

# **The Economic Consequences of (not) Issuing Preliminary Earnings Announcement**

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## **Abstract**

While 80% of companies consistently issue preliminary earnings announcements to the market through a press release prior to their SEC filings (Prelims), 8% consistently file 10Q/Ks without first issuing a preliminary earnings press release (Filers). The remaining 12% use a mixed strategy. Prior studies of market reactions to earnings typically ignore firms that do not issue preliminary earnings releases, leading to a potential bias in studies of both the market reactions to the initial earnings releases or the post-earnings announcement drift. The purpose of this study is to assess this bias through an examination of the characteristics of Filers. The study further investigates whether market reactions to SEC filings of Filers are different systematically from those to preliminary earnings releases of Prelims, and whether the drift in returns subsequent to the earnings release also differs across the two groups.

We find that Filers are smaller than Prelims, are more likely to report losses, have lower earnings persistence, and also lower correlation between earnings and operating cash flows. In addition, Filers are “neglected” companies relative to Prelims, as reflected by their lower trading volume, lower likelihood of raising new capital and lower analysts’ coverage. Consequently, results obtained by prior research on market reactions to preliminary earnings announcements may be biased in excluding small, “neglected”, firms from the analysis.

We also find that Filers have significant market reactions to earnings around the SEC filings, when this information is initially available to investors. However, this reaction is weaker than that of properly matched Prelims around the preliminary earnings announcement date. This result supports the claim that preliminary earnings announcements receive more attention from investors than SEC filings, and also that providing a full set of information (rather than the condensed preliminary earnings information) may reduce the influence of earnings on prices. Furthermore, we find that Filers have smaller post-earnings announcement drifts than properly matched Prelims, although the difference in drifts is not statistically significant at the 0.10 level. This result suggests that providing a more complete set of information, which enables investors to better assess the quality of earnings immediately, may reduce the drift but the reduction is rather small and cannot fully explain away investors’ underreaction to earnings surprises. Finally, we find that while the accrual anomaly exists in Prelims, this anomaly does not exist in Filers, primarily because accruals are disclosed together with earnings in the case of Filers.

# The Economic Consequences of (not) Issuing Preliminary Earnings Announcements

## 1. Introduction

Securities and Exchange Commission (SEC) regulations require listed companies to file Form 10-Q (quarterly financial report) and Form 10-K (annual financial report) 45 and 90 days after period end, respectively<sup>1</sup>. While typically companies file these reports in the last two days of the required filing period, about 80% of companies in our sample consistently issue preliminary earnings announcements to the market through a press release, on average, 26 days after quarter-end (Prelims). A small but non-trivial portion of firms (about 8%) consistently file 10Q/Ks with the SEC without first issuing a preliminary earnings press release (Filers). The remaining firms (about 12%) use a mixed strategy of sometimes filing with the SEC without an earlier preliminary earnings press release, and sometimes preceding their SEC filing with a preliminary earnings announcement. Interestingly, a small number of companies (about 2.6% of all firm/quarter observations in our sample) issue an earnings press release *after* filing their financial statements with the SEC (Stice, 1991).

Most studies of short-window market reactions to accounting earnings, as well as studies of the post-earnings announcement drift, identify the preliminary earnings announcement date using the quarterly Compustat database. However, until 1999, Compustat has entered a missing value code for the preliminary earnings announcement date of Filers, and the SEC filing date after 2000. Thus, studies that used Compustat data to identify the earnings release date have excluded a significant self-selected group of firms. Even those studies that used the earnings

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<sup>1</sup> The SEC has recently shortened the filing period for large issuers.

release date from I/B/E/S (or similar analyst forecast aggregators) are not completely free of bias from this exclusion, because, as we show below, Filers tend to have no or very low analyst coverage. Thus, prior studies of market reactions and underreactions to earnings surprises are likely to suffer from a bias by excluding Filers with potentially different characteristics from their analyses.

Why do some companies avoid issuing preliminary earnings announcements when the majority of companies do so? Since issuing a preliminary earnings release is a voluntary activity, the benefits of issuing a preliminary earnings release do not outweigh the costs associated with it for Filers. For example, it is possible that the audit process ends too close to the filing date, which reduces the likelihood of releasing earnings prior to the SEC filing. Also, some companies may wish to defer the announcement of unfavorable news until the last possible date, potentially offsetting it with favorable news before the filing. Furthermore, legal and administrative costs of issuing a preliminary announcement may not be justified for closely held companies or companies with little or no institutional shareholders, or if earnings may need to be revised by the filing date, exposing the company to legal costs. Thus, it is likely that Filers have different characteristics than Prelims, potentially introducing bias into prior studies of market reactions and underreactions to earnings surprises.

The purpose of this study is to investigate the bias in prior studies that excluded Filers from their analyses. This is accomplished by first studying the characteristics of Filers in comparison to Prelims. We then compare the market reactions to earnings surprises of Prelims on the preliminary earnings announcement dates with those of Filers around SEC filing dates. The null hypothesis is that the market reaction to the initial earnings surprise is identical across both samples. In particular, this should be the case if the two populations (Filers and Prelims)

have similar characteristics, the amount of disclosure is identical across samples, and if the medium of disclosure (press release or SEC filing) is irrelevant.

However, the two populations differ in both the amount of information (fuller set of information in SEC filings) and the disclosure medium, even if we can properly match Filers with Prelims that have similar characteristics. Our study can explore whether market reactions are weaker for Filers than properly matched Prelims, indicating that the disclosure medium is relevant (i.e., that the preliminary earnings announcement is preferable). It can also indicate that the fuller set of information in SEC filings, which is immediately available to evaluate the quality of earnings of Filers, reduces the effects of earnings surprises on prices. This may shed some light on the direction of bias in prior studies, as well as on the importance of the disclosure medium and magnitude of information.

We also hypothesize that the drift in returns following preliminary earnings announcements of Prelims may be partially attributed to investors' underreaction due to the partial information in preliminary earnings announcements, which may not enable a thorough assessment of the quality of extreme earnings surprises. However, with the full set of information available in SEC filings of Filers, the drift may in fact be smaller if it stems from lack of information. Thus, comparing the drift of Filers to that of properly-matched Prelims may assist in confirming or ruling out one potential explanation for the market underreaction to earnings surprises.

Our results suggest that Filers are different than Prelims along several dimensions. In particular, Filers are smaller than Prelims, are more likely to report losses, and have lower earnings persistence. In addition, Filers exhibit lower trading volume, lower likelihood of raising new capital and are less covered by financial analysts, indicating that Filers are

“neglected” companies relative to Prelims. Thus, a proper match of Filers and Prelims should, at a minimum, be based on size and number of analysts.

We find that Filers have significant market reactions around the SEC filings, but that these reactions are weaker than those of properly matched Prelims around the preliminary earnings announcement date. This result is consistent with the inferiority of SEC filings as a disclosure medium. We also find that Filers have smaller post-earnings announcement drifts than properly matched Prelims, although the difference in drifts is not statistically significant at the 0.10 level. This result is consistent with the argument that the full set of information enables investors to better assess the quality of initial earnings surprises of Filers.

The main contribution of the study is that it highlights the effects of excluding from empirical research “neglected” firms that self-select to become Filers. It specifies the differential characteristics of Filers, and adds another piece of evidence to the extant literature on the inferiority of SEC filings in comparison to preliminary earnings releases. The study is also relevant to our understanding of the role of information in explaining investors’ underreaction to earnings surprises and the subsequent drift in returns. The results in this study are particularly important to researchers in capital markets because they highlight the importance of the disclosure medium and the magnitude of information in assessing the initial earnings surprises.

The rest of the study is organized as follows. Section 2 contains a review of the relevant literature. In Section 3 we develop predictions and present the research design. Section 4 discusses the sample and data used in the empirical analysis. Section 5 presents the results and Section 6 contains a summary and concluding remarks.

## **2. Literature Review**

### **2.1 Reasons for (not) Issuing Preliminary Earnings Announcements**

Most firms disclose their preliminary earnings for the quarter or year through a press release, following it with an SEC filing several weeks later. A non-trivial portion of firms, however, do not issue any press release at all, relying instead only on the information disclosed in the SEC filings. Easton and Zmijewski (1993) report a median lag between the balance sheet date and the preliminary earnings announcement of 28 days and a median SEC filing lag of 45 days for 10-Q Forms.

The decision to disclose earnings voluntarily prior to a mandatory SEC filing depends on the costs and benefits of such disclosure. An informal survey of company managers reveals that the likelihood of making a preliminary earnings announcement is reduced when the expected costs of disclosure increase or when expected benefits decrease. On the cost side, direct legal and administrative costs of issuing a preliminary earnings announcement may be substantial and unjustified for small companies. Also, companies facing unfavorable news may defer disclosure until the filing date hoping that favorable offsetting news will become public prior to the SEC filing.<sup>2</sup> In addition, in some cases, earnings may change between the preliminary earnings announcement and the SEC filing date as a result of discovered errors or certain post-balance sheet events. Hollie et al. (2005a and 2005b) provide information about such earnings revisions and examine market reactions to the new earnings information in SEC filings. Such earnings revisions may expose companies to legal costs compelling them to wait until the filing date.

On the benefits side, if the audit process ends too close to the SEC filing date, as is more likely for small audit or client firms, the company may decide to forgo a preliminary

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<sup>2</sup> However, as Skinner (1994) argues, firms that are subject to high litigation risk may prefer to forewarn investors about the upcoming bad news in order to reduce the likelihood of future litigation.

announcement and wait for the SEC filing to convey information to investors. Also, as one of the benefits of disclosure is to reduce the cost of raising new capital, companies that rely less on external financing may find it unnecessary to issue a preliminary earnings announcement because the likely benefits of a preliminary earnings announcement in reducing the cost of capital are too minor. Furthermore, the benefits of issuing a preliminary announcement may be smaller for companies that are not followed by analysts, companies that are closely held, or those that have little or no institutional shareholders.

Consequently, our study identifies companies that repeatedly choose not to issue a preliminary earnings announcement (Filers) and companies that repeatedly choose to issue such announcements (Prelims). In some cases, we are unable to reliably classify companies into one of the two groups, as these companies adopted a mixed strategy of disclosure. Based on cost-benefit analysis of disclosure, we expect Filers to be smaller, less followed by analysts, exhibit a higher likelihood of losses, rely less on external financing and have lower trading volumes.

## **2.2 Market Reactions to Preliminary Earnings Announcements and SEC Filing Dates**

Review studies by Lev (1989) and Kothari (2001) indicate that the stock market quickly reacts to preliminary earnings announcements. Foster and Vickery (1978) and Wilson (1987) show that 10-K filings or annual reports to shareholders contain incremental information beyond the previous earnings announcements. In contrast, Foster et al. (1983), Foster et al. (1986), Cready and Mynatt (1991), Stice (1991), Easton and Zmijewski (1993) and Chung, et al. (2003) argue that the market fails to react to information contained in SEC filings.

Easton and Zmijewski (1993) examine whether the 10-Q and 10-K filing dates are

associated with abnormal returns, using squared market model prediction errors to avoid any predictions about the direction of expected returns around the SEC filing dates. They find significant abnormal returns around preliminary earnings announcements but not around SEC filings, except in cases of companies that do not issue an earnings press release (or that their press release was unavailable on the Quarterly Compustat File). These results are consistent with the claim that SEC filings do not contain incremental information beyond preliminary earnings announcements.

Stice (1991) focuses on firms that file their SEC forms at least four days prior to their earnings announcement. He finds no abnormal returns around the filing date, but a significant market reaction to the earnings press release that followed. His findings suggest that SEC filings are not fully reflected in prices until subsequent earnings announcements are made. Stice (1991) conducted his study at a time when SEC filings were not as readily available (e.g., on-line and other media) as they are today. Chung et al. (2003) examine the same issue when filings were available on EDGAR for large firms, but use only a handful of quarters from the beginning of the EDGAR database. Their findings suggest that the results reported by Stice (1991) hold even with the availability of the SEC EDGAR database. The results of Stice (1991) and Chung et al. (2003) imply that Filers should have an insignificant or at least weaker market reaction on the SEC filing dates than Prelims on the preliminary earnings announcement dates, because filing dates attract less attention from investors relative to earnings press releases and are an inferior disclosure medium relative to a press release.

Qi et al. (2000) examine whether the information content of 10-K filings has improved following the introduction of electronic filing through the EDGAR system. They find that electronic filings are associated with greater information content relative to paper filings.

However, their study uses only the years 1993-1995, in which the EDGAR system was still voluntary (EDGAR became mandatory in May 1996), and they limit their analysis to firms with available AIMR analyst rankings.

Asthana et al. (2004) show that small trades increase in the five-day period around the 10-K filing after EDGAR as compared to the pre-EDGAR period, but not large trades, implying that small investors are better able to use the information in SEC filings in the post-EDGAR period. They also provide evidence consistent with an erosion of the information advantage that larger traders have as compared to small traders in the post-EDGAR period. Using the period 1996-2001, Griffin (2003) finds that the market reacts to SEC filings. In particular, he finds greater market reactions to 10-Q/Ks of smaller companies, companies with smaller proportions of institutional holders, companies that report on days with many filings by other companies, and to companies with delayed filings.

Based on the more recent evidence, market reactions to SEC filings made by Filers are expected to be positively and significantly associated with earnings surprises. In contrast, the evidence reported by Stice (1991) and Chung et al. (2003) suggests that Filers may not experience significant market reactions to SEC filings, because the medium that seems to move prices is the preliminary earnings release, which is lacking for Filers.

Even if we find that Filers have market reactions that are positively and significantly associated with earnings surprises on the SEC filing dates, it is unclear whether these associations should be stronger or weaker than the associations between earnings surprises and returns around the preliminary earnings announcements of Prelims. If Filers have poorer information environments than Prelims, the importance of SEC filings may be greater for Filers than preliminary earnings announcements for Prelims, and the associated market reactions

stronger for Filers than those for Prelims on the preliminary earnings announcements. However, if the SEC filings are an inferior disclosure medium, as suggested by Stice (1991), Chung et al (2003), Levi (2004) or Louis et al (2005), we should expect a weaker market reaction for Filers around the SEC filing date than for Prelims around the preliminary earnings date. Furthermore, since a full set of information is available in SEC filings, investors are better able to properly assess the quality of Filers' earnings than with the limited information available to investors in the preliminary earnings releases, leading to potentially weaker market reactions of earnings surprises in SEC filings for Filers than earnings surprises in preliminary earnings for Prelims.

### **2.3 The Post Earnings Announcement Drift**

Reported first in Ball and Brown (1968), the post-earnings-announcement drift continues to be one of the most researched phenomena in accounting. Many have tried to measure the drift and propose explanations for its existence (e.g., Jones and Litzenberger 1970, Joy et al. 1977, Rendelman et al. 1982, Foster et al. 1984, Bernard and Thomas 1989, Narayanamoorthy 2003, Livnat 2003a, Mendenhall 2004, and Chordia and Shivakumar 2005). One potential explanation for the drift, favored by proponents of the market efficiency hypothesis, is that researchers have systematically underestimated the risk of firms with positive earnings surprises and overestimated the risk of companies with negative earnings surprises. This would give rise to the observed positive (negative) abnormal returns for positive (negative) surprise stocks. Another explanation is that the drift results from a delayed reaction to earnings news.

Evidence provided by Bernard and Thomas (1989) supports the underreaction hypothesis. Although there is a positive association between earnings surprises and changes in stock betas, these beta shifts are too small to explain observed differences in abnormal returns across

surprise categories. The most compelling evidence provided by Bernard and Thomas (1989) is that positive-surprise firms outperform negative-surprise firms in each of the 13 years of their sample. If there is a mismeasurement of risk, investors should be exposed to losses in some cases.

For a drift to exist, market participants must eventually realize that their immediate reaction to the preliminary earnings surprise was insufficient. This may occur, for example, if subsequent new information confirms the prior earnings surprise, such as additional information in SEC filings. However, when companies *consistently* file their SEC reports without first making preliminary earnings announcements, investors may be less likely to underreact to earnings information because the complete SEC information is immediately available for Filers at the time earnings are announced. We therefore expect the drift to be smaller for Filers relative to a properly matched sample of Prelims. On the other hand, if investors' underreaction is driven by the proportion of investors who are less sophisticated, or who are less likely to change their holdings because they place a lower weight on recent financial statement information, the group of Filers, which are likely to be more "neglected" than Prelims, are also likely to have a larger proportion of unsophisticated investors, and therefore a larger initial underreaction and a larger subsequent drift.

#### **2.4 The Firm's Information Environment**

Prior research has documented an association between the firm's information environment and market reactions to earnings. Ball et al. (1993) and Kothari (2001) document an association between the Earnings Response Coefficient (ERC) and firm size, growth prospects, analysts' coverage, and the extent and composition of institutional investors. Typically, larger firms, firms with more analysts' coverage and firms with a larger proportion of institutional (non-transient)

investors are likely to have lower ERC, whereas smaller, “neglected” firms are likely to have a higher ERC. This is because accounting earnings is one of the primary sources of value-relevant information about smaller and neglected firms.

Evidence also links the information environment and the level of the post-earnings announcement drift. The drift was found to be smaller for firms with larger proportions of institutional investors and firms that are followed by experienced analysts, who tend to employ more sophisticated prediction models for earnings than just a seasonal random walk (Bartov et al. 2000, Mikhail et al. 2003). Brown and Han (2000) find that for a selected sample of firms for which the earnings generating process can be described by a simple AR1 model, there is a smaller drift for large firms than for small firms with a poorer information environment (measured by size, institutional holdings, and number of analysts following the firm).

Firms may also choose to provide additional balance sheet and cash flow information during the preliminary earnings announcement because they have poorer information environment (Chen et al. 2002 and Levi 2004). This in turn may affect the level of new information released during the SEC filing and the market reaction to both preliminary announcements and SEC filings. Since Filers and Prelims are likely to differ in their information environment, our portfolio tests should control for the likely information environment variables of size and analyst coverage.

### **3. Design and Predictions**

#### **3.1 Identification of Filers and Prelims**

To identify Filers and Prelims, we first classify each firm/quarter into one of three groups:  
(i) observations for which preliminary earnings announcements are made prior to the SEC filing,

denoted as P; (ii) observations for which the SEC filing is not preceded by a preliminary earnings announcement, denoted as F; and (iii) observations with mixed behavior, denoted as Unclassified (or, U).

A firm/quarter observation is classified as F if one of the following conditions is met: (i) the preliminary earnings announcement date is missing in Compustat;<sup>3</sup> (ii) the Charter Oak database does not have preliminary earnings and revenues;<sup>4</sup> and (iii) a preliminary earnings announcement date and an SEC filing date are both available but the SEC filing date occurs no later than one day after the preliminary earnings announcement date. Otherwise, the firm/quarter observation is classified as a P.

After classifying firm/quarter observations as F or P, we turn to classifying companies as Prelims, Filers or Unclassified. First, for each firm, we count the total number of quarters that a firm was classified as F, denoted as NF. We also count the total number of quarterly observations available for that firm, and denote it as NTOT. We assign firm/quarters into Prelims, Filers, or Unclassified as follows:

- (i) All firm/quarter observations are initially classified as Unclassified.
- (ii) If there is a preliminary earnings date and an SEC filing date where the filing date is at least two calendar days after the preliminary earnings date and  $NF / NTOT \leq 0.5$  then we classify this observation as a Prelim.

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<sup>3</sup> Beginning in 1999, Compustat started using SEC filing dates as preliminary earnings announcement dates for companies without preliminary earnings announcements. Thus, a missing preliminary earnings announcement date is not a good indication of a Filer after 1999.

<sup>4</sup> Charter Oak Investment Systems, Inc. is a database that tracks changes in Compustat items over time. When a firm announces its preliminary earnings, Compustat enters the line items from the announcement into their database assigning it an update code of 2. Compustat updates the data when firms publicly release Form 10-Q/Ks or file them with the SEC, assigning it an update code of 3. Charter Oak collects weekly Compustat updates and thus provides three figures for each quarterly line item. The first number is the preliminary figure that Compustat initially entered into the database with an update code of 2. The second number is the “As First Reported” figure when Compustat first changed the update code to 3 for that firm-quarter. The third is the number that appears in the version of the Compustat database sold to academic customers.

- (iii) If an observation has either a missing preliminary earnings announcement date or if both preliminary earnings announcement and filing dates are available but the preliminary earnings announcement date is on the same or after the SEC filing date, and in addition  $NF / NTOT \geq 0.5$  then the observation is classified as a Filer.

### 3.2 Characteristics of Filers and Prelims

Absent a theoretical model to guide the selection of potential variables which can be associated with the likelihood of repeatedly making preliminary earnings announcements or not, we construct variables based on discussions with executives of Filers and based on prior studies about the specific causes for this decision. We perform univariate tests of mean differences between Filers and Prelims as well as multivariate tests using Logistic regressions. In particular, we estimate the likelihood that a company is a Filer using the following model:

$$\begin{aligned}
 FILERS_{it} = & \beta_0 + \beta_1 LOGMKT_{it} + \beta_2 LOSS_{it} + \beta_3 PERSE_{it} + \beta_4 COREOCF_{it} + \beta_5 LAGFILE_{it} + \\
 & \beta_6 VOLUME_{it} + \beta_7 FINA_{it} + \beta_8 ANALYST_{it} + \varepsilon_{it}
 \end{aligned} \tag{1}$$

Where  $FILERS_{it}$  is an indicator variable that obtains the value of “1” if a firm-quarter is classified as a Filer and “0” if it is classified as a Prelim. We consider the following variables to potentially discriminate Filers and Prelims in the predicted direction:

1. **Size (LOGMKT)** is the logarithm of the market value of equity as of quarter-end. We expect Filers to be smaller than Prelims, hence the coefficient on this variable is expected to be negative.

2. **Negative earnings (LOSS)** is an indicator variable that obtains the value of “1” if quarterly earnings are negative and “0” otherwise. As companies tend to defer bad news, we expect Filers to be more likely to report negative earnings. The expected sign for this coefficient is negative.
3. **Persistence of Earnings Changes (PERSE)** is estimated as the first autocorrelation between scaled earnings surprises in the prior eight quarters. The earnings surprise is earnings in the current quarter minus earnings of the same quarter in the preceding year, scaled by market value at the beginning of the quarter. We expect companies with lower earnings persistence to deemphasize their earnings, concentrating instead on the rest of the information in financial statements, and therefore to be less likely to issue a preliminary earnings announcement. The expected sign for this coefficient is negative.
4. **The correlation of quarterly earnings and operating cash flows (COREOCF)** is estimated over the eight previous quarters. Companies with a lower correlation between earnings and operating cash flows are more likely to provide more information about earnings, including making preliminary earnings announcements; hence we expect the coefficient on this variable to be negative.
5. **Lag between quarter end and filing date (LAGFILE)** measured as the number of days between the end of the quarter and the SEC filing date. We expect the number of days between quarter-end and SEC filing to be smaller for Filers that are likely to disclose information through their SEC filings instead of preliminary earnings announcements. Thus, we expect a negative coefficient on this variable.
6. **Volume of trade (VOLUME)** measured as quarterly number of shares traded as a percentage of shares outstanding at quarter end. “Neglected” firms are more likely to have

a lower trading volume and also more likely to not issue a preliminary earnings announcement. We expect the coefficient on this variable to be negative.

7. **Raising new capital (FINA)** is an indicator variable that obtains the value of “1” if average free cash flow over the prior three years is negative or if the firm issued stock in the current or subsequent year, and “0” otherwise. Firms that need to raise new capital are more likely to provide more timely information in order to reduce their cost of capital. We expect Filers to need less external financing than Prelims and the coefficient on this variable to be negative.
8. **Coverage by financial analysts (ANALYST)** is an indicator variable that obtains the value of “1” if the firm is followed by at least one financial analyst and “0” otherwise. The benefits of making preliminary announcements increase with analysts’ coverage due to analysts’ pressures on management to release timely information. Also, more “neglected” companies are more likely to become Filers as the benefit from voluntary disclosure is reduced. Thus, we expect the coefficient on this variable to be negative.

### 3.3 Market Reaction to Earnings

We focus our return tests on three windows. The first window is the preliminary earnings announcement window for Prelims (denoted  $BHR_{prelim}$ ), which contains the Buy and Hold excess return for the three days (-1, 0, +1), where day zero is the preliminary earnings announcement date. The second window is the SEC filing window for both Filers and Prelims (denoted  $BHR_{file}$ ). This window contains the Buy and Hold excess return for the three-day window (-1, 0, +1), where day zero is the SEC filing date. The third return window is the post earnings announcement drift. For Filers, this window starts two days after the SEC filing date

and ends one day after the next preliminary earnings announcement or SEC filing, whichever comes first (denoted  $BHR_{pfad}$ ). For Prelims, this window starts two days after the preliminary earnings announcement date and ends one day after the next preliminary earnings announcement (denoted  $BHR_{ppad}$ ). Figure 1 portrays the timeline of the events in the study, highlighting the various periods over which excess returns are cumulated.

(Insert Figure 1 about here)

Buy and Hold returns (BHR) are obtained for each company/event from CRSP. To calculate excess return, we subtract Buy and Hold return on the portfolio of firms with the same size (market value of equity) and book-to-market (B/M) ratio. Daily returns (and cut-off points) on the size and B/M portfolios are obtained from Professor Kenneth French's data library, based on classification of the population into six (two size and three book-to-market) portfolios.<sup>5</sup> If a security is delisted from an exchange before the end of the holding period, we use the delisting return from CRSP if available, and -100% if the stock is forced to delist by the exchange or if the delisting is due to financial difficulties. After delisting, we assume the proceeds are invested in the benchmark size and B/M portfolio. This is the procedure used by Kraft et al. (2004).

In our first return test, we compute buy-and-hold excess returns for each of our sub-samples (Filers, Prelims, and Unclassified) in each of the three return windows (preliminary earnings announcement, SEC filing and drift) and for each decile of Standardized Unexpected Earnings (SUE). Note that for Filers, there is only one reaction to earnings – around the SEC filing. In contrast, for Prelims there are two reactions – the first one is around the preliminary earnings announcement date and the second one is around the SEC filing date.

SUE is computed as follows:

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<sup>5</sup> [http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data\\_library.html](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html).

$$SUE = \frac{X_t - X_{t-4} - \delta}{\sqrt{VAR(X_t - X_{t-4})}}, \text{ where } X_t \text{ is earnings per share for quarter } t, \delta \text{ is the average of}$$

$X_t - X_{t-4}$  over the prior eight quarters, and the variance of  $X_t - X_{t-4}$  is also estimated over the prior eight quarters.

Consistent with Lev (1989) and Kothari (2001), we expect a positive and significant relation between stock market returns and earnings announcements. However, the market reaction to earnings information may be different for Filers and Prelims. We conduct this analysis for a combined sample of all Filers and all Prelims and also for properly matched samples of Filers and Prelims.

In addition to the portfolio analysis, we use the following regression model:

$$BHR_{it} = \gamma_0 + \gamma_1 FILERS_{it} + \gamma_2 RSUE_{it} + \gamma_3 FILERS_{it} \times RSUE_{it} + \eta_{it} \quad (2)$$

Where  $BHR_{it} = \{BHR_{prelim}; BHR_{file}\}$  is the three-day market reaction to earnings. The market reaction to earnings is measured around the preliminary earnings announcements for Prelims and around the SEC filing for Filers. RSUE is the rank of the SUE decile and FILERS is the indicator variable described above (equal to one if a Filer, zero if a Prelim). The purpose of equation (2) is to test whether the market reaction differs across samples. We expect the market reaction to be weaker for Filers than for Prelims ( $\gamma_3 < 0$ ).

To control for differences in the characteristics of Filers and Prelims, we also estimate equation (2) after controlling for variables used in equation (1) to discriminate between Filers and Prelims:

$$\begin{aligned}
BHR_{it} = & \gamma_0 + \gamma_1 FILERS_{it} + \gamma_2 RSUE_{it} + \gamma_3 FILERS_{it} \times RSUE_{it} + \gamma_4 LOGMKT_{it} + \gamma_5 LOSS_{it} + \\
& \gamma_6 PERSE_{it} + \gamma_7 COREOCF_{it} + \gamma_8 LAGFILE_{it} + \gamma_9 VOLUME_{it} + \gamma_{10} FINA_{it} + \\
& \gamma_{11} ANALYST_{it} + \eta_{it}
\end{aligned} \tag{2a}$$

We also estimate equations (1) and (2) as a system of equations using an iterative three-stage-least-squares (3SLS). First, we estimate equation (1) and then use predicted values of Filers in estimating equation (2) for all event periods simultaneously.

The post earnings announcement drift may also differ across Filers and Prelims. Once again, we use portfolio analysis and regressions to test for differences in drifts across Filers and Prelims. Portfolio tests are divided into two parts where in the first part we compare all Filers to all Prelims. In the second part, we compare Filers to an appropriately matched sample of Prelims. We use different matching techniques to increase the confidence in the results. We also estimate the following regression model:

$$BHR_{it} = \delta_0 + \delta_1 FILERS_{it} + \delta_2 RSUE_{it} + \delta_3 FILERS_{it} \times RSUE_{it} + v_{it} \tag{3}$$

Where  $BHR_{it} = \{BHR_{ppad}, BHR_{pfad}\}$  is the excess return following earnings announcement for Prelims, or SEC filing for Filers, respectively. We expect smaller drift for Filers than for Prelims, that is,  $\delta_3 < 0$ .

To ensure that equation (3) properly controls for differences between Filers and Prelims, we estimate it with all variables used in equation (1):

$$\begin{aligned}
BHR_{it} = & \delta_0 + \delta_1 FILERS_{it} + \delta_2 RSUE_{it} + \delta_3 FILERS_{it} \times RSUE_{it} + \delta_4 LOGMKT_{it} + \delta_5 LOSS_{it} + \\
& \delta_6 PERSE_{it} + \delta_7 COREOCF_{it} + \delta_8 LAGFILE_{it} + \delta_9 VOLUME_{it} + \delta_{10} FINA_{it} + \\
& \delta_{11} ANALYST_{it} + v_{it}
\end{aligned} \tag{3a}$$

Finally, we estimate equations (1) and (3) as a system of equations using an iterative three-stage-least-squares (3SLS), which first estimates equation (1) and then uses predicted values of Filers in estimating equation (3) for all event periods simultaneously.

#### **4. Sample and Data**

The main sample contains all NYSE, AMEX and NASDAQ companies covered by Compustat. The sample period starts in the fourth quarter of 1990 and ends in the most recent available quarter. This process yields 541,710 firm/quarter observations. We then delete the following observations: (i) Either CUSIP number or net income before extraordinary items (item 8 on quarterly Compustat) are missing, (ii) total assets is equal to zero, (iii) total sales for the quarter is below \$1 million, (iv) market value of equity at quarter-end is below \$1 million, (v) foreign-incorporated firms, (vi) missing quarter-end or after 2004. This process results in 322,392 firm/quarter observations.

At this point, we rank all firm/quarters by SUE and accruals (net income before extraordinary items minus net operating cash flows, used to report accruals results in the Appendix). We then compute buy-and-hold excess returns for various windows using CRSP and the Fama-French size and book-to-market 6-group portfolios. Preliminary earnings announcement dates are taken from Compustat. SEC filing dates were also provided to us by Compustat for the years 1991-2004. We then delete all observations with a missing return on the

preliminary earnings release for Prelims or SEC filing for Filers. We also delete observations with a missing return from two days subsequent to the preliminary earnings announcement for Prelims or SEC filing for Filers through one day after the next preliminary earnings announcement, if available, or SEC filing if unavailable. In addition, we delete observations where the actual SEC filing is in excess of 120 days after quarter-end, which are either very late filers or data entry errors. This process reduces the sample to 237,567 firm/quarter observations.

Table 1 contains details on the frequency of reporting strategy over time. Panel A reports the number of observations in each year for each sample – Prelims, Filers and Unclassified. Most companies, 80.3%, issue preliminary earnings announcements prior to filing. 8.4% of companies repeatedly file their SEC reports without making preliminary earnings announcements. The number of Prelims has increased since 2000, perhaps due to regulatory changes, such as regulation fair disclosure. 11.3% of the companies cannot be classified into any of the main samples, as their reporting strategy seems mixed. We also include the number of observations where companies issued a press release *after* SEC filing (Stice, 1991). Many of these observations are included in the sample of Filers.

In Panel B of Table 1, we report the number of observations in each quarter. The number of observations classified as Filers is larger in the first and second quarters and smaller in the third and fourth quarters. The smaller number in the fourth quarter may be attributed to the longer period between the balance sheet date and the SEC filing for the fourth quarter, compelling companies to issue a preliminary announcement prior to SEC filing.

(Table 1 about here)

## 5. Results

### 5.1 Descriptive Statistics

Table 2 provides descriptive statistics for variables used in equation (1). As expected, Filers are smaller than Prelims and exhibit a higher frequency of losses (46% versus 22%). In addition, Filers have lower earnings persistence and a higher correlation between earnings and operating cash flows. On average, Filers file their 10-K/Qs with the SEC about the same time after fiscal/quarter. Furthermore, Filers are ‘neglected’ by capital markets participants as reflected by their lower trading volume, lower likelihood of raising new capital, and lower coverage by financial analysts (18% of Filers are followed by analysts compared with 72% of Prelims).

(Table 2 about here)

Table 3 presents a Pearson correlation matrix for the variables used in equation (1) and the simple correlation between these variables and the Filers indicator variable. Larger firms are less likely to report losses (Pearson = -0.23), have larger trading volume (Pearson = 0.17) and are more followed by financial analysts (Pearson = 0.53). Also, companies that report losses are less likely to be followed by analysts (Pearson = -0.10). Table 3 also reveals that the main factors that separate Filers from Prelims are firm size – Filers tend to be smaller (Pearson = -0.32); the probability of losses – Filers are more likely to report losses (Pearson = 0.16); and analysts’ coverage – Filers are less followed by analysts (Pearson = -0.34).

(Table 3 about here)

### 5.2 Characteristics of Filers and Prelims

Table 4 presents results of estimating equation (1) using a pooled model. We also present results after estimating equation (1) in each quarter and averaging the quarterly results over time

(similar to Fama and MacBeth, 1973). The results are consistent across estimation models and also generally consistent with the univariate results reported in Table 2.

Smaller companies are more likely to become Filers as reflected by the negative coefficient on LOGMKT. This result is consistent with the argument that disclosure costs associated with making preliminary earnings announcements are relatively smaller for larger companies than for smaller ones. Loss-reporting companies are more likely to become Filers, as reflected by positive coefficient on LOSS. This result is consistent with the argument that companies tend to defer bad news until the SEC filing date.

As expected, companies with lower earnings persistence and smaller correlation between earnings and operating cash flows are more likely to become Filers, as reflected by the negative coefficients on PERSE and COREOCF. Also as expected, the time difference between quarter-end and filing is smaller for Filers, as suggested by negative coefficient on LAGFILE. This result means that, after controlling for other differences between Filers and Prelims, Filers release financial information earlier through SEC filings whereas Prelims postpone their SEC filings to the last permissible date since information is provided to market participants through a preliminary earnings announcement.

Consistent with our expectations, ‘neglected’ companies are more likely to become Filers. In particular, the negative coefficient on VOLUME suggests that Filers are less frequently traded in the stock market. In addition, the negative coefficient on FINA suggests that Filers are less likely to raise new capital. The negative coefficient on ANALYST indicates that companies that are not followed by analysts are more likely to become Filers. These results support the general argument that companies voluntarily release preliminary earnings information when the net benefits from disclosure are justified. In particular, when the benefits of disclosure are

reduced due to smaller trading volumes, less reliance on raising new capital and lower analysts' coverage, companies are less likely to release preliminary earnings information voluntarily.

(Table 4 about here)

### **5.3 Market Reactions to Earnings – Full Samples**

After highlighting the different characteristics of Filers and Prelims, we now turn to market reaction tests. Table 5 presents excess buy-and-hold returns around three event periods for the main sub-samples. The first event is the 3-day response to the release of earnings (preliminary earnings announcements for Prelims and SEC filings for Filers). The second event is the filing of 10Q/Ks with the SEC. The Table shows that for Prelims, the market reacts to unexpected earnings (SUE portfolios) during the preliminary earnings announcement date and there is almost no reaction around the filing date. However, for Filers, the reaction occurs around the SEC filing dates when earnings are first disclosed to the market.

Another important result that emerges from Table 5 is that the market reaction to extreme SUE portfolios is stronger for Filers than for Prelims. For example, excess return for SUE1 is -0.018 for Prelims and -0.035 for Filers. Similarly, the market reaction to SUE10 is 0.027 and 0.033 for Prelims and Filers, respectively. A possible explanation for this result is that different characteristics across samples explain the stronger reaction to Filers. In particular, perceived as 'neglected' companies, investors react to earnings of Filers in a more extreme manner as there is much less information available on these companies.

Table 5 also presents excess returns for post-earnings announcement drift. The drift seems to be stronger for Filers than for Prelims. In particular, the difference between SUE10 and SUE1 is  $(0.041 + 0.007 =) 0.048$  for Prelims and  $(0.026 + 0.049 =) 0.075$  for Filers. Also, the drift is

particularly more negative for Filers in portfolios SUE1-SUE4. Once again, the stronger drift for Filers could be explained by the different characteristics of these firms and by the different information environment in which they operate.

In addition to Filers and Prelims, the table presents market reactions to a sub-sample of companies that cannot be classified into either Filers or Prelims. The market reactions to earnings released by these companies seem to resemble more closely those of Filers rather than those of Prelims. In particular, these firms exhibit a stronger market reaction around the SEC filing date and a stronger drift than those of Prelims. Finally, the market reaction to companies that issue a press release after the filing date (classified as STICE) is quite similar to that of Filers.

(Table 5 about here)

Table 6 presents regression results of estimating the market reaction to SUE portfolios over the three event windows (earnings release, filing and drift) by size quintiles. For each size quintile, we present, on the left panel, estimation results of equations (2a) and (3a). On the right panel, we present, for each size quintile, results of estimating a system of equations that contains equation (1) and equations (2) and (3) for all three events simultaneously. In the interest of saving space we report only the coefficients on earnings.

Notice that Filers are concentrated in the lowest two size quintiles of the entire sample. In particular, 28.56% of the companies in the smallest quintile are classified as Filers, whereas only 1.35% of the companies in the largest quintile are classified as Filers. Consequently, any differences in market reactions to earnings between Filers and Prelims are likely to appear in the bottom two size quintiles.<sup>6</sup>

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<sup>6</sup> We also include size as a control variable in each regression of each quintile. However, a linear control for size may not be sufficient as the distribution of Filers in the entire sample is not uniform across size quintiles.

First, the market reaction to SUE is weaker for Filers than for Prelims, as reflected by the negative coefficient on  $rSUE_{it} \times FILERS_{it}$ . This result holds in the lowest two quintiles that include the vast majority of Filers. Second, the market reaction to the filing of earnings is virtually non-existent for Prelims and very strong for Filers. Third, a significant post-earnings announcement drift exists for all size quintiles. The drift seems to be weaker for Filers, although the difference in the strength of drift, as indicated by the coefficient on  $rSUE_{it} \times FILERS_{it}$ , is not significant at the 0.10 level.

Overall, the results in Tables 5 and 6 show that over the entire sample, the market reactions to earnings are stronger for Filers than for Prelims. However, when estimating the market reaction regressions separately for size quintiles, the result is the opposite – the market reaction to earnings is weaker for Filers than for Prelims, since size is properly controlled for. Table 5 also suggests that the post-earnings-announcement drift is stronger for Filers. However, Table 6 provides a different view: the drift is slightly smaller for Filers than for Prelims after properly controlling for size by estimating the regressions for each size quintile separately.

(Table 6 about here)

#### **5.4 Market Reaction to Earnings – Matched Samples**

The concentration of Filers in the lowest size quintiles and the conflicting results in Tables 5 and 6 raises an important methodological concern. In order to properly control for firm size it may not be sufficient to include size as an additional variable in a linear regression. Once we estimate the regressions by size quintiles, the results were different in the lowest two quintiles than the top three. Consequently, firm size must be allowed to interact with all the variables in order to properly control for differences between Filers and Prelims. This motivates us to

conduct our analysis by using firm-matching techniques.

We construct two size-matched samples of Filers and Prelims. First, we match Filers and Prelims by firm size and the magnitude of earnings surprise (rank of SUE decile portfolio). Second, we match by firm size, the magnitude of earnings surprise and the number of analysts following the firm. By using different matching techniques, we examine the sensitivity of portfolio returns to different sample characteristics.

Table 7 presents hedge portfolio returns for Filers and for Prelims for the three main events. The table also calculates differences in hedge portfolio returns and significance levels. Returns on hedge portfolios are measured as the return on the top two SUE deciles minus the return on the bottom two SUE deciles.

The first result is that the market reaction to earnings is weaker for Filers than for Prelims. When we use Size and Earnings Surprise as matching variables, the difference between Filers and Prelims is -1.4% ( $p$ -value of 0.02). When we use Size, Earnings Surprise and Number of Analysts as matching variables, the difference is -1.6% (significant at the 0.01 level). The second result is that there is market reaction to SEC filing only for Filers but not for Prelims. Third, focusing on the post-earnings announcement drift, the results suggest that the drift is smaller for Filers than for Prelims under both matching techniques. However, the differences in hedge portfolio returns (-2.9% and -2.5%) are not significant at the 0.10 level. These results highlight the effect of the disclosure medium and the magnitude of disclosed information on market reactions to earnings surprises. Filers consistently have weaker reactions to earnings surprises on their SEC filing dates than those of Prelims on their preliminary earnings release dates. Also, Filers exhibit a smaller drift than Prelims, although the difference is not statistically significant at the 0.10 level.

(Table 7 about here)

## 5.5 Sensitivity Analyses

To increase the confidence in the results, we performed several sensitivity checks.

(a) **Classification of Filers and Prelims** – To classify a firm as Filer (Prelim) we required that at least 50% of its available observations be classified as F (P). To test for the sensitivity of the results to the arbitrary 50%, we use 70% cutoff instead resulting in fewer Filers and Prelims than in the reported tables. The Logistic regression has a higher classification success rate than in Table 4, but LAGFILE and VOLUME are not significant at the 0.05 level. The return results are similar to those in the tables, with Filers having significantly weaker reaction to earnings surprises than Prelims and weaker drift, although the difference in the drift between Filers and Prelims remains not significant at the 0.10 level.

(b) **Logistic Regression for Matched Filers and Prelims** – We repeat the Logistic regression in Table 4 (without the LOGMKT variable) for a matched sample of Filers and Prelims. The matching was done by using a Prelim company in the same Fama-French industry (using 40 industries) and the closest in size (market value) to a given Filer. Results are very similar to those reported in Table 4, except that the correct classification drops to 68% and the coefficient on VOLUME is not significant.

(c) **Analysis by Fiscal Quarter** – We repeat the analyses in the study separately for the fourth quarter and the first three fiscal quarters. The Logistic regression results are similar to those reported in Table 4, except that the coefficient on LAGFILE reverses its sign for the fourth quarter. The return results are similar to those in the tables for the fourth fiscal quarter and the first three fiscal quarters, with Filers having significantly weaker reaction to earnings surprises than Prelims and weaker drift, although the difference in the drift between Filers and Prelims

remains insignificant at the 0.10 level.

(d) **The Post Regulation FD Period** – We investigate the effects of Regulation Fair Disclosure on our findings by repeating the analysis for quarters after the year 2000. The Logistic regression results are similar, except that the correlation between earnings and cash flows, COREOCF, and the financing requirement variable, FINA, are not significantly different from zero. The return results are similar to those in the tables in all respects.

(e) **Hedge Portfolios** – When matching Filers with Prelims that have similar characteristics (size, SUE and number of analysts), our hedge portfolios in Table 7 are based on the top and bottom quintiles. We repeat the analysis with the top and bottom deciles, and the top and bottom three deciles. The return results are similar to those reported in the paper in all respects. In particular, the difference in drift between Filers and Prelims remains not significant at the 0.10 level.

## **6. Summary and Conclusions**

This study highlights an important phenomenon related to disclosure strategy. While most companies issue a preliminary earnings announcement prior to the SEC filing, a non-trivial portion of companies self-select to file their financial statements with the SEC without first making preliminary earnings announcements. Clearly, the benefits of issuing preliminary earnings announcements for Filers are not cost-justified. We find that Filers are systematically different from Prelims along many dimensions that relate to their information environment. Most importantly, Filers are smaller, less followed by analysts, have lower trading volumes and less likely to raise capital. Being ‘neglected’ by the capital market, these firms benefit less from voluntary disclosure of earnings prior to the mandatory SEC filing.

Interestingly, this non-trivial subset of companies was excluded from prior studies of market reactions and underreactions to earnings surprises due to data constraints. This omission of self-selected Filers from the analysis may result in biased results. The main purpose of this study is to examine this possible bias. Another purpose of this study is to investigate the effect of information disclosure strategy on the market reaction and underreaction to earnings.

We find significantly different market reactions to earnings released by Filers and Prelims. Although Filers have significant market reactions around the SEC filing, these reactions are significantly weaker than those of properly matched Prelims around the earnings announcement date. This result is consistent with the claim that preliminary earnings announcements receive more attention from investors than the SEC filings. It is also consistent with the claim that the fuller sets of information available in SEC filings enables investors to better assess the quality of the earnings surprises, mitigating the effects of earnings surprises on stock returns.

We also find that Filers have smaller post-earnings announcement drifts than properly matched Prelims, although the difference in drifts is not statistically significant. This result is consistent with the explanation that the market underreaction to the preliminary earnings surprise may be due to investors' initial inability to assess the quality of extreme earnings surprises. When the earnings surprises are disclosed with the full set of information in SEC filings for Filers, the drift is lower, albeit insignificantly so.

This study provides additional evidence on the effect of disclosure medium on the market reaction to financial information. We show that the market treats preliminary earnings announcements differently than SEC filings. We also contribute to the literature on post-earnings announcement drift by showing that there is underreaction to earnings even when all the information contained in the SEC filings is released to the market at the same time as the

information on earnings surprises. We also highlight the potential bias and its direction when prior studies excluded Filers from their analyses.

Together, these results have implications for managers of firms who may use the disclosure medium to strengthen or to attenuate the effects of earnings surprises on stock returns. Managers may also affect the association of earnings surprises with returns by the amount of information they decide to include in the preliminary earnings release. They also have implications for financial analysts and investors who should consider how the firm chooses to report information to market participants, and the likely effects of this information on stock prices.

## Appendix

### The Accruals Anomaly for Filers and Prelims

**Earlier** we documented weaker market reactions to earnings announced first in the SEC filings (of Filers) than those to earnings of Prelims around the preliminary earnings announcements. We offer two explanations for this phenomenon – the inferiority of SEC filings as a disclosure medium, and the larger set of information available in SEC filings, which enables investors to better assess the quality of earnings. To distinguish between these two explanations, we examine the accruals anomaly (i.e., firms with high (low) current accruals are associated with lower (higher) future returns) from the time of the SEC filings for both Filers and Prelims. Both provide a full set of quarterly information in their SEC filing. Thus, any differences in the accruals anomaly following the SEC filing across Filers and Prelims are likely driven by the different disclosure medium.

Indeed, as Levi (2004) and Louis et al (2005) report, the accruals anomaly is present for firms that do not include balance sheet data in their preliminary earnings releases, but not for firms that include balance sheet information in their preliminary earnings releases. One possible reason for this result is that investors pay more attention to preliminary earnings announcements than to SEC filing and adjust prices to reflect accruals only if those are reported in the preliminary earnings releases and not in SEC filings. We ask whether the accrual anomaly exist for Filers and whether the magnitude of the anomaly is similar across Filers and Prelims?

To answer these questions we use regressions similar to equations (1) – (3). In particular, we estimate the following equation:

$$BHR_{it} = \gamma_0 + \gamma_1 FILERS_{it} + \gamma_2 RACCRUAL_{it} + \gamma_3 FILERS_{it} \times RACCRUAL_{it} + \eta_{it} \quad (A1)$$

Where  $BHR_{it} = \{BHR_{nextp}, BHR_{pnextf}\}$

The dependent variable for both Filers and Prelims is the Buy and Hold excess return from two days after the SEC filing through one day after the next preliminary announcement or the next SEC filing, whichever comes first. We denote this variable  $BHR_{nextp}$  or  $BHR_{nextf}$ .

The variables of interest are the rank of the accruals decile,  $RACCRUAL$ , and an interactive variable  $FILERS \times RACCRUAL$ . The coefficient on the first one is expected to be negative and significantly different from zero, i.e., low accruals are expected to be associated with higher future returns.

Table A1 reports results for OLS regressions that control for the variables, which explain the decision to become a Filer, and for an iterative three-stage least squares process that first predict a Filer and uses that in the regression of returns on accruals and Filers. The results show that the coefficient on  $RACRRUAL$  is indeed negative and significantly different from zero for almost all regressions. We also find that the coefficient on  $FILERS \times RACCRUAL$  is positive but not always statistically different from zero in most regressions, indicating that the accruals anomaly is mitigated for Filers. F-test, at the bottom of the table, tests that the sum of the coefficients on  $RACCRUAL$  and  $FILERS \times RACCRUAL$  sum to zero, i.e., that the total effect of the accruals anomaly on Filers is zero. For most regressions, particularly for the smaller two quintiles that include most Filers, the accruals anomaly disappears and is insignificant from zero for Filers, unlike that for Prelims. We conclude that the accrual anomaly does not exist for Filers, although it exists for Prelims. We attribute these results to the fact that Filers include balance sheet information on their earnings disclosure date, which is the SEC filing date, so market participants receive full information on the company's accruals.

(Insert Table A-1 about here)

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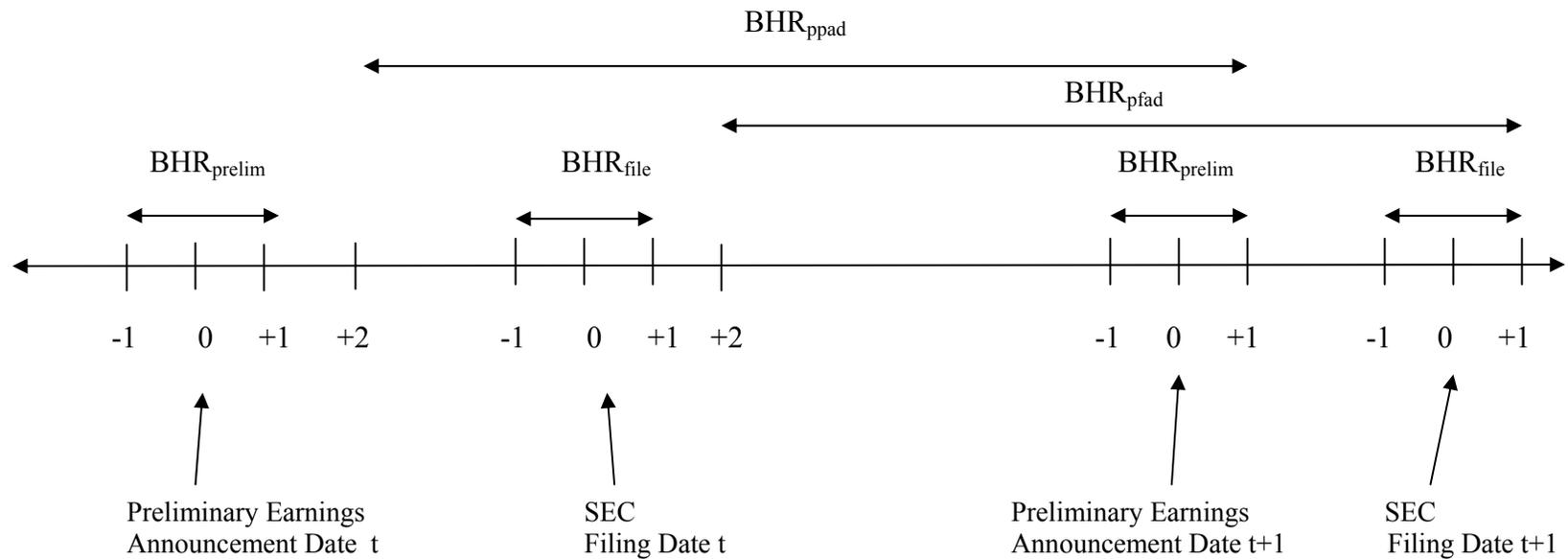
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**Figure 1**  
**Timeline: Preliminary Earnings Announcements and SEC Filings**



$BHR_{\text{prelim}}$  = Buy and Hold excess return for a 3-day window ( $-1, 0, +1$ ), where day zero is the preliminary earnings announcement date. Excess return is the raw return minus the average return on a same size-B/M portfolio (six portfolios), as provided by professor French.

$BHR_{\text{file}}$  = Buy and Hold excess return for a 3-day window ( $-1, 0, +1$ ), where day zero is the SEC filing date of 10-Q/10-K.

$BHR_{\text{ppad}}$  = Buy and Hold excess return for **post preliminary announcement** date from day  $+2$  after the preliminary earnings announcement until one day after the next preliminary announcement date.

$BHR_{\text{pfad}}$  = Buy and Hold excess return for **post filing announcement** date from day  $+2$  after the SEC filing until one day after the next SEC filing.

**Table 1**  
**Frequency of Reporting Strategy\***

**Panel A – Reporting strategy by Year**

Year	Prelims		Filers		UNCLASS		TOTAL		STICE	
	Num	%	Num	%	Num	%	Num	%	Num	%
1990	2,157	78.7	266	9.7	318	11.6	2,741	1.1	160	5.8
1991	9,649	78.0	1,234	10.0	1,494	12.0	12,377	5.2	641	5.2
1992	10,413	79.1	1,257	9.6	1,488	11.3	13,158	5.5	699	5.3
1993	11,018	79.2	1,329	9.6	1,561	11.2	13,908	5.8	659	4.7
1994	13,295	80.1	1,444	8.7	1,851	11.2	16,590	7.0	806	4.9
1995	14,475	80.3	1,495	8.3	2,062	11.4	18,032	7.6	829	4.6
1996	15,122	81.0	1,432	7.7	2,107	11.3	18,661	7.9	746	4.0
1997	17,121	81.8	1,499	7.2	2,310	11.0	20,930	8.8	589	2.8
1998	16,682	82.9	1,307	6.5	2,135	10.6	20,124	8.5	431	2.1
1999	15,971	83.2	1,397	7.3	1,829	9.5	19,197	8.1	285	1.5
2000	15,745	80.9	1,674	8.6	2,042	10.5	19,461	8.2	154	0.8
2001	15,095	80.2	1,704	9.0	2,027	10.8	18,826	7.9	67	0.4
2002	13,034	79.6	1,501	9.2	1,834	11.2	16,369	6.9	38	0.2
2003	12,026	77.8	1,493	9.7	1,942	12.5	15,461	6.5	20	0.1
2004	8,997	76.7	853	7.3	1,882	16.0	11,732	5.0	11	0.1
Total	190,800	80.3	19,885	8.4	26,882	11.3	237,567	100.0	6,135	2.6

**Panel B - Reporting Strategy by Quarter\***

Quarter	Prelims		Filers		UNCLASS		TOTAL		STICE	
	Num	%	Num	%	Num	%	Num	%	Num	%
1	47,249	77.3	6,606	10.8	7,293	11.9	61,148	25.8	2,051	3.4
2	48,079	77.2	6,651	10.6	7,582	12.2	62,312	26.2	1,884	3.0
3	47,032	85.3	2,249	4.1	5,852	10.6	55,133	23.2	727	1.3
4	48,440	82.1	4,379	7.4	6,155	10.5	58,974	24.8	1,473	2.5
Total	190,800	80.3	19,885	8.4	26,882	11.3	237,567	100.0	6,135	2.6

\* Notes:

1. Panel A (Panel B) presents number of observations by year (by quarter) classified into three categories:
  - (a) Prelims – Firms that make preliminary earnings announcements prior to the filing of 10-Q (or 10-K) reports with the SEC;
  - (b) Filers – Firms that file 10-Qs (or 10-Ks) with the SEC without making a preliminary earnings announcement;
  - (c) Unclassified – Firms with mixed reporting strategy that cannot be classified as either Filers or Prelims.
2. Panel A also presents the percentage of firms making a preliminary earnings announcement after the filing date (Stice 1991).

**Table 2**  
**Descriptive Statistics by Reporting Strategy\***

Variable	Prelims Companies				Filers Companies				P-value t-test
	N	Mean	Median	Std.	N	Mean	Median	Std.	
<b>LOGMKT</b>	190,800	5.53	5.40	1.89	19,885	3.41	3.20	1.58	<b>0.00</b>
<b>LOSS</b>	190,800	0.22	0.00	0.41	19,885	0.46	0.00	0.50	<b>0.00</b>
<b>PERSE</b>	164,575	0.17	0.16	0.37	17,112	0.11	0.10	0.37	<b>0.00</b>
<b>COREOCF</b>	159,092	0.23	0.11	0.48	18,103	0.37	0.17	0.67	<b>0.00</b>
<b>LAGFILE</b>	190,800	52.91	45.00	19.35	19,885	53.06	45.00	21.41	<b>0.35</b>
<b>VOLUME</b>	189,867	0.32	0.19	0.42	19,727	0.22	0.11	0.39	<b>0.00</b>
<b>FINA</b>	190,800	0.90	1.00	0.30	19,885	0.86	1.00	0.35	<b>0.00</b>
<b>ANALYST</b>	190,800	0.72	1.00	0.45	19,885	0.18	0.00	0.38	<b>0.00</b>

Notes:

1. The table presents descriptive statistics for two sub-samples: Prelims that consistently issue a preliminary earnings announcement prior to their SEC filings and Filers that consistently file the SEC reports without making preliminary earnings announcements.
2. Variable Definitions:
  - a. LOGMKT – Logarithm of market value of equity at quarter end.
  - b. LOSS – An indicator variable that obtains the value of “1” if earnings are negative and “0” otherwise.
  - c. PERSE - Persistence of Earnings Changes, estimated as the first autocorrelation between scaled earnings surprises in the prior eight quarters. The earnings surprise is earnings in the quarter minus earnings of the same quarter in the preceding year, scaled by market value at the beginning of the quarter.
  - d. COREOCF - The correlation of quarterly earnings and Operating Case Flows over the eight previous quarters.
  - e. LAGFILE – Time lag in days between quarter-end and filing date.
  - f. VOLUME - Quarterly number of shares traded as a percentage of shares outstanding at quarter end.
  - g. FINA – An indicator variable that obtains the value of “1” if average free cash flow over prior three years is negative or if the firm issued stock in the current or subsequent year, and “0” otherwise.
  - h. ANALYST – An indicator variable that obtains the value of “1” if the firm is followed by at least one analyst and “0” otherwise.

**Table 3**  
**Pearson Correlation Matrix**

	<b>LOGMKT</b>	<b>LOSS</b>	<b>PERSE</b>	<b>COREOCF</b>	<b>LAGFILE</b>	<b>VOLUME</b>	<b>FINA</b>	<b>ANALYST</b>
<b>LOGMKT</b>	1.00	-0.23	-0.01	0.04	-0.08	0.17	-0.04	0.53
<b>LOSS</b>		1.00	-0.00	0.01	0.09	0.10	0.05	-0.10
<b>PERSE</b>			1.00	0.05	-0.01	0.04	0.02	0.05
<b>COREOCF</b>				1.00	-0.02	0.07	0.00	0.04
<b>LAGFILE</b>					1.00	-0.01	0.05	-0.03
<b>VOLUME</b>						1.00	0.09	0.21
<b>FINA</b>							1.00	0.05
<b>ANALYST</b>								1.00

<b>Filers</b>	-0.32	0.16	-0.04	-0.03	0.00	-0.07	-0.04	-0.34
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Variable Definitions

1. LOGMKT – Logarithm of market value of equity at quarter end.
2. LOSS – An indicator variable that obtains the value of “1” if earnings are negative or zero and “0” otherwise.
3. PERSE - Persistence of Earnings Changes is estimated as the first autocorrelation between scaled earnings surprises in the prior eight quarters. The earnings surprise is earnings in the quarter minus earnings of the same quarter in the preceding year, scaled by market value at the beginning of the quarter.
4. COREOCF - The correlation of quarterly earnings and Operating Case Flows over the eight previous quarters.
5. LAGFILE – Time lag in days between quarter-end and SEC filing date.
6. VOLUME - Quarterly number of shares traded as a percentage shares outstanding at quarter end.
7. FINA – An indicator variable that obtains the value of “1” if average free cash flow over prior 3 years is negative or if the firm issued stock in the current or subsequent year, and “0” otherwise.
8. ANALYST – An indicator variable that obtains the value of “1” if the firm is followed by at least one analyst, and “0” otherwise.
9. Filers – An indicator variable that obtains the value of “1” if the firm is classified as Filers and “0” if classified as Prelims.

**Table 4**  
**Characteristics of Prelims and Filers – Logit Analysis\***

Variable	Sign	Pooled Model		Average Quarterly Models		
		Coeff.	P-value	Mean Coeff.	t-value	P-value
<b>Intercept</b>	?	-0.88	0.00	-0.85	6.79	0.00
<b>LOGMKT</b>	-	-0.45	0.00	-0.47	-56.5	0.00
<b>LOSS</b>	+	0.64	0.00	0.65	12.7	0.00
<b>PERSE</b>	-	-0.37	0.00	-0.35	-11.1	0.00
<b>COREOCF</b>	-	-0.13	0.00	-0.13	-4.9	0.00
<b>LAGFILE</b>	-	-0.01	0.00	-0.01	-5.2	0.00
<b>VOLUME</b>	-	-0.04	0.09	-0.11	-2.8	0.01
<b>FINA</b>	-	-0.25	0.00	-0.18	-3.9	0.00
<b>ANALYST</b>	-	-1.57	0.00	-1.50	-42.4	0.00
<b>Prelims = 0</b>						
<b>Filers = 1</b>						
<b>N-Prelims</b>		142945				
<b>N-Filers</b>		16,166				
<b>N - Quarters</b>				56		
<b>%Concordant</b>		84.7				
<b>Likelihood Ratio</b>		26203.4	0.00	681.9	38.4	0.00

\*Notes:

1. This Table presents results of a logit model where the dependent variable (*Filers*) is equal to “1” if the firm is classified as Filers and “0” if the firm is classified as Prelims:  

$$FILERS_{it} = \beta_0 + \beta_1 LOGMKT_{it} + \beta_2 LOSS_{it} + \beta_3 PERSE_{it} + \beta_4 COREOCF_{it} + \beta_5 LAGFILE_{it} + \beta_6 VOLUME_{it} + \beta_7 FINA_{it} + \beta_8 ANALYST_{it} + \varepsilon_{it} \quad (1)$$
2. See Table 3 for variable definitions.
3. We present a pooled model on the left side of the Table. In addition, we present mean coefficients from estimating 56 quarterly models (right side of the Table).

**Table 5**  
**Excess Return by SUE Portfolios**

SUE	Response to Earnings				Response to Filing				Drift				Number of Observations			
	UNCLAS	Prelims	Filers	STICE	UNCLAS	Prelims	Filers	STICE	UNCLAS	Prelims	Filers	STICE	UNCLAS	Prelims	Filers	STICE
<b>1</b>	-0.032	-0.018	-0.035	-0.019	-0.026	-0.002	-0.035	-0.014	-0.036	-0.007	-0.049	-0.049	2,349	14,891	1,571	478
<b>2</b>	-0.014	-0.012	-0.024	-0.022	-0.012	-0.001	-0.024	-0.016	-0.039	-0.008	-0.039	-0.038	2,292	14,835	1,763	510
<b>3</b>	-0.013	-0.006	-0.014	-0.012	-0.013	-0.001	-0.014	-0.014	0.001	-0.001	-0.027	-0.032	2,266	14,586	1,769	486
<b>4</b>	-0.003	-0.002	-0.004	-0.005	-0.004	-0.000	-0.004	-0.003	-0.016	0.006	-0.032	-0.046	2,193	14,540	1,740	495
<b>5</b>	0.002	0.003	0.001	0.006	-0.002	-0.001	0.001	0.005	0.011	0.012	0.003	0.008	2,172	14,641	1,750	555
<b>6</b>	0.002	0.008	0.006	0.003	-0.002	0.000	0.006	0.002	0.012	0.016	-0.009	0.009	2,131	14,803	1,709	496
<b>7</b>	0.009	0.013	0.010	0.008	0.004	0.000	0.010	0.010	0.009	0.021	0.019	-0.016	2,172	14,934	1,649	452
<b>8</b>	0.017	0.017	0.017	0.008	0.008	0.001	0.017	0.007	0.021	0.027	0.027	0.051	2,195	15,098	1,583	396
<b>9</b>	0.032	0.023	0.026	0.026	0.011	0.001	0.026	0.023	0.038	0.032	0.037	0.057	2,150	15,239	1,577	398
<b>10</b>	0.038	0.027	0.033	0.018	0.019	0.001	0.033	0.022	0.048	0.041	0.026	0.044	2,139	15,388	1,495	421
<b>ALL</b>	0.003	0.006	0.001	0.000	-0.002	-0.000	0.001	0.001	0.004	0.014	-0.005	-0.004	22,059	148,955	16,606	4,687

- The Table provides excess Buy-and-Hold return for companies classified as: (i) Prelims (consistently making preliminary earnings announcements prior to SEC filing); (ii) Filers (consistently file the SEC reports without making preliminary earnings announcements); (iii) UNCLAS (companies for which we cannot identify a consistent reporting strategy); and (iv) STICE (companies for which the preliminary earnings announcement date is after the filing date as in Stice, 1991).
- Excess returns are measured around three events: (i) earnings announcement event – 3-day period (-1,+1) around the release of earnings (preliminary earnings announcement for Prelims and SEC filing date for Filers); (ii) Filing event - 3-day period (-1,+1) around the filing of the SEC report; (iii) Drift - Excess buy-and-hold return from 2 days after preliminary (for Prelims) or SEC filing (for Filers) through one day after the next preliminary (for Prelims) or SEC filing (for Filers).
- SUE (Standardized unexpected earnings) are measured as:  $SUE = \frac{X_t - X_{t-4} - \delta}{\sqrt{VAR(X_t - X_{t-4})}}$ , where  $X_t$  is earnings for quarter  $t$ ,  $\delta$  is the average of  $X_t - X_{t-4}$  over the prior eight quarters, and the variance of  $X_t - X_{t-4}$  is also estimated over the prior eight quarters.
- Daily abnormal return is calculated as the raw daily return from CRSP minus the daily return on the portfolio of firms with the same size (market value of equity as of June) and book-to-market (B/M) ratio (as of December). Daily returns and cut-off points on the size and B/M portfolios are obtained from Prof. Kenneth French's data library, based on classification of the population into six (two size and three B/M) portfolios. The daily abnormal returns are then summed over the relevant period. Observations in the top and bottom 0.5% of excess return are deleted from the sample to ensure that our results are not driven by outlying returns.

**Table 6**  
**Market Reaction and Post Earnings Announcement Drift by SUE decile portfolios**  
**Regressions Analysis by size quintiles\***

	Size = 1	Size = 2	Size = 3	Size = 4	Size = 5	Size = 1	Size = 2	Size = 3	Size = 4	Size = 5
% Filers	28.56%	9.79%	5.03%	2.47%	1.35%	28.56%	9.79%	5.03%	2.47%	1.35%
N	37,812	36,836	37,041	37,596	39,458	37,812	36,836	37,041	37,596	39,458
	OLS with controls (see notes)					3SLS estimation of all events (see notes)				
<b>ERC</b>										
rSUE	<b>0.088</b>	<b>0.054</b>	<b>0.038</b>	<b>0.023</b>	<b>0.016</b>	<b>0.102</b>	<b>0.058</b>	<b>0.041</b>	<b>0.025</b>	<b>0.018</b>
<i>t</i> -statistic	<b>28.71</b>	<b>29.07</b>	<b>23.06</b>	<b>15.22</b>	<b>12.20</b>	<b>33.96</b>	<b>31.97</b>	<b>25.42</b>	<b>16.50</b>	<b>13.78</b>
rSUE x Filers	<b>-0.022</b>	<b>-0.018</b>	0.000	0.009	0.007	<b>-0.022</b>	<b>-0.012</b>	0.004	0.010	-0.001
<i>t</i> -statistic	<b>-4.02</b>	<b>-3.16</b>	0.03	0.94	0.66	<b>-3.93</b>	<b>-2.15</b>	0.58	1.11	-0.10
Adj-R <sup>2</sup>	0.067	0.044	0.030	0.013	0.008	NA	NA	NA	NA	NA
<b>FILING</b>										
rSUE	0.000	0.002	0.002	<b>0.002</b>	0.001	<b>0.004</b>	<b>0.003</b>	<b>0.003</b>	<b>0.002</b>	<b>0.002</b>
<i>t</i> -statistic	0.20	1.61	1.53	<b>2.29</b>	1.37	<b>2.01</b>	<b>2.58</b>	<b>2.29</b>	<b>2.26</b>	<b>2.01</b>
rSUE x Filers	<b>0.075</b>	<b>0.037</b>	<b>0.039</b>	<b>0.032</b>	<b>0.023</b>	<b>0.075</b>	<b>0.039</b>	<b>0.041</b>	<b>0.033</b>	<b>0.022</b>
<i>t</i> -statistic	<b>17.00</b>	<b>8.72</b>	<b>8.18</b>	<b>5.72</b>	<b>3.58</b>	<b>16.91</b>	<b>9.18</b>	<b>8.55</b>	<b>5.83</b>	<b>3.52</b>
Adj-R <sup>2</sup>	0.019	0.006	0.005	0.002	0.002	NA	NA	NA	NA	NA
<b>DRIFT</b>										
rSUE	<b>0.100</b>	<b>0.080</b>	<b>0.055</b>	<b>0.025</b>	<b>0.011</b>	<b>0.108</b>	<b>0.078</b>	<b>0.054</b>	<b>0.025</b>	<b>0.012</b>
<i>t</i> -statistic	<b>9.91</b>	<b>11.27</b>	<b>9.58</b>	<b>5.68</b>	<b>2.91</b>	<b>10.48</b>	<b>11.23</b>	<b>9.64</b>	<b>5.77</b>	<b>3.40</b>
rSUE x Filers	-0.004	0.008	0.023	0.016	0.014	-0.003	0.003	0.024	0.020	-0.002
<i>t</i> -statistic	0.21	0.35	0.94	0.59	0.47	-0.14	0.13	0.98	0.73	-0.06
Adj-R <sup>2</sup>	0.013	0.007	0.005	0.003	0.001	NA	NA	NA	NA	NA

\*Notes:

1. The Table presents regression analysis of stock returns around selected events and the decile of Standardized Unexpected Earnings and other controls. The regressions are estimated separately for each size quintile. Each quintile contains a sample of Filers (companies that consistently file SEC reports without making preliminary earnings announcements) and a sample of Prelims (companies that consistently make preliminary earnings announcements prior to SEC filing). We report only the coefficients on earnings surprise and coefficients and *t*-statistics in **bold face** indicate significance at the 0.05 level.

2. The dependent variable – Buy and Hold excess stock returns (BHR) – is measured around three events: (i) earnings announcement event (ERC) – 3-day period (-1, 0, +1) around the release of earnings (preliminary earnings announcement for Prelims and filing date for Filers); (ii) Filing event (FILING) - 3-day period (-1, 0, +1) around the filing of the SEC report; (iii) Drift - Excess Buy-and-Hold return from 2 days after preliminary (for Prelims) or SEC filing (for Filers) through one day after the next preliminary (for Prelims) or SEC filing (for Filers).
3. Daily excess return is calculated as the raw daily return from CRSP minus the daily return on the portfolio of firms with the same size (market value of equity as of June) and book-to-market (B/M) ratio (as of December). Daily returns and cut-off points on the size and B/M portfolios are obtained from Prof. Kenneth French’s data library, based on classification of the population into six (two size and three B/M) portfolios. The daily excess returns are then summed over the relevant event period. Observations in the top and bottom 0.5% of excess return are deleted from the sample to ensure that our results are not driven by outlying returns.
4. SUE (Standardized unexpected earnings) are measured as:  $SUE = \frac{X_t - X_{t-4} - \delta}{\sqrt{VAR(X_t - X_{t-4})}}$ , where  $X_t$  is earnings for quarter  $t$ ,  $\delta$  is the average of  $X_t - X_{t-4}$  over the prior eight quarters, and the variance of  $X_t - X_{t-4}$  is also estimated over the prior eight quarters.
5. We report results for two empirical models:
  - a. Simple OLS with controls for different characteristics:  

$$BHR_{it} = \delta_0 + \delta_1 FILERS_{it} + \delta_2 rSUE_{it} + \delta_3 rSUE_{it} \times FILERS_{it} + \delta_4 LOGMKT_{it} + \delta_5 LOSS_{it} + \delta_6 PERSE_{it} + \delta_7 COREOCF_{it} + \delta_8 LAGFILE_{it} + \delta_9 VOLUME_{it} + \delta_{10} FINA_{it} + \delta_{11} ANALYST_{it} + v_{it}.$$

$BHR_{it}$  is the cumulative abnormal return around the relevant event period (ERC, DRIFT, FILING). Filers is an indicator variable obtaining the value of “1” if the observation is classified as a Filers and “0” if the observation is classified as a Prelims. rSUE is the rank of the SUE decile in which the observation’s SUE belongs to. All other variables are defined in Table 3.
  - b. Simultaneous equation estimation: Filers characteristics and return models for all three events are estimated simultaneously using a 3SLS procedure. Filers characteristics are estimated using Equation (1):  $FILERS_{it} = \beta_0 + \beta_1 LOGMKT_{it} + \beta_2 LOSS_{it} + \beta_3 PERSE_{it} + \beta_4 LAGFILE_{it} + \beta_5 VOLUME_{it} + \beta_6 FINA_{it} + \beta_7 ANALYST_{it} + \varepsilon_{it}.$

**Table 7**  
**Differences in Excess Return between Filers and Matched Prelims**  
**Hedge Portfolios formed on extreme SUE Deciles**

Matching by	Filers Hedge Portfolios for Event			Matched Prelims Hedge Portfolio for Event			Differences in Hedge Portfolio Returns for Event			<i>t</i> -statistics ( <i>P</i> -values)		
	ERC	FILE	DRIFT	ERC	FILE	DRIFT	ERC	FILE	DRIFT	ERC	FILE	DRIFT
Size, Earnings Surprise	0.055	0.055	0.073	0.069	0.008	0.102	-0.014	0.047	-0.029	-2.36	12.05	-1.33
										0.02	0.00	0.19
Size, Earnings Surprise & Number of analysts	0.055	0.055	0.073	0.071	0.010	0.098	-0.016	0.045	-0.025	-2.54	9.94	-1.30
										0.01	0.00	0.20

\*Notes:

1. The Table presents hedge portfolio returns for a sample of Filers (consistently file the SEC reports without making preliminary earnings announcements) and a matched sample of Prelims companies (consistently making preliminary earnings announcements prior to SEC filing). The Table also calculates differences in hedge portfolio returns and significance levels. We use two matching techniques: Matching by Size and Earnings Surprise and matching by Size, Earnings Surprise and number of analysts.
2. Returns on hedge portfolios are measured as long on the top 20% SUE (or Accruals) and short the bottom 20% SUE (or Accruals). Hedge portfolios are measured around three events: (i) earnings announcement event (response) – 3-day period (-1,+1) around the release of earnings (preliminary earnings announcement for Prelims and filing date for Filers); (ii) Filing event - 3-day period (-1,+1) around the filing of the SEC report; (iii) Drift - Excess buy-and-hold return from 2 days after preliminary (for Prelims) or SEC filing (for Filers) through one day after the next preliminary (for Prelims) or SEC filing (for Filers).
3. SUE (Standardized unexpected earnings) are measured as:  $SUE = \frac{X_t - X_{t-4} - \delta}{\sqrt{VAR(X_t - X_{t-4})}}$ , where  $X_t$  is earnings for quarter  $t$ ,  $\delta$  is the average of  $X_t - X_{t-4}$  over the prior eight quarters, and the variance of  $X_t - X_{t-4}$  is also estimated over the prior eight quarters.
4. Daily abnormal return is calculated as the raw daily return from CRSP minus the daily return on the portfolio of firms with the same size (market value of equity as of June) and book-to-market (B/M) ratio (as of December). Daily returns and cut-off points on the size and B/M portfolios are obtained from Prof. Kenneth French's data library, based on classification of the population into six (two size and three B/M) portfolios. The daily abnormal returns are then summed over the relevant period. Observations in the top and bottom 0.5% of excess return are deleted from the sample to ensure that our results are not driven by outlying returns.

**Table A-1**  
**Post SEC Filing Drift by Accrual decile portfolios - Regressions Analysis**

	Size = 1	Size = 2	Size = 3	Size = 4	Size = 5	Size = 1	Size = 2	Size = 3	Size = 4	Size = 5
	OLS with controls (see notes)					3SLS estimation of all events (see notes)				
<b>DRIFT</b>										
<b>rACCRUAL</b>	<b>-0.020</b>	<b>-0.034</b>	<b>-0.033</b>	<b>-0.033</b>	<b>-0.015</b>	-0.012	<b>-0.032</b>	<b>-0.034</b>	<b>-0.030</b>	<b>-0.014</b>
<b>t-statistic</b>	<b>-2.30</b>	<b>-5.44</b>	<b>-6.27</b>	<b>-7.68</b>	<b>-3.85</b>	-1.47	<b>-5.18</b>	<b>-6.43</b>	<b>-7.06</b>	<b>-3.80</b>
<b>rACCRUALxFilers</b>	0.008	<b>0.038</b>	0.039	<b>-0.059</b>	0.026	0.007	<b>0.039</b>	<b>0.043</b>	<b>-0.116</b>	-0.028
<b>t-statistic</b>	0.59	<b>2.09</b>	1.81	<b>-2.32</b>	0.82	0.49	<b>2.17</b>	<b>1.97</b>	<b>-4.58</b>	-0.89
<b>Adj-R<sup>2</sup></b>	0.008	0.003	0.003	0.005	0.002					
<b>F-Statistic</b>	0.86	0.05	0.08	<b>13.46</b>	0.13	0.16	0.21	0.19	<b>33.75</b>	1.80
<b>Significance F</b>	0.366	0.819	0.776	<b>0.000</b>	0.717	0.687	0.650	0.663	<b>0.000</b>	0.180

\*Notes:

1. The Table presents regression analysis of stock returns from two days after the SEC filing through one day after the earnings announcement (preliminary or SEC filing, whichever came first) of the next quarter. The independent variables are the Accruals decile and other controls for the entire sample of Filers (companies that consistently file SEC reports without making preliminary earnings announcements) and the entire sample of Prelims (companies that consistently make preliminary earnings announcements prior to SEC filing). Coefficients and *t*-statistics below in bold face indicate significance at the 0.05 level.
2. The dependent variable is the excess buy-and-hold (BHR) stock returns for the above period. The excess return is calculated as the raw BHR return from CRSP minus the BHR return on the portfolio of firms with the same size (market value of equity as of June) and book-to-market (B/M) ratio (as of December). Daily returns and cut-off points on the size and B/M portfolios are obtained from Prof. Kenneth French's data library, based on classification of the population into six (two size and three B/M) portfolios. Observations in the top and bottom 0.5% of excess return are deleted from the sample to ensure that our results are not driven by outlying returns.
6. We report results for two empirical models:
  - a. Simple OLS with controls for different characteristics:  

$$BHR_{it} = \delta_0 + \delta_1 FILERS_{it} + \delta_2 rACCRUAL_{it} + \delta_3 rACCRUAL_{it} \times FILERS_{it} + \delta_4 LOGMKT_{it} + \delta_5 LOSS_{it} + \delta_6 PERSE_{it} + \delta_7 COREOCF_{it} + \delta_8 LAGFILE_{it} + \delta_9 VOLUME_{it} + \delta_{10} FINA_{it} + \delta_{11} ANALYST_{it} + v_{it}$$

$BHR_{it}$  is the cumulative buy & hold abnormal return around the event period. Filers is an indicator variable obtaining the value of “1” if the observation is classified as a Filers and “0” if the observation is classified as a Prelims. rACCRUAL is the rank of the ACCRUAL decile in which the observation’s ACCRUAL belongs to. All other variables are defined in Table 3.

- b. Simultaneous equation estimation: Filers characteristics and return models for all three events are estimated simultaneously using a 3SLS procedure. Filers characteristics are estimated using Equation (1):  $FILERS_{it} = \beta_0 + \beta_1 LOGMKT_{it} + \beta_2 LOSS_{it} + \beta_3 PERSE_{it} + \beta_4 LAGFILE_{it} + \beta_5 VOLUME_{it} + \beta_6 FINA_{it} + \beta_7 ANALYST_{it} + \varepsilon_{it}$ .