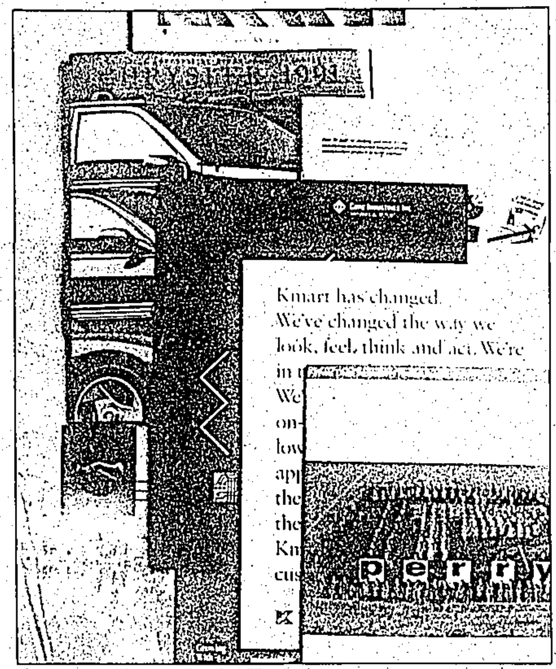

Producing annual reports is a $4-billion business.

Corporate annual reports: Part form, part substance

By Doug Funke
staff writer

'Tis the season for corporate annual reports.

Publicly owned companies, by law, must check in with shareholders prior to annual meetings. Basic requirements include financial statements, management discussion and analysis of operations, and a list of directors and officers.

Legal requirements could be met in a fairly straightforward manner with text and numbers. But the production of annual reports has gone beyond the simple. Some exceed 50 pages with color pictures, glitzy layout, snappy graphics and glossy paper.

"I understand it's a $5 billion business worldwide," said Robert Ghelardi, editor of Corporate Annual Report, a newsletter based in Chicago. Production costs a couple years ago averaged $3.25 per copy, he added.

Kmart, the retailing giant headquartered in Troy, printed about 200,000 reports this year, said Mary L. Lorencz, public communications manager who's responsible for its production.

She declined to divulge specific cost figures.

"It can take anywhere from six months to nine months putting all the financials and all other information together," Lorencz said. "There's no special committee. I'm in communications. We get a feeling for what the CEO and investor relations feel our shareholders should know."

MANY CORPORATIONS like Kmart and Core Industries, a manufacturer of electronics, farm equipment and fluid controls headquartered in Bloomfield Hills, hire outside designers to help pull the report together.

This year, Core used Pangeorn Design from Detroit. Kmart contracted with Pentgram Design from New York City.

"I like to deal with local people," said Neil C. Wester, chief financial officer for Core who is responsible for its annual report. "When the design production process begins, you need people close by who can respond quickly."

Photographers are contracted as needed, but Core and Kmart try to use pictures already taken for promotional advertising efforts in the annual reports.

Handleman, a Troy-based distributor of music tapes and discs, videos and computer software, subcontracted virtually its entire 1991 report.

Creative Design Board did the design work, Financial Relations Board wrote most of the copy. Both are in Chicago.

"WE GIVE them ideas. They do the detail — designing and writing," said Tom Braum, corporate controller for Handleman. "They'll bring a half dozen cover designs, ideas on themes."

Braum served on the annual report committee with a representative of the company's merchandising, advertising and finance departments.

"The goal of the report — that's a difficult question," Braum said. "Each member of the committee would probably say something different.

"There's legal requirements. We want to make sure current and potential shareholders know what our goal is, know what the company is about, what it's trying to achieve and be advised about its financial strengths and opportunities."

External costs of producing and mailing the report are in a range of $2.50-$3 per copy, Braum said. More than 20,000 were printed last year.

Core, on the other hand, does much of its report internally, Wester said. He starts working on the project in June and July and mails after Thanksgiving.

"AFTER WE resolve the basis of design, we start collecting photo subjects," Wester said. "Simultaneouosly, I interview operating divisions and obtain highlights of the past year. I'm functioning as a news reporter. We sort through that, organize an outline and build text around the outline."

Thomas Hooper, treasurer and controller, prepares management's discussion and analysis when the financial numbers come together in the middle of September, Wester said. The budget year ends Aug. 31.

"I'll review what Hooper has drafted," Wester said. "I'm looking for clarity, simplicity and consistency of style from front to back. One individual, I feel, has to be overseeing the whole product. We don't do that by committee here."

The chairman gets a final look-see and approval before printing.

Wester pegged production cost at $2.50 per copy and 20,000 were printed last year.

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What to look for when skimming financial reports

By Doug Funke
staff writer

Accountants agree that an independent auditor's unqualified opinion about the reliability of information is one of the most important parts of an annual financial report.

But the numbers themselves, management's discussion of performance, and the footnotes to the statements taken together provide insight into the health of a corporation. That is, if you know what to look for and how to interpret the information.

First things first.

The income statement indicates whether a business sustained a profit or a loss during a 12-month period.

The balance sheet lists assets, liabilties, and equity — shareholders' ownership.

The cash flow statement indicates sources and uses of corporate cash and money equivalents throughout the year.

Don't try to read an annual report like a book from cover to cover, beginning to end, accountants advise. You'll probably get bogged down.

"I READ footnote by footnote and relate back to each financial statement it refers to," said Mark D. Rottermond, a partner in the accounting firm of Mathews, Reich, Perna and Rottermond in Bingham Farms. "One cannot be considered without the other."

After coming to your own conclusions about the financial health of the company, and perhaps formulating questions, study management's analysis, Rottermond suggested. "If you don't like what you read, why would you want to invest with them?"

Chuck Dunleavy, managing partner of BDO Seidman's Troy office, offered other pointers.

"I'd look for continuity of management. Clearly, if people are jumping around, it would lead one to believe there's some instability there."

He also gives much weight to management's discussion.

"I would look at their plan for next year. Does it make sense in the existing business climate? If they lost $5 million last year and say they'll make $5 million this year, is that realistic?

"HAVE FINANCIAL trends been consistent from year to year? You can't ignore one year's performance, but you have to look at the big picture," he said.

Dunleavy also investigates a less obvious but major issue that every report should address — is major litigation in process or pending?

Rick Valade, a partner with Arthur Andersen, finds that a few simple numbers can provide a quick overview.

"The first thing I look at on the income statement is the net earnings line. I look at sales trends, also. On the balance sheet, I quickly check current assets to current liabilities. That tells me how much working capital is there.

"For cash flow, the first subtotal line is cash provided by operating activities. You want that to be a positive number and a growing number. A company not generating cash from operations, long term — that will kill you.

"I think the big thing (readers) should look at is something carved in the middle of the report — management's discussion and analysis. It's dry reading and it's going to run a couple of pages. It not only tells you what happens but why," Valade said.

Percentages rather than raw numbers are more meaningful when comparing long-term results, Rottermond said. That's because the value of the dollar decreases over time.

If you have questions about a report or need help interpreting some of the figures, feel free to contact the company's investor relations representative or treasurer for clarification.

They're also listed in the report.

National firms, franchises lead uptick in retail leasing activity

By Gerald Frawley
staff writer

Cross your fingers, throw some salt over your shoulder, rub a horseshoe, squeeze a rabbit's foot — just don't jinx what may be the beginning of signs of an upswing in retail space leasing.

If leasing is up, the economy can't be too far behind.

After months of recession, retail spacing in the major power centers and strip centers seems to be picking up.

Michael Lippett, retail specialist of Landmark Commercial Real Estate Services Inc. in Birmingham, said leasing activity and inquiries have increased sharply in recent months.

"That's not to say there hasn't been fallout, there is fallout, but there is net absorption," he said. Companies continue to close, he said, but enough space is being leased to offset the failure rate.

Lippett said he's encouraged by the amount of inquiries and leasing activity. "I would have to say the strip centers are a better indicator (of whether the economy is improving)," he said.

"Malls are a world unto their own," he said. Much of the space in the enclosed malls, even if it looks vacant to most shoppers, is already having plans made for it.

STRIP CENTERS are more susceptible to swings in the economy, he said. "Every center has a built-in vacancy rate," he said. The typical strip center is between 5 and 10 percent. Lippett said his firm hasn't done its annual market survey yet, but he would guess that vacancies in the shopping centers and power strip centers near the malls and along the major retail corridors like Woodward Avenue and Orchard Lake in Oakland County and Ford Road in Wayne County is hovering just below 10 percent.

The neighborhood strip centers are seeing higher rates, he said. "They will fill up, but at a slower rate."

Several things are contributing to the leasing resurgence, but perhaps the most interesting is the increase in business startups — mainly mom and pop stores or franchises.

Because of the recession, people have left jobs or lost jobs or they have money from employee buyouts or severance pay — they're rolling that money over into new businesses, he said. "People do have money to spend."

It's also worth noticing, he said, that there continues to be an influx of national companies into the metropolitan Detroit market.

"Things were beginning to pick up last January until the war came — that kind of put things on hold," he said. After the war, Lippett said leasing increased but at a very slow rate.

Lippett said the retail mix has also been changing in recent months. Three or more years ago, there were many more general merchandise shops opening; today, much of the retail leasing is being done by category killers — stores that specialize in one specific area like Office Max — or franchises.

Following closely are the entrepreneurs who focus on specialty niches — much of it service oriented. "Believe it or not, there are still a lot of pizza shops opening up," he said.

JIM STOKAS, vice president of commercial properties at CB Commercial in Southfield, said his firm has also seen an increase in retail leasing in the shopping centers throughout the area.

Part of that increase, he said, is attributed to current leases expiring and existing retailers repositioning themselves, Stokas said, but there are new businesses starting up and national retailers entering the market.

One reason national companies have begun locating in metropolitan Detroit, he said, is because the market is viewed by many of these companies to be underserved.

Also, because of the advertising mechanisms present in this state, locating in metropolitan Detroit is not that much different from positioning oneself for the whole state, Stokas said.

With statewide circulation in major newspapers and the ability to reach the state through cable television and to a lesser extent broadcast television, it is fairly simple to branch out and reach other areas of the state, he said.

Another reason for the increase in leasing activity, he said, is the slump in construction activity.

Over the natural course of the economy, businesses will start up, exist and fail. Existing businesses will expand. Well-capitalized retailers will take advantage of down times by expanding.

That means there has been a corresponding increase in demand, he said. "With a lack of new construction, some space is going to be leased up by new business even in the worst of times."

Many of the major tenants who might have previously built space or leased space in new construction are taking a second look at existing space, he said.

GREG SULLIVAN, property manager with the Linder Co. which manages the Oak Pointe Center in Pontiac and the Novi Towne Center in Novi, said retail leasing seems to be in an upswing.

"Retailers seem to be moving again."

Sullivan said he wouldn't call it a

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