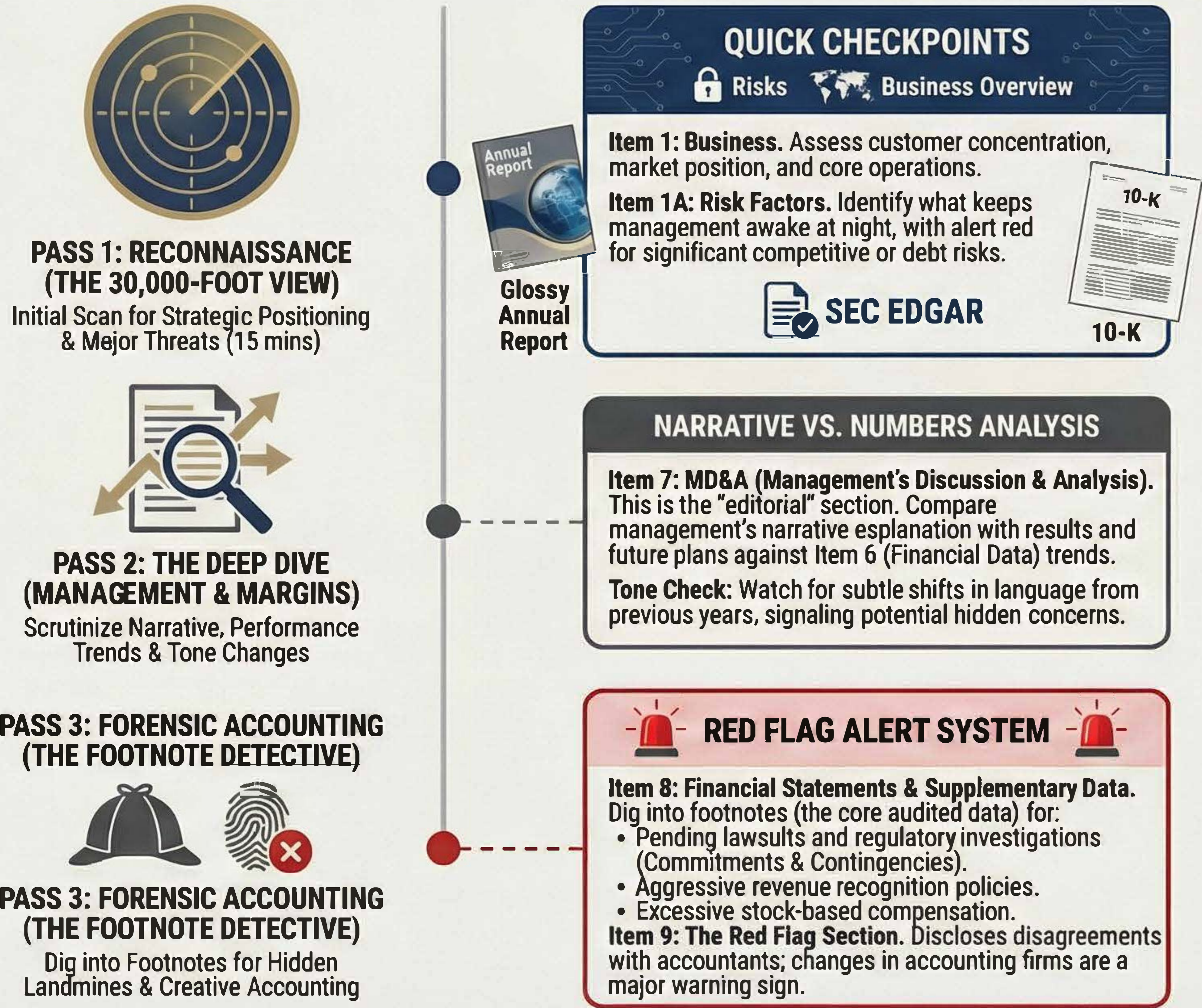


# The Professional's Playbook: How to Crack a 10-K Report

A structured, expert-level framework for analyzing a 10-K report to identify business health, risks, and financial red flags.



## THE PROFIT VS. CASH GAP & FORENSIC CHECKS

**Net Income vs. Operating Cash Flow**  
Net Income (Accrual-based) records revenue when earned, while Cash Flow records it when received. A widening gap can signal "poor earnings quality".

**Profit** **Cash**

**THE ACCRUAL ADJUSTMENT**

**START WITH:** Net Income (Accrual Basis) **+** **ADD BACK:** Non-cash items (e.g., Depreciation, Stock-Based Compensation) **=** **OPERATING CASH FLOW** (Cash Basis)

**STATISTIC:** AI research indicates "Financial Profile" features (debt, equity, taxes) are strongest predictors of future profitability over simple ratios.

**FORENSIC CHECKLIST & RED FLAGS**

- Revenue Recognition Policy:** Check how the company "books" sales; aggressive policies inflate revenue before cash is collected.
- Commitments & Contingencies:** Buried in footnotes, detailing pending lawsuits or regulatory actions that could wipe out future profits.
- Auditor's Opinion:** Look for "Unqualified Opinion" (Standard), "Qualified" or "Disclaimer" opinions are urgent signals to investigate.

## ESSENTIAL LIQUIDITY AND PROFITABILITY RATIOS FOR 10-K ANALYSIS

	Ratio Category	Key Formula	Interpretation
	Liquidity	<b>Current Ratio</b> (Current Assets / Current Liabilities)	Ability to meet short-term obligations (Target > 2)
	Profitability	<b>ROE</b> (Net Income / Avg. Shareholders' Equity)	Efficiency of using shareholder money to generate profit
	Solvency	<b>Debt to Assets</b> (Total Debt / Total Assets)	Percentage of assets financed by creditors vs. owners
	Efficiency	<b>Inventory Turnover</b> (COGS / Avg. inventory)	How many times a company sells and replaces inventory in a year