How to smash corporate state capitalism! Or: understanding basic corporate financials.

Few people know it, but corporate power is actually contained within 3 pieces of paper (!), which are usually found in a stunningly pompous, self-congratulatory and long-winded PR and investment tool called an *annual report*. To read these fancy things, first, step into your protective circle of salt, and then light six black candles…

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To start, let's look at the look-how-much-money-we-made, aren't-we-wonderful **INCOME STATEMENT!!!!** – a summary of the company's revenues/sales and expenses over a certain period, usually its fiscal year. In corporate-speak (the earth's most crude and terrible language), it's often called the "P&L" for "profits and losses," and that's probably the easiest way to think about it. Looks something (or *exactly*…) like this:

(Unites States dollars in millions, except for share and per share amounts)

	Note	**2009**	2008	2007	
Revenues	22	**$ 2,723.6**	$ 2,419.6	$ 2,206.8	-Net sales
Operating expenses		**1,187.3**	1,164.2	953.8	
Depreciation and depletion	22	**526.2**	499.1	465.1	-Cost of sales
Earnings from mine operations		**1,010.1**	756.3	787.9	-Gross income
Corporate administration [1]		**137.6**	136.7	132.9	-Selling, general
Exploration		**32.5**	66.5	42.7	& admin.
Write-down of mining interests	9(b) & (f)	**24.0**	47.1	-	expenses
Earnings from operations	22	**816.0**	506.0	612.3	-Operating
Other income (expenses)					income
Interest and other income (expenses)		**(19.1)**	28.3	20.5	
Interest expense and finance fees	11(b)	**(59.0)**	(7.2)	(44.7)	
Share of earnings of equity investee		**-**	3.9	0.1	
Gain (loss) on non-hedge derivatives, net	15(a)	**3.6**	(2.6)	(23.5)	
Gain (loss) on securities, net	15(a)	**50.2**	(105.9)	5.5	-Other shit
Gain on disposition of mining interests	4(a), (b), (e) & (f)	**20.1**	2.6	51.0	
Gain on disposition of Silver Wheaton shares	4(d)	**-**	292.5	-	
Dilution gains (loss), net	17	**(0.3)**	2.2	10.0	
Gain (loss) on foreign exchange	15(b)	**(366.6)**	1,058.9	(49.4)	
		(371.1)	1,272.7	(30.5)	
Earnings from continuing operations before taxes and non-controlling interests		**444.9**	1,778.7	581.8	
Income and mining taxes	12	**(206.7)**	(295.4)	(160.3)	-Taxes
Non-controlling interests	17	**2.0**	(7.7)	(46.1)	
Net earnings from continuing operations		**240.2**	1,475.6	375.4	
Net earnings from discontinued operation	6	**-**	-	84.7	
Net earnings		**$ 240.2**	$ 1,475.6	$ 460.1	-Net income!

As you can see, it's all about EARNINGS. But this doesn't mean that the company is bringing in that much cash, necessarily, thanks to accrual accounting and when revenues are recognized, blah blah blah… anyway, the income statement is best used as a measure of profitability. This is important because the last 250 years of human history has largely been defined by concerns over falling rates of profit, thus rising and falling rates of profit/return are important industry- and economy-wide trends to watch for (among other things).

Anyway! To calculate a company's profit margin, just divide Net Income ($240.2) by Net Sales ($2,723.6), which in this case is 8.8%. This varies widely by sector (e.g. retail is around 5%), and you'll often hear market analysts talk about much higher numbers, in the 30 percent range. This is the operating profit margin, or Operating Income (profits before interest, taxes and depreciation) divided by Net Sales, 30% in this case. Capitalists love this number. In the first quarter in the US this year, operating profits reached an all-time record high of 36.4-motherfucking-percent. That's what mass layoffs, union busting, financial bailouts, wars of aggression, record poverty and incarceration levels and general society-wide repression gets you: record profit levels. U.S.A.! U.S.A.!

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Next, the ever-so-even-keeled **BALANCE SHEET!!!!** – a snapshot of a company's financial position at a single point in time (yes, corporations can also *freeze time!*), composed of:

- Assets – means used to operate the company, e.g. loans, cash, property, machinery, weapons, etc.
    - Current assets – life span of <1 year, cash or stuff that can be easily converted to cash, e.g. cash equivalents (investments maturing within 3 months, like short-term gov't bonds, treasury bills, etc.), accounts receivable, inventory.
    - Non-current assets – assets not easily converted to cash, or with a long life-span, and usually depreciated over that period to reflect their ongoing use-cost, e.g. tangible assets like machinery, buildings, land or intangible assets like patents and copyrights.
- Liabilities – financial obligations to outside parties, e.g. current/short-term (due within <1 year) like accounts payable and the annual interest due on long-term borrowing like a 10-year loan.
- (Shareholder's) Equity – the initial investment in the business plus reinvested (retained) net earnings.

Why a "balance" sheet? Because assets always equal (or *balance* with) liabilities plus equity. (Clever, eh?) Let's have a look at a really small one and lay out the key formulas based on that "balancing" principle:

	Note	2009	2008
Assets			
Cash and cash equivalents	15(b) & 21	$ 874.6	$ 262.3
Marketable securities	15(a)	24.9	8.6
Accounts receivable	15(b)	232.6	178.6
Income and mining taxes receivable		38.4	15.6
Future income and mining taxes	12	3.6	3.3
Inventories and stockpiled ore	7	349.4	226.2
Other	8	78.0	66.2
Current assets		1,601.5	760.8
Mining interests	9	18,001.3	17,055.2
Deposits on mining interest expenditures		86.9	230.8
Goodwill	9	761.8	761.8
Stockpiled ore	7	93.6	92.6
Investments	15(a)	390.3	73.4
Other	10	13.3	26.9
		$ 20,948.7	$ 19,001.5
Liabilities			
Accounts payable and accrued liabilities		$ 416.4	$ 304.8
Income and mining taxes payable		182.6	-
Current debt	11	16.7	-
Future income and mining taxes	12	107.9	181.5
Current derivative liabilities	15(a)	11.4	-
Current liabilities		735.0	486.3
Income and mining taxes payable		65.4	28.0
Long-term debt	11	719.0	5.3
Future income and mining taxes	12	3,575.2	3,196.6
Reclamation and closure cost obligations	13	282.0	262.3
Other		27.8	12.7
		5,404.4	3,991.2
Non-controlling interests	17	51.1	51.2
Shareholders' Equity			
Common shares, share purchase warrants, stock options, restricted share units and equity component of convertible senior notes		12,908.9	12,625.2
Retained earnings		2,345.5	2,237.0
Accumulated other comprehensive income	19	238.8	96.9
		2,584.3	2,333.9
		15,493.2	14,959.1
		$ 20,948.7	$ 19,001.5

Assets = Liabilities + Equity

Liabilities = Assets – Equity

Equity (net worth) = Assets - Liabilities

Wow! Now let's calculate Goldcorp's net worth (note: *not* market value; it could sell for more/less) in 2009:

Net worth = Assets ($20,948,700,000) – Liabilities ($5,455,500,000) = $15,493,200,000… $15 billion!!!

*Note: To make the balance sheet a bit easier to read, it's good to know that it's organized by putting the most current, or short-term stuff (aka *liquid* for assets, or quickly convertible to cash… which everyone knows is a liquid, right?) first, and the least current, or longest-term stuff last. So cash and A/P first, investments and future taxes last.

Apart from knowing how much a company is worth, what's a balance sheet good for? Well, technically it lists everything the company owns and everything it owes, which is very useful for trying to understand its financial position and stability, using debt-to-equity ratios and other measures, but that's mostly just of interest to markets and investors. It's also somewhat useful for figuring out *who* owns the company, which other companies it's directly financially interested in, and so on, meaning: motives. However, figuring this part out is a bit more involved and usually means having to read through all the notes in the annual report. Then you find out fun things like that Goldcorp owns 65% of Wheaton River Minerals, and a non-controlling interest in a Wheaton subsidiary, Silver Wheaton, and also owns 65% of Terrane Metals Corp, and so on…

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Finally, the most deceptively boring and useless of them all (except for investors, they love this one either way), the **CASH FLOW STATEMENT!!!!** We really don't need to say much about this one (*or do we?*)… so here's a crappy example, and the most insight I could muster:

Cash Flow Statement Company XYZ FY Ended 31 Dec 2003 all figures in USD		
Cash Flow From Operations		
Net Earnings		2,000,000
Additions to Cash		
Depreciation		10,000
Decrease in Accounts Receivable		15,000
Increase in Accounts Payable		15,000
Increase in Taxes Payable		2,000
Subtractions From Cash		
Increase in Inventory		(30,000)
Net Cash from Operations		2,012,000
Cash Flow From Investing		
Equipment		(500,000)
Cash Flow From Financing		
Notes Payable		10,000
Cash Flow for FY Ended 31 Dec 2003		**1,522,000**

Really, the best use I think we can make of something like this is to understand how much money a company *actually* generates from its day to day operations, as well as how financially healthy it is.

What that means is that **cash flow is a good indicator of how flexible a company is.** For example, a negative cash flow doesn't mean that a company is going under, but it can mean that it has tied up a lot of capital in expansion, exploration, renovation, refinancing, etc., meaning that it can't easily dedicate resources to defending its goodwill or its operations or assets (hint, hint). On the other hand, if you're going up against a company with billions in positive cash flow, then you'd better damn well be prepared for a HUGE public relations campaign, high-tech monitoring and surveillance, security forces tailing your ass, bought politicians and media, etc.

Very important to pay attention to the *flow*.

Finally, just for fun, let's finish with a quote directly from Goldcorp Inc.'s 2009 annual report. This is basically everything they're scared of… and, quite honestly, we can begin to see why companies react so strongly to all these things. They're all *risks*. They all impact profitability and market share. Of course, we all know these things, but here it is, right out in the open, the rationalization for all of a given company's horrors and abuses, straight from the horse's mouth:

Foreign Operations

In 2009, the Company's operations were conducted in Canada, the United States, Mexico, Argentina, Guatemala and the Dominican Republic, and as such the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism, hostage taking, military repression, extreme fluctuations in currency exchange rates, high rates of inflation, labour unrest, war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation, and changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.