

# Stock Options, Common Shares...What Does it All Mean? Understanding Public Company Filings and Using Them to Determine Personal Wealth



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SESSION DATE: October 13, 2016

SESSION TIME: 1:30 – 2:45 pm

# Session Overview

1. Introduction
  - Information that can be found vs. information that cannot
  - Insiders & how to find them
2. Public Filings
  - Where to find them
  - What documents to look at



# Session Overview (continued)

3. Information found in the filings
  - Shares - Common Shares, Preferred Shares, Deferred Share Units (DSU's)
  - Stock Options
4. Calculating Stock Options
5. Using the value of stocks & options in your wealth assessment
6. Questions



# Bored by public company filings?



**APRA**  
CANADA 2016

October 12-14  
Toronto

....it doesn't have to be that way!



# Information That Can Be Found

- Stock holdings and stock options can be found for insiders at publicly traded companies
- Insiders are usually top executives, directors, or someone who owns 10% or more of the company stock

# Information That Cannot Be Found

- Non-insider stock holdings



# How to Find Insiders - Canada

- Conduct a search on the System for Electronic Disclosure by Insiders (SEDI) - [www.sedi.ca](http://www.sedi.ca)



- View insider information
- View issuer information
- View summary reports

## View insider information

Select one of the following options:

**Option 1** Search by entering the insider number.

Insider number

**Option 2** If this insider is an individual, search by entering the insider name.

Insider family name  Starts with

Insider given names  Starts with

**Option 3** If this insider is a company, search by entering the insider company name.

Insider company name  Starts with

**Option 4** Search for all insiders of an issuer by entering the issuer number.

Issuer number

**Option 5** Search for all insiders of an issuer by entering the issuer name.

Issuer name  Starts with



**S·E·D·I**

- View insider information
- View issuer information
- View summary reports

## View insider information - View search results

The following insiders met your search criteria. Select an insider from the list below:

Legend: ▲ - Previous insider name matched search criteria. Current insider name displayed.

Insider full name	Insider number	Insider municipality	Issuer name (English)	Issuer name (French)
<input type="radio"/> Smith, John	JSMITH01B	Winnipeg	Great-West Lifeco Inc.	Great-West Lifeco Inc.
<input type="radio"/> Smith, John	SJOHN003	Vancouver	Pretium Resources Inc. Silver Standard Resources Inc.	Pretium Resources Inc. Silver Standard Resources Inc.
<input type="radio"/> Smith, John D.	JSMITH00B	Toronto	Sears Canada Inc.	Sears Canada Inc.
<input type="radio"/> Smith, John Gordon	JSMITH010	Sannichton	Premier Diversified Holdings Inc.	Premier Diversified Holdings Inc.
<input type="radio"/> Smith, John Louis	JSMITH000	Mississauga	Synergex Corporation	Synergex Corporation
<input type="radio"/> Smith, John Sydney	JSMITH003	Oakville	Destorbelle Mines Limited	Destorbelle Mines Limited
<input type="radio"/> SMITH, JOHN WALTER	JSMITH01A	CALGARY	Suncor Energy Inc.	Suncor Energie Inc.

Next | New Search

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# How to Find Insiders – United States

- You can find if an individual is a Director or Officer of a publicly traded company (which means they may be an insider) using free sites such as Bloomberg, MarketWatch, or the company website
- Search for individuals by name using the advanced search options on The Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) – [www.sec.gov](http://www.sec.gov)





# U.S. SECURITIES AND EXCHANGE COMMISSION

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Any of these words

None of these words

File Type

Safe Search

Off  Moderate  Strict

**Advanced Search**

You can also use [advanced search operators](#) to help limit and focus your searches.



# Where Can Public Company Filings be Found?

- In Canada the filings are also found on The System for Electronic Data Analysis and Retrieval (SEDAR) – [www.sedar.com](http://www.sedar.com)
- In the United States the filings are found on The Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) – [www.sec.gov](http://www.sec.gov)



# Which Documents Should We Look At?(SEDAR)

- Annual Information Form (NI 81-106)
- Management Information Circular
- Annual Report



# Which Documents Should We Look At?(EDGAR)

- Annual Report (10-K)
- Form 14A
- Forms 3, 4 or 5
- Form SC13



# Stock Information in the Filings

- Stock Shares
  - Common Shares
  - Preferred Shares
  - Deferred Share Unit (DSU's)
  - Value of Shares
- Stock options



# Other Information in the Filings

- Compensation
- Severance & Retirement Information



# Common Shares

A security that represents ownership in a corporation. It is also sometimes referred to as a “voting share” or “ordinary share.



# Preferred Shares

Securities issued by corporations that pay dividends that qualify for dividend tax credits. The shares are "preferred" because the dividends must be paid preferentially before any dividends are paid on the corporation's common shares.



# Deferred Share Units (DSU's)

A share that does not have any rights to the assets of a company undergoing bankruptcy until all common and preferred shareholders are paid. It may also be a share that is issued to company founders that restricts their receipt of dividends until dividends have been distributed to all other classes of shareholder.



# Example of Share Listings in a Report

GREAT-WEST LIFECO SECURITIES HELD AT FEBRUARY 23, 2016				
Common Shares	DSUs <sup>(2)</sup>	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs <sup>(2)</sup>	Minimum Equity Ownership Requirement for Directors: Meets/On track to meet <sup>(4)</sup>
10,000	21,538	31,538	\$1,089,323	✓

- In this example the value of Shares and DSUs is already calculated
- If just the share amount is given you can find the historical and current values of stock prices for public companies on sites such as Yahoo! Finance Canada, MarketWatch.



# Calculating the Value of Shares

- The chart in the previous slide stated that those are the amount of shares held at February 23, 2016. The report is from Great-West Lifeco.
- Looking up the share price of Great-West Lifeco on February 23, 2016 we find it was \$34.54 (I used Yahoo! Finance Canada)
- We then calculate  $\$34.54 \times 31,538$  total shares = **\$1,089,322.52**



GREAT-WEST LIFECO INC x Crystal

https://ca.finance.yahoo.com/echarts?s=GWO.TO#symbol=GWO.TO;range=6m

Suggested Sites  
<https://ieonline.microsoft.com/#ieslice>

Great-West Lifeco Inc. (GWO.TO) - Toronto  
**32.49** +0.55 (1.66%) 3:17PM EDT

Summary  
 Order Book  
 Options  
 Historical Prices  
 CHARTS  
 Interactive  
 Basic Chart  
 Basic Tech. Analysis  
 NEWS & INFO  
 Headlines  
 Company Events  
 Market Pulse  
 COMPANY  
 Profile  
 Key Statistics  
 SEC Filings  
 Competitors  
 Industry  
 Components  
 ANALYST COVERAGE  
 Analyst Opinion  
 Analyst Estimates  
 OWNERSHIP  
 Major Holders  
 Insider Transactions  
 Insider Roster  
 FINANCIALS  
 Income Statement  
 Balance Sheet  
 Cash Flow

Enter name or symbol GET CHART COMPARE EVENTS TECHNICAL INDICATORS CHART SETTINGS RESET

Feb 23, 2016: GWO.TO 34.54

© 2016 Yahoo! Inc.

2016  
 Volume: 382,100

1D 5D 1M 3M 6M YTD 1Y 2Y 5Y Max FROM: Feb 23 2016 TO: Feb 23 2016 0.00%

2002 2004 2006 2008 2010 2012 2014 2016

Basic Chart | Full Screen | Print | Send Feedback

Great-West Lifeco Inc. (GWO.TO) - Toronto

Prev Close:	33.04	Day's Range:	32.39 - 32.97
Open:	32.96	52wk Range:	30.83 - 37.10
Bid:	32.49	Volume:	505,059

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Windows taskbar showing icons for Word, File Explorer, Adobe Reader, PowerPoint, and a folder. System tray shows date and time: 2:33 PM 23/09/2016.



# Stock Options

- Stock options are different from shares as they are not actually owned; instead they are benefits in the form of an option given by the company to an employee to buy stock in the company at a discount or at a stated fixed price.



# Stock Options (continued)

- The employee must purchase the stock with their own money at a predetermined exercise price. The employee typically has to wait a certain period of “vesting time” until the option can be exercised. When the option vests, the employee gains the right to sell or transfer the option.
- If the exercise price is lower than the value of the stock at the time purchased then the options are valuable.
- Options generally have an expiration date.



# Calculating Stock Options

For example, let's say that Company A gives or grants John Smith options to buy 100 shares of stock at \$2 per share. John can exercise the option starting on November 1, 2016. On November 1, 2016 the stock for Company A is worth \$6. John's choices are:



# Calculating Stock Options (continued)

- A. Convert the options to stock by buying it at \$2 per share and then selling all the stock after the specified waiting period. If John sold 100 shares he would make a profit of \$400 (bought at \$200, sold at \$600).
- B. Sell some of the stock after the waiting period and keep some to sell later. Stock would be bought at \$2 per share first.
- C. Change all the options to stock, buy it at the discounted price and keep it with the idea of selling it later when the share price has risen (although there is no way to predict if that will happen).



# Calculating Stock Options (continued)

In order to determine the value of stock options we take the profit in option A) even though we do not know exactly how John will proceed. When determining giving capacity I generally take stock options with a grain of salt, but it does offer an interesting glimpse by seeing what the profit on the options they hold could be.



# Example of Stock Options in a Report

Option-Based Awards			
Number of securities underlying unexercised options	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$) <sup>11</sup>
150,000	31.26582	May 12, 2018	489,627
65,300	27.15750	February 28, 2021	481,424
88,500	23.16475	February 28, 2022	1,005,825
77,600	27.12800	February 28, 2023	574,395
21,500	28.36298	May 13, 2023	132,591
84,000	31.13600	February 29, 2024	285,096
109,400	30.33400	May 20, 2024	459,042
181,800	35.62000	February 28, 2025	NIL



# Determining the Value of Stock Options

- The chart in the previous slide includes a calculation of the value of the unexercised options
- If the calculation is not included we can calculate it ourselves by finding the current share price and comparing it to the option exercise price
- If the option exercise price is lower than the current share price it is profitable and we can then calculate the value
  - $(\text{current share price} - \text{option exercise price}) \times (\text{number of securities underlying unexercised options})$



# Other Information in the Filings

- Other information that can be found in public company filings include:
  - Key Executive Compensation
  - Key Executive Pension Information
  - Director Compensation



# Key Executive Compensation Example

Year	Salary (\$)	Share - Based Awards (\$)	Option - Based Awards (\$) <sup>[2]</sup>	Annual Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$) <sup>[6]</sup>	Total Compensation (\$)
2015	1,064,231	50,000 <sup>[1]</sup> 999,995 <sup>[2]</sup>	1,088,982	1,750,000 <sup>[4]</sup>	1,987,735	188,000 <sup>[7]</sup> 24,106 <sup>[8]</sup>	7,153,049
2014	964,231	50,000 <sup>[1]</sup> 449,992 <sup>[2]</sup>	1,051,060	1,627,140 <sup>[4]</sup>	3,834,551	216,000 <sup>[7]</sup> 20,002 <sup>[8]</sup>	8,212,976
2013	800,077	33,242 <sup>[1]</sup> 245,996 <sup>[2]</sup>	410,321	1,416,570 <sup>[4]</sup>	3,950,784	123,242 <sup>[7]</sup> 14,625 <sup>[8]</sup>	6,994,857
2015	369,865	437,388 <sup>[2]</sup>	496,571	368,081 <sup>[4]</sup>	(3,287)	8,848 <sup>[8]</sup> 109,350 <sup>[7]</sup>	1,786,816
2014	707,838	212,413 <sup>[2]</sup>	185,130	612,651 <sup>[4]</sup>	(482,830)	17,109 <sup>[8]</sup>	1,252,311
2013	684,358	206,110 <sup>[2]</sup>	180,544	594,789 <sup>[4]</sup> 350,000 <sup>[5]</sup>	1,598,876	16,675 <sup>[8]</sup>	3,631,352
2015	571,804	343,186 <sup>[2]</sup>	389,350	597,521 <sup>[4]</sup>	5,295,980	NIL	7,197,841
2014	554,885	166,485 <sup>[2]</sup>	145,299	461,136 <sup>[4]</sup>	448,788	NIL	1,776,593
2013	505,673	118,755 <sup>[2]</sup>	91,520	423,541 <sup>[4]</sup>	948,127	NIL	2,087,616



# Key Executive Pension Example

Number of Years of Credited Service	Annual Benefits Payable (\$)		Accrued Obligation at Start of Year (\$) <sup>(1)</sup>	Compensatory Changes (\$) <sup>(2)</sup>	Non-Compensatory Changes (\$) <sup>(3)</sup>	Accrued Obligation at Year End (\$) <sup>(4)</sup>
	AT YEAR END	AT AGE 65				
29.6	1,107,412	1,216,977	18,375,312	1,987,735	167,372	20,530,419
32.5	824,718	824,718	13,607,077	(3,287)	131,458	13,735,248
30.8	576,613	608,577	6,586,730	5,295,980	10,558	11,893,268
29.0	402,353	1,059,734	11,280,296	(152,968)	1,990,836	13,118,164
17.4	477,792	870,812	5,833,891	382,204	9,707	6,225,802
32.5	624,927	624,927	9,962,948	4,724	886,749	10,854,421



# Director Compensation Example

DIRECTORS' COMPENSATION <sup>[1]</sup>			
Fees Earned (\$)		Mandatory DSU Awards (\$) <sup>[2]</sup>	Total (\$)
Cash (\$)	Voluntary DSU Awards (\$) [2]		
109,000	93,000	50,000	252,000
NIL	175,000	50,000	225,000
136,000	6,000	50,000	192,000
21,555	93,000	32,555	147,110



I have all the information I can find...now  
what?



# Using Stock Information in Your Wealth Assessment

- There are many experts in the field with formulas for estimating giving capacity including Elizabeth Crabtree, Cecilia Hogan, and Joshua Birkholz



# Using Stock Information in Your Wealth Assessment (continued)

- One sample calculation:
  - Stock holdings generally represent 20% - 30% of an individual's net worth
  - Giving Capacity is generally 5% of an individual's net worth over 5 years
  - If your prospect had stock holdings (shares plus options) of \$1.5 million, giving capacity would be:  $\$1.5 \text{ million} / 30\% \times 5\%$  to  $\$1.5 \text{ million} / 20\% \times 5\% =$  **\$250,000 to \$375,000**



# Using Stock Information in Your Wealth Assessment (continued)

- Another sample calculation:
  - 5% of known assets equals giving capacity over 5 years
    - If your prospect had stock holdings (shares plus options) of \$1.5 million, giving capacity would be:  $\$1.5 \text{ million} \times 5\% = \$75,000$
    - If you have other assets they would be included in the calculation



# Using Stock Information in Your Wealth Assessment (continued)

The more information you have about your prospect the more accurate your capacity calculation will be



# Using Stock Information in Your Wealth Assessment (continued)

- Other items to take into consideration along with stock holdings include:
  - Real Estate
  - Annual Income
  - Value of Luxury Items
  - Annual Giving
  - Age of Your Prospect



# Conclusion

- Stock holdings can help us estimate net worth and calculate giving capacity
- By looking at what companies they hold stock in we can also get an idea of their interests and personal connections



# Questions?

Contact Crystal Leochko Johnston  
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