Business & Financial Communications:
The Key Players, Terms and Channels

The Guidelines

Generally Accepted Accounting Principles (GAAP) are a set of accounting rules that guide financial statements that companies must prepare. They cover how transactions must be accounted for ("recognition') and how financials must be reported ("disclosure"). Recognition refers to the time that transactions are recorded and how they are measured. Disclosure refers to explaining to investors and the general public how and why the numbers were recognized (usually done in footnotes in financial statements. The GAAP provide an overall framework and set of rules for corporate financial reporting; they are written by the Financial Accounting Standards Board (FASB), a group of accountants. *Generally accepted* means an authoritative group has set a principle of reporting for an area or issue, or an accounting practice has been deemed acceptable over time and is generally used universally.

Material information: Information about a company and its operations is "material" if it might cause: 1) the prices of securities (stocks, bonds) to go up or down, or 2) a reasonable investor to make a decision to buy or sell securities. Material information must be reported "simultaneously" to all organizational publics: this is usually done through a press release. PR professionals are often privy to material information because they must prepare it for communication.

Insider trading refers to the direct or indirect trading of securities, or information about them, on the basis of material information not yet disclosed to the public. This is a criminal act prohibited by the Securities and Exchange Commission (SEC). Martha Stewart was a notable case among many others in the past decade.

Sarbanes-Oxley Act (2002): This law became fully effective in 2006. It was passed due to the accounting scandals at Enron, Adelphia, Worldcom, Global Crossing, TYCO, HealthSouth, Arthur Andersen and other major companies in the early 2000s, which resulted in billions in corporate, investor and employee losses. The law mandates a wide-sweeping accounting framework for all public companies doing business in the U.S. The clear intentions of the tough new standards are to 1) force companies to generate financial reports that are readily verifiable with traceable source data, and 2) to render a companies actions and communications more transparent.

The Primary Players

Financial Accounting Standards Board (FASB): This private independent organization, formed in 1973, established additional standards of financial reporting and accounting. The idea was to take rules and rule-making out of the hands of practicing accountants with vested interests. The group consists of seven members (and a professional staff of 40) who are experts in accounting, finance

and business and who represent the public's interest in such matters. FASB regularly reviews, deliberates and decides upon new or amended accounting rules and standards.

Securities and Exchange Commission (SEC): The role of this federal agency, created in 1934, is to protect investors and maintain the integrity of the various securities markets (stocks, bonds, etc.). Thus, the SEC requires public companies to disclose "meaningful" financial and related information to the public through a variety of channels, e.g., annual report, quarterly news releases, and others.

Corporations and Their Officers: Companies seek to make money for their owners (stockholders), who select a board of directors that hires "managers" to run the day-to-day operations of the company. The most important managers are typically the CEO (chief executive officer), the CFO (chief financial officer) and the COO (chief operating officer). Most companies also include a president and a variety of vice presidents and other high-level officials who take decisions in the interest of creating shareholder value (and sometimes value for themselves).

Stockholders (or **Shareholders**) refer to any individual or institution who possesses shares of common or preferred stock in a corporation. Stockholders have voting rights in certain matters of corporate governance, and they buy and sell stock and bonds based on current and potential future performance. *Individual investors* are individual consumers who own shares; *institutional investors* represent large groups of people, e.g., the Alabama Retirement System, who collectively own shares of stock. Institutional investors, because they control large blocks of stock, have influence today on the value and movement of company shares.

The Secondary Players

Business/Financial Media: Numerous journalists and media outlets cover and report on the financial performance and activities of corporations. Media coverage to some extent influences how we see and understand these companies—their image and reputation. Business and financial media are pervasive and diverse. They include reporters at many daily newspapers and radio and TV stations; business news wires such as Reuters, Dow Jones, Bloomberg, FNN and so forth; specialized TV programs/outlets like Money Line, MSNBC, and CNN-CN; specialized publications like *The Wall Street Journal*, *The Financial Times*, *The Economist*, *Crain's Business News*, and *Fortune* and *Forbes*; and numerous online sites.

Financial Analysts are professional "experts" about companies in particular industries such as automobiles, banks, appliances, and so forth. They closely track company performance, meet with executives and then "explain" and forecast" the company's financial performance, recommending whether to buy, hold or sell company stocks. They then "sell" their analysis to individual and institutional investors, who may be influenced by the analysts. They also are important to PR because they are increasingly used as experts who are quoted in news stories about companies.

Portfolio Fund Managers are responsible for buying and selling stocks and bonds for institutional investors and mutual funds. They are powerful individuals in that they may move large blocks of stock, which may influence the price and/or movement of stocks.

Investment Clubs consist of individual investors who come together to track, evaluate and select stocks to buy or sell. Such clubs come together in large annual conferences (e.g., National Association of Individual Investors) where company representatives (including PR people) are present to discuss their companies and performance, or to make presentations. Related to such groups are an increasing number of **Day Traders** who buy and sell stocks each day as an occupation.

Corporate Employees also often own company shares through 401K or 403B plans, and they can move shares of stock. PR professionals in organizations may be engaged in communication programs to help employees better understand financial aspects of company performance, or how financial performance drives stock prices and evaluations.

Required SEC Documents and Other Communications

Annual Report (Form 10-K): This is a yearly comprehensive report of various kinds of financial information required by the SEC, including a balance sheet, statement of cash flows, income statement or statement of operations, overview of the business and business segments, management strategy and officer biographies, debt statements, significant financial obligations or developments, an auditor's report, historical performance, and so forth. The report must be filed within 90 following the end of company's fiscal year. Companies also produce an annual report to shareholders, which is a condensed version of the 10-K report. This document, usually prepared and produced by PR professionals, is more colorful and reader friendly and is distributed to employees, suppliers, business partners, shareholders, community officials, and other publics.

Annual Shareholder's Meeting: The SEC requires public companies to conduct a yearly meeting for shareholders where matters of corporate governance are conducted. The tone and style of such meetings, and the extent to which media activities may be included, vary considerably.

Quarterly Financial Report (Form 10-Q): This is the SEC-required quarterly version of the 10-K with unaudited financial performance data for the just-completed quarter of business. It must be filed within 45 days of the close of the quarter.

Proxy Solicitation Materials: This filing is completed at the time of the annual shareholder meeting and provides shareholders with information to help them vote on various matters of corporate governance, e.g., compensation issues, board members, resolutions and so forth.

Form 8-K: This report details any significant events or changes which may be of importance to shareholders, e.g., changes in officers or directors, acquisition or disposition of assets, major lawsuits, or other material developments.

Form 144: This required form announces the purchase or sale of stock by company insiders.

Quarterly Earnings Release: This is the financial news release prepared and distributed each quarter by PR practitioners. It reflects information provided in the Form 10-Q and includes the CEO's comments on quarterly performance. Today, company officers often conduct a conference telephone call or video conference with financial analysts and key financial media on the day the quarterly release is issued.

Material News Releases: The SEC requires that material information be communicated simultaneously to publics. Typical material developments include officer changes in the company, new product or service developments, mergers and acquisitions, new business developments, loss of a major customer, significant strikes, major crises, and other developments that might affect stock or bond prices or purchase/sell decisions. The preferred method of simultaneous communication is a news release.

Other Communication Materials: PR professionals often produce a variety of other financial communication materials that are not required by the SEC but are channels through which the company seeks to tell its financial story, attract investors, inform employees, or accomplish other objectives. These include *executive speeches* delivered to analysts, investors, employees, or other publics; *corporate advertisements*, posters or flyers; *articles* or stories for employee newsletters; and *employee brochures* or other economic education tools.

The Key Financial Terms

Asset: Any resource that is owned and has commercial or exchange value, e.g., cash, short-term investments, property, receivables, fixed assets and intangible assets. *Capital assets* refer to fixed assets such as buildings, furniture, fixtures, machinery, etc. *Net assets* are the property of a corporation after all obligations have been met (bills paid, debts eliminated, loans paid off).

Balance Sheet: One of the three key financial statements for an organization. The balance sheet is a statement that summarizes total assets, total liabilities and stockholders' equity on a particular date (see Appendix A). The balance sheet formula is:

Total assets = Total liabilities + Total shareholders' equity

Capital: Broadly refers to financing or funding. Also may refer to the amount invested in a firm, including assets, original investments, gains and profits. Capital gains or losses accrue from the sale of assets. Capital can also include minority interests, deferred income taxes, and other equity substitutes.

Cash Flow: This refers to cash coming/flowing into and out of the company. From an accounting perspective, cash flow is a measure of corporate worth that consists of net income after taxes plus certain noncash charges against income, e.g., depreciation, amortization, charges to reserves, etc.

The cash flow statement (see Appendix B), another key financial statement, provides a more accurate picture of real money coming into and going out of the company, and where it comes from —operating activities, investing activities, or financing activities. This is important to potential investors because it gives some indication of the company's ability to repay loans.

Common Stock: Stock in a corporation usually provides a share in profits and carries the right to vote. However, payments to common stockholders are subordinated to payments to *preferred stockholders* and creditors. Thus, they are not guaranteed in the event of liquidation.

Debt: A liability incurred by a company; money, services, or materials owed to another person or company as a result of an agreement.

Diluted Earnings: These refer to net revenues after accounting adjustments have been made for unusual items or special charges, e.g., costs for restructuring the company or closing plants.

Dividend: A portion of net profits that has been officially declared by the company's Board of Directors for distribution to stockholders. Stockholders may earn money from their investment through dividends and stock value appreciation.

Earnings: Net income, or the remains from earnings and profits after all costs, expenses, and allowances for depreciation and any losses have been deducted. See Appendix D for an example of an Earnings Report.

EBIT (earnings before interest and taxes**):** This is also called *operating margin* or *operating profit*.

EPS (earnings per share**):** This is a company's net income (less preferred dividends) divided by the number of outstanding common shares of stock issued (weighted average during period). For example, if a company has earnings or a net income of $210 million, and has 70 million outstanding shares of stock, the EPS is $3.00.

Equity: This terms means the book value of the firm, which is determined by subtracting total liabilities from total assets. Also called Total Shareholders' Equity. The term also can refer to an individual's or company's ownership interests—the amount or percentage owned. For example, someone who owns $10,000 worth of stock in Toyota has an equity of $10,000. If Toyota owns 32% of Gimme Motors, it holds an equity ownership position of 32 percent in the company.

Financial Statements: These formal documents depict a company's financial performance and status; they help us gauge its strength and provide comparative data over time. The three key financial statements for a company include: an income statement, a balance sheet, and a statement of cash flows.

Fixed costs: Costs that do not change whether a company's sales increase or decrease, e.g., rent, property taxes, and facility insurance costs. *Variable costs,* on the other hand, change directly with sales and production level changes, e.g., labor, fuel consumption, utilities, etc.

Foreign Exchange Rate (or foreign currency rate): The price of one currency in terms of another. Most transnational corporations operate in multiple countries with multiple currencies. Trading or exchanging currencies is complex and risky and can produce gains or losses.

Income Statement: This key financial statement depicts records revenues and expenses for the company and indicates net income for a specific period of time (see Appendix C).

Intangible Assets: This refers to an asset that has no physical existence or substance, e.g., goodwill, patents, trademarks. Some suggest that PR is an intangible asset, or a form of goodwill.

Inventory: Company assets that are held for sale in the normal course of business. This includes finished goods, work-in-process, and raw materials.

Liabilities: Any financial obligations due to creditors or lenders, e.g., loans, interest due, unpaid bills for materials and other accounts payable.

Market share: The percentage of sales within a particular market (product, country, etc.) enjoyed by a company. For example, if Makers Mark sells 40 percent of all bourbon sold in Kentucky, it enjoys a 40 percent market share in Kentucky.

Market Value: A company's stock price times the number of shares of stock outstanding.

Net Income: This is company revenue minus all costs and expenses during a given period of time. This is also sometimes referred to as *net profit* or *net earnings*.

Net Profit Margin: This is determined by dividing net income by net sales. This is also sometimes called the *profit margin ratio*.

Net Sales: This refers to the amount of gross proceeds from sales of merchandise minus sales returns, sales discounts and any other allowances.

Operating Expenses: These are the primary expenses occurred in the normal operations of a company, other than costs of goods sold, that are incurred to generate sales, e.g., general and administrative expenses, selling expenses including advertising, and so forth.

Operating Income: Operating revenues or gross margin minus operating costs. This refers to the income to a business produced by its earning assets and/or fees for services. Same as EBIT.

Preferred Stock: A type of stock that typically pays a fixed dividend. It generally has preference over common stock if the firm is liquidated.

Price-earnings (P/E) ratio or **multiple**: The price of a share of stock divided by earnings per share for a 12-month period. For example, a stock selling for $50 per share and earning $5 per share is

said to be selling at a P/E ratio of 10:1. Some investors look to low P/E ratios as indicative of potentially good investments, a host of other considerations being equal.

Profit: 1) Moneys remaining after a company has paid its bills during a time period, and 2) the excess of selling price over all costs and expenses incurred in making a sale of a product or service.

Proxy Statement: This refers to the written authorization given by a stockholder to someone else to vote on his or her behalf at the firm's annual meeting.

Revenues: Grand total of all resources received from the sale of a firm's products or services, as well as gains from minority interests or unusual items. Note that *sales* usually refer to income from direct selling of the firm's products and services and do not include other forms of income.

Restructuring Charge: This is a one-time deduction that is taken against earnings for expenses such as plant closings and employee severance payments.

Return on Assets Ratio (ROA): This common performance measure is determined by dividing net income by total assets.

Return on Equity (ROE): This common performance measure is the ratio of net income divided by stockholders' equity.

SG&A (Selling, General and Administrative expenses): These are the operating costs related to storage, promotion or sales of a product, and many of the typical staff function costs—legal, human resources, public relations, marketing, and so forth.

Stockholder Equity: This is the total amount of money that the company's owners (stockholders) have invested in the firm, as well as the amount of earnings that have been retained in the company.

Shareholder Value: This is determined by multiplying the firm's stock price by the total number of shares of stock outstanding.

Statement of Cash Flows: This is the third key financial statement for a firm, and it summarizes a company's sources and uses of cash during a specified period.

Unusual Items: Unusual, non-recurring, or one-time charges to a business, e.g., merger-related costs or restructuring charges. May also refer to similar gains, for example, from the sale of a business or division, a favorable legal settlement, or other such one-time gains. .

APPENDIX A: Balance Sheet

APR Company
Balance Sheet
December 31, 2014
(000)

ASSETS	
Current Assets	
Cash	1,300
Accts Receivable	2,200
Inventory	700
Supplies	300
Total CA	4,500
Property, Plant & Equip.	
Buildings	800
Equipment	300
Land	500
Less Accum Dep.	(30)
PPE-Net	1,570
Intangible Assets	
Goodwill	120
Trade Names	200
Total IA	320
Total Assets	6,390

LIABILITIES	
Current Liabilities	
Notes Payable	1,700
Accounts Payable	2,620
Taxes Payable	630
Wages Payable	110
Total CL	5,060
Long-Term Liabilities	
Bonds Payable	450
Total LTL	450
STOCKHOLDERS' EQUITY (SE)	
Common Stock	680
Retained Earnings	200
Total SE	880
Total Liabilities + SE	6,390

The **Balance Sheet** is one of the three key financial statements for an organization. The balance sheet summarizes total assets, total liabilities and stockholders' equity on a particular date. The balance sheet formula is:
Total assets = Total liabilities + Total shareholders' equity

Return on Assets Ratio (ROA): This common performance measure is determined by dividing net income by total assets.

Return on Equity (ROE): This common performance measure is the ratio of net income divided by stockholders' equity.

APPENDIX B: Cash Flow Statement

APR Company
Statement of Cash Flows
For Year Ended December 31, 2014
(000)

Operating Activities	
Net Income	$6,000
Inventory	(100)
Accounts Payable	(600)
Accounts Receivable	400
Net Cash from Operations	5,700
Investing Activities	
Capital Expenditures	(300)
Acquisition Purchase	(1,500)
Cash from Investing Activities	(1,800)
Financing Activities	
Repayment of Debt	(400)
Dividends Paid	(600)
Issuance of Stock	200
Net Cash from Financial Activities	(800)
Change in Cash	3,100
Cash at Beginning of Year	000
Cash at End of Year	3,100

Cash Flow: This refers to cash coming/flowing into and out of the company. From an accounting perspective, cash flow is a measure of corporate worth that consists of net income after taxes plus certain noncash charges against income, e.g., depreciation, amortization, charges to reserves, etc. Cash flow provides a more accurate picture of real money coming into the company, and where it comes from—typically three sources: 1) net cash from operations (sale of products and services), cash from investing activities, and net cash from financing activities. Cash flow is important to potential investors because it gives some indication of the company's ability to repay loans.

APPENDIX C: Income Statement

APR Company
Income Statement
For Year 2014
(000)

Sales		$ 48,000
Cost of Goods Sold		32,000
Gross Profit		16,000
Operating Expenses		
S&A Expenses		
Advertising	4,200	
Research & Dev.	1,000	
Office Supplies	500	
Office Equipment	500	
Total Operating Expenses		6,200
Operating Profit (or EBIT)		9,800
Other Revenues/Expenses		
Interest Income	400	
Interest Expense	(200)	
Loss from Foreign Currency	(500)	
Total Other Revenues/Expenses		300
Total Income		9,500
Income Tax	3,500	
Net Income		$ 6,000

Income Statement: This key financial statement depicts revenues and expenses for the company and indicates operating profit and net income.

Net Profit Margin: This is determined by dividing net income by net sales. This is also sometimes called the *profit margin ratio*.

APPENDIX D: Quarterly Earnings Report

APR Company
Third-Quarter 2014 Earnings Report
($ in millions, except share data)

		3Q (2014)	3Q (2013)
TOTAL	Sales	$89	$78
	Earnings	$11	$10
	EPS	.75	.72
	EPS-Diluted	.60	.70
	Restructuring charge-per share	.15*	.02**
U.S.	Sales	$70	$58
	Earnings	$10	$ 7
	EPS	.65	.60
	EPS-Diluted	.65	.60
LATIN AMERICA	Sales	$19	$20
	Earnings	$ 1	$ 3
	EPS	.10	.12
	EPS-Diluted	(.05)	.10
	Restructuring charge-per share	.15	.02

*Restructuring charges are for the closure of a manufacturing plant in Sao Paulo, Brazil.
**Restructuring charges were taken for job terminations at a manufacturing plant in Lima, Peru.

This earnings report or statement (NOT a news release) provides a quarter-to-quarter comparison and a short-hand explanation of corporate earnings, a common and crucial measure of performance for financial analysts and investors. Similar reports can be prepared for year-to-year comparisons. A positive, steady growth trend over time is the desired direction.