

Hiding in plain site: Diving deeply into SEC filings

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Some background

- Footnoted launched in August 2003 to coincide with publication of Financial Fineprint: Uncovering a Companys True Value (John Wiley & Sons)
- FootnotedPro, a subscription-only service launched in October 2008
- Morningstar acquired the site in February 2010 enabling us to add additional resources.

Why read SEC filings?

- Because they're there!
- Because so few people (including analysts and the SEC) actually do
- Because it can give you a competitive edge
- Because it can help generate alpha
- Because knowledge = power

Digging into SEC filings

- Every day, we dig through hundreds of SEC filings to find the nuggets that matter. Most of these items are buried deep in a filing.
- Best items often filed late on a Friday night. We call that the “Friday Night Dump”. Nearly 8% of all 8Ks filed last year were filed during the last 90 minutes on a Friday.
- Examples: Nabors Industries filed [this 8K](#) at 5:26 pm on a Friday night announcing a \$100 m severance for outgoing CEO Eugene Isenberg.

What sorts of things are we looking for?

- › Executive comings and goings
- › Director or accounting firm resigning
- › Restatement (or restatements)
- › Amended filings
- › Comment letters/informal/formal investigation or subpoena
- › M&A activity (or even rumor) › IPO
- › Going private
- › Anything amusing, interesting or puzzling
- › And, of course, the footnotes!

The challenge

- › More than 650,000 documents filed last year
- › Filings are dense and lengthy
- › Largest 10-K filed in 2011 was 2,229 pages and contained 30 separate exhibits.
- › Beyond the financials, filings are big blocks of text
- › Lawyers + boilerplate = poor signal-to-noise ratio
- › Poor choices for investors:
 - › Read it all
 - › Try to come up with reliable search algorithms
 - › Hope you don't miss something

Key filings

- › 10-K (annual report): 60 days after fiscal year ends
- › 10-Q (quarterly report): 40 days after quarter ends
- › 8-K (material event): periodic
- › DEF 14A (proxy statement): annual due 120 days after end of fiscal year
- › SC 13F (institutional disclosures)
- › Forms 3, 4, 5: periodic (within 10 & 2 days, and 45 days after the FYE)

Special filings

- DEFM-14A (merger proxy)
- PREM-14A: Preliminary merger proxy
- S-4: Merger-related filing on registration of securities
- S-1 (initial public offering)
- SC 13D and 13G (5% ownership disclosure)

The challenge

- **It** would take a skilled army to read everything
- Computers are dumb & search is imperfect:
 - Searching for subpoena turns up hypotheticals as well as actual events
 - Pick your poison: a lot of false positives Ñ or missing something

reasonable basis, to answer questions that may arise to achieve a smooth transition. The Employer's obligations under this Agreement are contingent upon the Employee returning all Employer documents, data, and other property and cooperating with the Employer as set forth above. The Employee agrees to be available after the Termination Date at reasonable times and upon reasonable notice from the Company, with or without a **subpoena**, to be interviewed, review documents or things, give depositions, testify, or engage in other reasonable activities, with respect to investigations, litigation, arbitration or other legal proceedings concerning which the Employee has or may have knowledge as a result of or in connection with his employment by the Employer. In performing his obligations to testify or otherwise provide information, the Employee will honestly, truthfully, forthrightly, and completely provide

During the first quarter of 2010, we received a **subpoena** from the United States Department of Justice exercises for certain senior level executives and a **subpoena** from the DOJ seeking various other stock

How we do it

We combine proprietary search algorithms, a lot of reading, and sound judgment to find hidden opportunities and early signs of potential problems

- Bottom-up approach identifies companies that may not cross an investor's radar otherwise
- Algorithms can flag several hundred alerts a week at peak season, or more than 100 filings a day
- By zeroing in on the most promising material, we typically flag between 40 and 150 filings a week
- Seasonal patterns Ñ spring is busiest, June-July is slower
- Search parameters refined over several years

New disclosures can be both critical and actionable:

- Significant lawsuits
- Executive/Director departures
- Severance/retention packages
- Option grants
- Self-dealing
- Non-disclosure disclosure

Then we play traffic cop

- footnoted.com: newsy, but less actionable information
- footnotedPro Red Flag Alert: potentially significant disclosures that we think are important to flag
- footnotedPro reports: More detailed research on a significant event or issue that either impacts a single company or an industry
- @footnoted: short takes on filings and related topics