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Many Public Companies Don't Correctly Portray True Financial State

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Misleading financial reporting is apparently still a pervasive practice, as an estimated one-third of the leading publicly traded companies file financial statements that do not accurately represent their true financial condition, a recent study revealed.

According to research conducted by RateFinancials Inc., an independent research firm specializing in rating financial reporting, 32 percent of the 120 companies it examined had a “below average” or “poor” rating, signaling a high risk of existing or future financial problems and low overall quality of reported earnings.

These companies are in the S&P 500 and represent close to 40 percent of the index's market capitalization.

“Despite the provisions of Sarbanes-Oxley, investors cannot accurately evaluate the securities of a significant portion of companies in the S&P, based on their reported financial statements,” said Victor Germack, founder and president of RateFinancials. “We can predict with a high degree of certainty that the ominous trend of earnings surprises and restatements will continue for the foreseeable future and that investors should be wary when purchasing securities.”

RateFinancials ranked 47 percent of the financial statements it reviewed as being average or “acceptable,” while 14 percent were rated “below average” and 1 percent were rated “poor.” The firm rated 35 percent of the companies as “superior” and 3 percent as “outstanding” for their financial statements.

Among the largest companies by market capitalization whose filings were rated overall “below average” were: Archer Daniels Midland, Halliburton, Best Buy, Bristol Myers Squibb, Corning, Eastman Kodak, EDS, Gap, Janus Capital, Motorola and the Walt Disney Company.