

TOP NEWS**CEOs Prefer Spin Over Substance in Annual Letters***Fri June 20, 2003 01:58 PM ET*

By Tatiana Serafin

NEW YORK (Reuters) - There are few signs chief executives have taken to heart the mounting pressure to be frank about corporate performance and prospects in their annual letter to shareholders.

According to experts who have analyzed this year's annual reports, the heads of most major companies prefer jargon-heavy language to obfuscate or hype. Descriptions such as "robust growth" and "best in class" gush forth, instead of specifics.

"On average, most letters have not improved," said Laura Rittenhouse, president of And Beyond Communications, a New York investor relations firm that conducts an annual survey of CEO letters. "I don't believe the climate for investors will get better until companies are encouraged to stop the hyperbole."

While companies are releasing more information in their annual reports, the CEO's letter often sets the tone and immediately indicates the quality of disclosure, she said.

Even though many leading investors say it is the financial statements and footnotes that are most critical, Rittenhouse and some other analysts say the shareholder letter is a key indicator of corporate behavior and transparency.

They say a letter that is honest about shortcomings and doesn't overrate success is often tied in with straightforward financial disclosure. However, a CEO's use of spin, jargon and glossy pictures may flag possible shenanigans.

One concern is when a letter is signed by the CEO but is written by the investor relations staff or corporate counsel, who might favor legalese over accessible language.

Only half of corporate chieftains are involved in writing their letter, said Sid Cato, president of Cato Communications, which publishes a newsletter on annual reports.

"If you don't have direct access to the CEO, you don't get a good annual report," he said.

While CEOs may be providing more "need to know" numbers in the shareholder letter, there also needs to be candor, said Rittenhouse. "If it's just a compliance game, it's not good for investors."

THE MEDIA

Examples of the best and worst can be found in the media industry, according to Rittenhouse and Cato.

Newspaper publisher Knight Ridder gets top marks for making you feel as if you are having a one-on-one with CEO Anthony Ridder and getting the inside scoop, said Rittenhouse.

For example, its letter explains past, present and future profits and expectations for the group, and breaks that down for business units. It also addresses what went wrong and why.



On the opposite end of the spectrum is AOL Time Warner, which scored very poorly for the second year in a row in Rittenhouse's assessment.

She faulted AOL Time Warner CEO Richard Parsons for using generic descriptions such as "robust growth" and "best in class" in place of detailed financial information.

And while Parsons called struggling online unit AOL "our greatest challenge," he did not cite specific problems, which included a decline in the number of U.S. subscribers in the fourth quarter of 2002 and falling advertising revenue.

In response to the criticism, AOL Time Warner said its philosophy and approach to shareholder letters are different than other companies.

"We view our annual shareholders letter as an important -- but just one -- element in our robust, continuing communications to our investors," said spokeswoman Tricia Primrose.

She said AOL Time Warner uses press announcements, earnings meetings, executive presentations and SEC filings to supply investors with real-time information.

Some corporate governance experts say that it is too simplistic for investors to rely too much on the CEO letter, because it is often a marketing tool.

"My tip to people looking at annual reports, start from the back and read forward. Read the letter last," said Patrick McGurn, senior vice president at Institutional Shareholder Services, the most powerful adviser to institutional investors on shareholder issues.

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