SEC Filings: Forms You Need To Know

By ADAM HAYES Updated Jan 18, 2021

TABLE OF CONTENTS

EXPAND

The Securities and Exchange Commission (SEC) requires public companies, certain company insiders, and broker-dealers to file periodic financial statements and other disclosures. Finance professionals and investors rely on SEC filings to make informed decisions when evaluating whether to invest in a company. SEC filings can be accessed for free at EDGAR, the commission's online database.

The SEC was created through the Securities Exchange Act of 1934, which was signed into law by President Franklin D. Roosevelt.[1] The act was intended to help restore investor confidence following the stock market crash of 1929. The SEC is an independent government agency tasked with protecting investors, maintaining a fair and orderly market, and facilitating capital formation.[2]

The SEC selectively reviews the information it receives to monitor and enhance compliance.[3] Investors study these filings to form a view of a company's performance and activities. Here are some of the most common forms that companies are required to submit to the SEC. Understanding how to read SEC filings can be beneficial to investors as they perform their due diligence. In this article, we'll discuss these filings in greater detail.

KEY TAKEAWAYS

- SEC filings are important regulatory documents required of all public companies to provide key information to investors or potential investors.
- The public can review SEC filings by visiting the commission's online database, EDGAR.
- Registration statements are required when a company initially sells shares to the public.[4]

- Among the most common SEC filings are: Form 10-K, Form 10-Q, Form 8-K, the proxy statement, Forms 3,4, and 5, Schedule 13, Form 114, and Foreign Investment Disclosures.
- The annual 10-K report, for instance, provides a comprehensive summary of a company's financial performance.[5] Proxy statements are presented prior to a shareholder meeting and before voting on the election of directors and other corporate actions.[6]

Registration Statements

Registration statements provide information about the securities being offered by a company as well as its financial condition. A company preparing to offer securities to the public will file a Form S-1 registration statement with the SEC. The statement consists of two parts:[4]

- **Prospectus**: This mandatory document must be given to any person who is offered to buy the company's securities. The prospectus must provide details about the company's management, business operations, financial health, operational results, risk factors, and other pertinent information. The Securities Act of 1933 mandates that all companies seeking to raise capital for new publicly offered products in the U.S. must file a prospectus with the Securities and Exchange Commission. Financial statements such as the company's income statement must be audited by an independent certified public accountant (CPA).
- **Additional information**: The company may provide any relevant additional information, for example, recent sales of unregistered securities.[4]

Why Registration Statements Are Important to Investors

Registration statements help investors and analysts understand the nature of newly issued shares or bonds that will come to market. The type of information conveyed in these filings includes a description of the issuer's business and assets, a description of the security being offered, the names and bios of the company's key management, and an independently certified copy of the issuer's latest financial statements.

Investors look especially to the prospectus, which contains all of the information a potential investor would need to make a quantitative evaluation of a new security's prospects. It will also often contain important qualitative information that can be interpreted by investors as potential red flags. Because the prospectus is a legal declaration and must meet transparency standards, most companies include certain facts and statements to ensure investors aren't misled in any way, although they may choose careful or clever wording to disguise overt red flags. For instance, if the company faces substantial risks, its prospectus might state "*risks for the company include, but are not limited to, an evolving and unpredictable business model and the management of growth*" or, "*there can be no assurance that the company will be successful in addressing its risks; failure to do so could* *have a material adverse effect on the company's business, prospects, financial condition and results of operations."*

Reading an issuer's registration statements will often be met with flowery legal prose and lengthy cautionary statements that serve to protect the company more than the investor. Yet, it is also the legal nature of these documents that provides investors with candid information about a prospective investment's risks, opportunities, and competitive landscape. When reading a prospectus, make particular note of company-specific or unique information as opposed to broad or blanket statements that could apply to any publicly traded company.

> Forward-looking statements in the prospectus are only projections. Therefore, while they use a company's honest and latest estimates, there is no guarantee the company will meet all or even any of its targets for sales and profits.

Form 10-K

Form 10-K is an annual report that provides a comprehensive analysis of the company's financial condition. Though the Form 10-K contains information that overlaps with the company's annual report, the two documents are not the same. Companies must submit this lengthy annual filing within 60 to 90 days of the close of their fiscal year.[5]

The Form 10-K is comprised of several parts. These include:

- **Business summary**: This describes the company's operations. It would include information about business segments, products and services, subsidiaries, markets, regulatory issues, research and development, competition, and employees, among other details.
- **Management Discussion and Analysis:** This section allows the company to explain its operations and financial results for the past year.
- **Financial statements**: The financial statements would include the company's balance sheet, income statement, and cash flow statement.
- **Additional sections**: Additional sections may discuss the company's management team and legal proceedings.[7]

Why Form 10-K Is Important to Investors

The SEC mandates that all public companies file regular 10-Ks to keep investors aware of a company's financial condition and to allow them to have enough information before they buy or sell securities issued by that company. The 10-K can appear overly complex at first glance, complete with tables full of data and figures. However, it is because it is so comprehensive that this filing is key for investors to get a handle on a company's financial position and prospects.

A company will file both an annual report and a 10-K report with the SEC. The annual report is a shorter version that often comes with illustrations, glossy pages, a letter from the

Chairman or CEO, and a summary overview of the financials. The 10-K is a longer, more thorough technical document that will have all of the company's financial statements available for fundamental analysis. Fundamental analysis is a common way to evaluate a firm by constructing ratios and other metrics by extracting information from the balance sheet, income statement, and statement of cash flows. For stocks, fundamental analysis looks to revenues, earnings, future growth, return on equity (ROE), profit margins, and equity multiples to determine a company's underlying value and potential for future growth. For corporate bonds, liquidity, leverage, and solvency ratios would be appropriate.

In addition to the quantitative approach to fundamental analysis, readers of a 10-K should also pay attention to its "Item 1", which explains what the company does, who its customers are, and the primary industry in which it operates.[8] Then, look for risk factors such as legal proceedings or statements indicating future charges or volatility.

Also, pay attention to any footnotes that are included in the report. These notes will tell you which accounting method a company uses and how it compares to the generally accepted accounting method and industry standards. This information can flag potentially shady accounting practices. Other details mentioned in the footnotes include errors in previous accounting statements, looming legal cases in which the company is involved, and details of any synthetic leases. These disclosures found in the footnotes are of the utmost importance to investors with an interest in the company's operations.

> As an investor, pay special attention to any footnotes in Form 10-K, as they can help you flag any questionable accounting practices in the company you are considering.

Form 10-Q

Form 10-Q is a truncated version of Form 10-K that is filed quarterly. The form provides a view of the company's ongoing financial condition throughout the year. The Form 10-Q must be filed for the first three quarters of the company's fiscal year. The deadline to file is within 40 days from the end of the quarter. Unlike Form 10-K, the financial statements in Form 10-Q are unaudited, and the information required is less detailed.[9]

Why Form 10-Q Is Important to Investors

The 10-Q is important since it is updated quarterly, while the more comprehensive 10-K is only filed once a year. This allows investors to update their valuation metrics and financial ratios without as much of a lag. Investors can use the 10-Q to observe any changes that may be taking place within the corporation even before it files its annual report.

Some areas of interest to investors that are commonly visible in the 10-Q include changes to working capital and/or accounts receivables, factors affecting a company's inventory, share buybacks, and even any legal risks that a company faces. You can use a close competitor's 10-Q as a comparison company to put side-by-side the company you are considering to see how it's performing on a relative basis. This will give you a broader idea of whether your investment is a strong choice, where its weaknesses are, and how it could stand to improve.

Form 8-K

The Form 8-K is what a company uses to disclose major developments that occur between filings of the Form 10-K or Form 10-Q. Major company events that would necessitate the filing of a Form 8-K include bankruptcies or receiverships, material impairments, completion of acquisition or disposition of assets, or departures or appointments of executives.[10]

Why Form 8-K Is Important to Investors

Form 8-K provides investors with timely notification of significant changes at a company. Many of these changes are defined explicitly by the SEC (such as a merger or acquisition), while others are simply events that firms consider to be sufficiently noteworthy for its shareholders (such as a new product release or upgrade). Either way, the 8-K provides a way for firms to communicate directly with investors in a way that is not filtered or altered by media organizations or sell-side analysts.

Form 8-K also provides a valuable record for financial research and analysis. For example, an analyst may wonder what influence certain corporate events have on stock prices. It is possible to estimate the impact of these events using statistical techniques like regressions, but researchers need reliable data. Because 8-K disclosures are legally standardized and must be honest and accurate, they provide a complete record and prevent sample selection bias.

Proxy Statement

In the proxy statement, investors can view the salaries of the management of a company and any other perks that a company's management is eligible for. The proxy statement is presented prior to the shareholder meeting and must be filed with the SEC before soliciting a shareholder vote on the election of directors and approval of other corporate actions.[6]

Why a Proxy Statement is Important to Investors

Public companies hold annual meetings where shareholders convene to vote on various corporate actions or for new members to the board of directors. Owning common stock in a company gives you a vote (usually one vote per share), but it is not typically feasible to attend the annual meeting. The proxy statement allows you to cast your votes using a designated person, who will aggregate votes and cast them on your behalf. This person is known as a proxy and will cast a proxy vote in line with the shareholder's directions as written on their proxy card. Proxy votes may be cast by mail, phone, or online before the cutoff time. This deadline is usually 24 hours before the shareholder meeting commences. Vote responses will typically include "For," "Against," "Abstain," or "Not Voted."

The proxy statement will therefore present the items that will be voted on and allow you to return a form to the company to inform your proxy how your votes should be cast.

DOCKET ALARM

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts

Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research

With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips

Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.