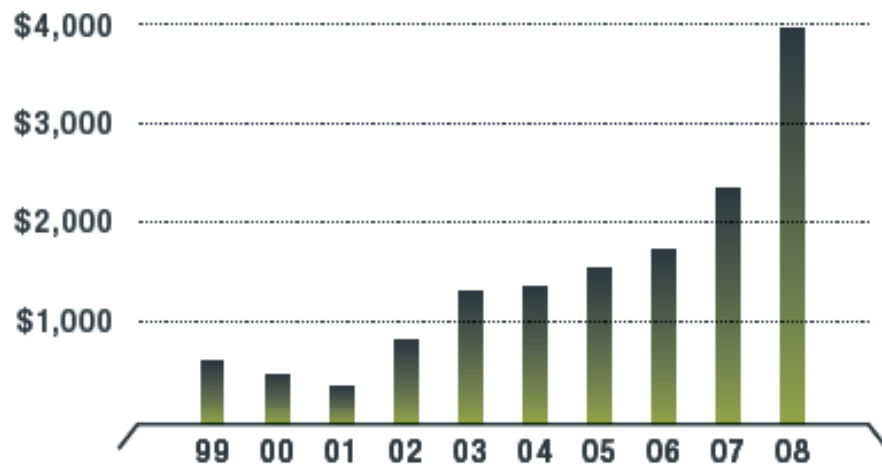
- **Annual report**
- **Financial info**
- **Lots of secondary research**
  
- **Good luck!**



# Cargill Inc.

## FINANCIAL HIGHLIGHTS

DOLLARS IN MILLIONS	2008	2007	PERCENT CHANGE
Sales and other revenues	\$ 120,439	\$ 88,266	36
Net earnings	3,951	2,343	69
Cash flow from operations	7,012	3,965	77



## NET EARNINGS

DOLLARS IN MILLIONS

Cargill earned \$3.95 billion in fiscal 2008, up 69 percent from the prior year and the seventh consecutive year of improved financial performance.

Earnings in agriculture services were down slightly, largely due to asset sales that occurred in last year's first quarter. The food ingredients and applications segment also declined slightly, due in part to higher raw material and energy costs among some of



# Mars Inc.

- **Total info available on web:**
  - Sales of \$22+ billion (or \$30 billion)
  - 70,000 employees, 300+ sites, 130+ factories, in 60 (or 75) countries
  - 6 (or 5) business segments:  
chocolate, pet care, Wrigley, food, drinks, "Symbioscience"



# Have fun, be creative!

## It's an adventure





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