

LAST WEEK  
**REVIEW**  
 &

Edited by Robin Goldwyn Blumenthal

The Elements of Guile

Sarbanes-Oxley Leaves  
 CEOs at a Loss for Words



For a law that was supposed to bring greater corporate transparency, Sarbanes-Oxley sure seems to have muddied the waters in one area: chief executives' letters to shareholders in annual reports are more turgid than ever.

Investor-relations specialist Laura Rittenhouse, in her 2005 rating of corporate transparency, last week castigated CEOs for their obfuscation. The results of her annual Rittenhouse Candor Rankings were clear: corporate jargon, spin and opacity in these missives are more rampant today than

**Write On**  
 CEO letters use "Orwellian doublespeak, which contradicts and distorts reality," says an investor-relations expert.

they were before the law was passed in 2002. Rittenhouse attributes the backsliding to increased corporate wariness about government and Wall Street scrutiny, and investors' preference for performance over honest discussion. Another culprit: more lawyers vetting speeches.

Rittenhouse's review of last year's annual reports found the "fog" had thickened—more than two-fold—since her 2002 study. Only 24% of the reports got high marks for clarity and candor, down from 57%, pre-Sarbox. Last year's letters had more "Orwellian doublespeak, which contradicts and distorts reality," says Rittenhouse, who heads andBeyond Communications, an investor-relations firm. Among her examples: CSX's claim that Clear Skies legislation will promote "the use of clean, efficient fuel sources like coal," and Burlington Northern Sante Fe's stated aim to "further improve revenue adequacy."

The survey, which began in 1998, isn't easily dismissed. Rittenhouse again found a correlation between candor and stock performance: Shares of the 25 top-ranked companies beat the bottom 25. "Companies that practice candor...are likely to have corporate cultures where employees are not afraid to speak their mind," she says. They foster creativity and innovation as well as reliability of accounting, she contends. Tops on the list? Wells Fargo, followed by Alcoa and JetBlue Airways.

Illustrations for Barron's: William Waitzman (top) Zach Trenholm (right)



# News Release

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## IMMEDIATE RELEASE

### **Survey Shows Alarming Drop in CEO Transparency Since Enron Bankruptcy**

NEW YORK, May 2 /PRNewswire/ -- CEO transparency in shareholder letters, a key indicator of CEO integrity, has substantially declined since the Enron bankruptcy and the passage of Sarbanes-Oxley legislation, according to an annual survey of investor communications. The 2005 Rittenhouse Candor Rankings<sup>(SM)</sup> survey found an increasing number of companies use more jargon, spin more information and make more confusing statements in shareholder letters than before the exposure of widespread corporate fraud in 2002.

L.J. Rittenhouse, President of andBEYOND Communications said, "The passage of Sarbanes-Oxley legislation in 2002 was intended to promote clear and transparent disclosure, but only 24 percent of the companies in our 2005 survey were awarded top marks in candor down from 57 percent in the 2002 survey. While many executives are certifying their results to comply with Sarbanes-Oxley, they are also publishing virtually unintelligible shareholder letters. If they cannot candidly articulate their goals and results, then how can they credibly walk their talk?"

The Rittenhouse Candor Rankings<sup>(SM)</sup> survey, which includes a cross-section of Fortune 500 companies, also confirmed the continuation of a strong positive link between candor and stock price performance. In each of the past four years, the 25 top-ranked companies in candid disclosure have outperformed the 25 bottom-ranked companies.

"The 2005 survey shows an increase in the use of Orwellian double speak which contradicts and distorts reality," says Rittenhouse. Examples include CSX's claim that the Clear Skies legislation will promote "the use of clean, efficient fuel sources like coal," and BNSF's goal to "further improve revenue adequacy."

Among the 2005 survey's top ten companies excelling in candor, six are service-based and four are manufacturing companies. Of these, Wells Fargo, Continental Airlines and Walgreens have been ranked among the top ten in candor for four consecutive years. Xerox showed the greatest improvement from 2002 to 2005, while IBM failed to place in the top ten for the first time since 2002.

**The 10 Top-Ranked Companies in the 2005 Rittenhouse Candor Rankings<sup>SM</sup>**

1. Wells Fargo
2. Alcoa
3. JetBlue Airways
4. PepsiCo
5. Walgreens
6. Jack in the Box
7. Continental Airlines
8. Charles Schwab
9. Harley Davidson
10. Xerox

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