The Unintended Consequences of PCAOB Auditing Standards Nos. 2 and 3 on the Reliability of Preliminary Earnings Releases

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Abstract

Implementation of Public Company Accounting Oversight Board Auditing Standards No. 2 on internal control and No. 3 on documentation has delayed audit completion. In response, most firms maintain the same preliminary earnings release date due to market demand for timely disclosures even though the audit may not be complete as of that date. Results indicate revisions to preliminary announcements when filing the 10-K report would have been 35% lower during 2005 if the historical frequency of issuing earnings releases after the audit report date had not changed. Additionally, stock market reactions to impending revisions suggests lower reliability of preliminary earnings.

*Keywords***:** audit report lag, audit report date, audit regulation, earnings announcement date, preliminary earnings reliability, unintended consequences

The Unintended Consequences of PCAOB Auditing Standards Nos. 2 and 3 on the Reliability of Preliminary Earnings Releases

1. Introduction

This study examines how the internal control audit requirements as implemented by the Public Company Accounting Oversight Board in Auditing Standard No. 2 ("AS2"; PCAOB 2004b) and the audit documentation requirements of PCAOB Auditing Standard No. 3 ("AS3"; PCAOB, 2004a) impacted the reliability of information provided in earnings announcements. While both PCAOB AS2 and AS3 were expected to enhance the quality of the external audit, they also increased the amount of time required to complete the audit. Consequently, many firms that routinely released preliminary earnings numbers after completion of audit fieldwork must now trade off the market demand for timely information against a possible reduction in reliability due to issuing preliminary earnings numbers prior to the audit report date.[1]

Using a large sample of annual earnings releases over the period 2000-2005, we document a discontinuity in the average length of time between the fiscal year-end and the audit report date ("audit report lag") that is concurrent with the implementation of PCAOB AS2 and AS3. Audit report lags in the 2000-2003 period, which preceded these regulatory changes, average 46 - 50 days. In contrast, following the regulatory changes, 2004 and 2005 audit report lags increased to 62 and 65 days, respectively. The incidence of firms announcing earnings after the audit report date declined from close to 70% in the

[1] The following quote from a 2002 comment letter by a Big-4 firm to the SEC provides the auditors' perspective on the reliability of information in earnings releases: "The status of the auditor's work as of the date of the earnings release necessarily varies from company to company. In some cases, significant work remains to be performed and little, if any, assurance can be ascribed to the publicly disclosed results. More often, the external auditor may have performed the majority of the audit or review procedures, or even substantially completed the audit fieldwork" (http://sec.gov/rules/proposed/s70802/ernstyoung.htm).

2000-2001 period to around 20% in 2005. We further document that this change is predominantly due to accelerated filers that had to comply with both AS2 and AS3, although there are still significant changes for the non-accelerated filers that had to comply with only AS3.

Noting that the release of preliminary earnings prior to the audit report date implies a relevance-reliability trade-off, we examine the factors that influenced this trade-off in the pre-regulation period. In the pre-AS2/AS3 period we find that the choice to report preliminary earnings prior to the audit report date is positively associated with the demand by investors for timely disclosure and with accounting/audit complexity. Results are mixed on variables capturing proprietary costs and legal liability. We also find that firms with a December fiscal year-end (a proxy for the audit busy season) were less likely to wait for audit completion, reflecting overall supply constraints in the audit marketplace. Consistent with regulatory oversight providing an assurance of reporting reliability, utilities and financial institutions were more likely to release earnings prior to the audit report date (see also Altamuro and Beatty, 2008). Overall, our evidence is indicative of managers trading off relevance for potentially lower reliability.

To the extent the new regulations increase the proportion of firms announcing earnings prior to the audit report date, we expect a commensurate decrease in the reliability of preliminary earnings information in the marketplace. To test this prediction, we examine PEA revisions, which we define as cases in which income before extraordinary items (IBEI) as reported in the preliminary annual earnings announcement (PEA) differs from the number subsequently reported in the audited 10-K filing. We document that the preliminary number is released after the audit report date in only 38 of

the 544 PEA revisions over the 2000-2005 period, suggesting that the external audit enhances the reliability of financial statements. Consistent with the increase in the proportion of firms whose preliminary releases contain pre-audit report date numbers, we show that the number of PEA revisions in our sample has increased over time from 12 in 2000 to 186 in 2005. After controlling for characteristics of firms with PEA revisions (Hollie et al., 2006), we find that PEA revisions are significantly more likely when preliminary earnings are released prior to the audit report date. Our inferences generally hold during the entire sample period (i.e., both before and after the effective dates of PCAOB AS2 and AS3) for both accelerated and non-accelerated filers and after we control for the number of days by which the earnings announcement precedes the audit report date (a proxy for the likelihood of subsequent events). Taken together, the unintended regulatory effect we document is economically significant in that PEA revisions would have been 35% lower during 2005 if the historical frequency of issuing earnings releases after the audit report date had not changed.

We also present evidence on the disclosure strategies of firms with PEA revisions. For 46% of the PEA revisions, there are no disclosures about accounting issues prior to filing the 10-K report. In 19% of the cases, firms foreshadow the impending PEA revision in the preliminary earnings releases, with the remaining firms disclosing the PEA revision through a Form 8-K issued prior to the 10-K filing.

Finally, we provide additional evidence on the economic significance of the PEA revisions by examining the market reaction to their disclosure. Consistent with prior evidence of a negative market reaction to announcements that previously-filed earnings numbers will be restated (e.g., Palmrose et al., 2004; Anderson and Yohn, 2002), we find

a significantly negative market reaction to the announcement of a forthcoming PEA revision. However, we find no significant market reaction when the initial disclosure of a PEA revision is the 10-K filing containing the revised numbers, consistent with the smaller absolute magnitude of these revisions. In addition, for firms that foreshadow impending PEA revisions, we find that the earnings response coefficient around the release of preliminary earnings reflects the market's reliability concerns.

Our study makes at least three contributions to the existing literature. First, we provide additional evidence on recent audit regulations aimed at restoring investor confidence in the reliability of audited financial statements. Prior research is consistent with Section 404 requirements improving the reliability of audited financial statements (e.g., Ashbaugh-Skaife et al., 2008; Dhaliwal et al., 2008; Hammersley, et al., 2008; Gupta and Nayar, 2007). Our evidence indicates that these regulations have increased the audit report lag and, in turn, have had the unintended consequence of reducing the reliability of preliminary releases. This finding is important given that market participants place greater emphasis on salient and timely disclosures in earnings press releases than disclosures in periodic reports. Thus, we add to a growing body of research on the unintended consequences of financial reporting regulation (Blacconiere et al., 2008; Rose and Wolfram, 2002; Harris and Livingstone, 2002; Perry and Zenner, 2001; Balsam and Ryan, 2006).

Second, while the value of auditing has been acknowledged in the accounting literature (Watts and Zimmerman, 1983; Wallace, 1980), prior research has relied on experimental evidence (Boylan, 2000; Wallin, 1992; Kachelmeier, 1991) to examine the value of auditing or on indirect archival evidence of a difference in earnings quality

across levels of audit quality (Davidson and Neu 1993; Becker et al., 1998; Francis et al., 1999; Teoh and Wong, 1993; Balsam et al., 2003). Thus there is little direct archival evidence on the value of auditing despite auditors playing a significant role in the disclosure process (Healy and Palepu 2001, p. 415). The association we document between PEA revisions and audit completion provides direct archival evidence regarding the value of auditing.

Finally, we present evidence of a decrease over time in the reliability of the earnings numbers in preliminary announcements as evidenced by an increase over the period 2000-2005 in the frequency with which the preliminary numbers differ from those that are filed in the 10-K. Thus, we contribute to the body of research that examines changes over time in the properties of accounting earnings (Ryan et al., 2007; Collins et al., 2009; Landsman and Maydew 2002; Collins et al., 1997; Francis and Schipper 1999; Brown et al., 1999).

The remainder of the paper proceeds as follows. In Section 2 we discuss historical regularities in the reporting of preliminary earnings and two recent regulatory changes that impact historical patterns. In Section 3 we present evidence of an increase in the number and proportion of firms issuing preliminary annual earnings prior to the audit report date. In Section 4 we examine why firms trade off increased timeliness against decreased reliability when making the decision to announce preliminary earnings prior to the audit report date, and in Section 5 we show that this trade-off is associated with a decrease in the reliability of preliminary earnings. Section 6 concludes the paper with a summary of our results.

2. Background

2.1 Earnings announcement and audit reporting lags

Most firms issue a preliminary earnings announcement several weeks in advance of filing a 10-K or 10-Q with the Securities and Exchange Commission (Amir and Livnat, 2005; Li and Ramesh, 2009). Prior research shows that the stock market quickly reacts to these preliminary earnings releases (see Kothari, 2001 for a review). Although the choice of a preliminary earnings release date is a voluntary disclosure decision, prior research suggests that there is regularity to a given firm's release dates (Givoly and Palmon, 1982; Chambers and Penman, 1984).[2] Research also indicates that a later release date than expected is interpreted by the market as bad news (Kross and Schroeder, 1984; Begley and Fischer, 1998; Bagnoli et al., 2002).

Historically, audit report lag has been viewed as the most important determinant of the selection of an annual earnings announcement date (Givoly and Palmon, 1982). In the U.S., AU Section 530 ¶1 states "the auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion," which was commonly referred to as the completion of fieldwork (see section 2.2 Recent Regulations). Bamber et al., (1993) report that over 70 % of the client firms in their 1983-1985 sample period waited until at least the audit report date to announce earnings, which is similar to Schwartz and Soo's (1996) finding that over 78% of the firms did so in their 1988-1993 sample period.

[2] Henderson and Kaplan (2000) also find consistency in audit report lags similar to the consistency in earnings announcement dates for a sample of banks over the time period 1988 to 1993, with individual banks' year-to-year variation being within 5 days.

2.2 Recent regulations

Two recent regulations have had the effect of delaying audit report dates. Most notably, Section 404(b) of the Sarbanes-Oxley Act, implemented by the PCAOB as Auditing Standard No. 2 ("AS2"; PCAOB 2004b), has increased the time it takes to complete a financial statement audit for accelerated filers (Ettredge et al., 2006). Given that most large audit firms adopted an integrated audit technology in accordance with AS2, the completion of tasks that constituted "fieldwork" under the audit requirements prior to AS2 were likely delayed post AS2. Consequently, firms that released their preliminary earnings numbers after completion of audit fieldwork in the pre-SOX era must now trade off the market demand for timely information with a possible reduction in the reliability of preliminary earnings numbers that might occur if earnings are released prior to the audit report date.[3] To the extent market demand forces managers to maintain timely disclosure of periodic results, the reliability of their preliminary earnings releases could suffer.[4]

In addition, recent auditing standards have also changed the documentation requirements related to the audit report release date. PCAOB AS3 requires that, "prior to the report release date, the auditor must have completed all necessary auditing procedures, including clearing review notes and providing support for all final conclusions" (paragraph A53). This strengthening of the documentation requirements is

[3] While the integrated audit also may have increased the audit lag, the following quote from KPMG is consistent with the empirical phenomenon that we study: "While we are aware anecdotally that some companies have delayed earnings releases to coincide with substantial completion of integrated audit fieldwork, we generally have not seen a decrease in the number of days required to produce an earnings announcement" (http://www.sec.gov/rules/proposed/s70805/mcwroan5683.pdf).

[4] Alternatively, the benefits from an increased focus on internal controls might offset or even outweigh the costs from the delay in completion of audit fieldwork. Consequently, firms could maintain comparable reliability in their voluntary disclosures without compromising their timeliness despite the fact the audit has not yet been completed. Whether the focus on internal controls under Section 404 enabled managers to maintain the reliability of voluntary disclosures is an empirical issue.

likely to delay the audit report date beyond the completion of audit fieldwork. PCAOB AS3 applies to audits of all SEC registrants, whereas Section 404(b) and PCAOB AS2 applied initially only to audits of accelerated filers.[5]

3. Sample selection and descriptive evidence on reporting trends

To analyze the impact of these regulatory changes on earnings announcement strategies and earnings announcement reliability, we require data on earnings announcement (Compustat) and audit report (Audit Analytics) dates. Sample selection is detailed in Table 1. For the calendar years 2000-2005, there are a total of 89,514 firm-year observations in the Audit Analytics Opinion file. After eliminating duplicate observations, observations not on Compustat (e.g., subsidiaries of public companies and benefit plans), and observations without earnings announcement dates in the Compustat quarterly file, we are left with 30,017 firm-year observations. Eliminating observations with extreme audit report lags or filing lags reduces the sample to 26,731 firm-years.[6] Compustat, CRSP, and IBES screens result in 17,249 firm-year observations. Finally, eliminating observations with missing annual preliminary data or observations for which we cannot verify the preliminary earnings numbers results in a sample of 16,973 firm-years for our primary analyses.

In Table 2, we present trends in earnings announcement lags, audit report lags, and filing lags. Because these comparisons do not require CRSP, IBES, or Compustat

[5] Section 404(b) and AS2 became effective for accelerated filers for fiscal years ending on or after November 15, 2004. Section 404(b) will become effective for non-accelerated filers for fiscal years ending on or after June 15, 2010. AS3 became effective for all SEC registrants for fiscal years ending on or after November 15, 2004.

[6] We eliminate 243 firm-years with an audit report lag greater than one year, 3,002 firm-year observations with a filing lag greater than 107 days (delinquent filers), 39 firm-years in which the filing date precedes the audit report date, and two observations for which the earnings announcement lag is greater than one year.

financial data, we base them on the larger 26,731 firm-year sample.[7] Panel A presents the results by calendar year. The average earnings announcement lag (i.e., the number of days between the fiscal year-end and the preliminary earnings announcement date) is relatively constant, ranging from approximately 43 days for firms with fiscal year-end dates in calendar year 2000, 2001, and 2003, to approximately 46 days in 2005.

In contrast, the average audit report lag increases from approximately 46 days in 2000 to approximately 65 days in 2005 (see also, Krishnan and Yang, 2009). The sharp increase in 2004 corresponds with the implementation of PCAOB AS2 and the effective date of PCAOB AS3. The mean filing lag (the number of days from the fiscal year-end to the 10-K filing date) drops from 85 days in 2000 to 77 days in 2003, corresponding with the phase-in of SEC rules that decrease filing times for accelerated filers.

The last column of Table 2 Panel A examines the number of days between the earnings announcement and the audit report date. During 2000 to 2003, the median firm waited until the day of or the day after the audit report date to announce earnings. Beginning in 2004 we see a major shift, with the median firm announcing earnings 18 days prior to the audit report date. The percentage of firms waiting to release earnings until the audit is complete declines from 67% of firms in 2000 to only 21% of firms in 2005. Overall, the data in Table 2 Panel A suggests that most firms did not alter their earnings announcement timing as audit report lags increased.

In Panel B of Table 2, we present summary results with each year split into two periods: fiscal year-ends from January through November 14 and fiscal year-ends from November 15 through December 31, and two filer groups: accelerated and non-

[7] We find similar trends to those reported in Table 2 when we use the reduced sample of firms with sufficient data for the remaining analyses (n=16,973 firm-years) as well as when we use only the firms with data during the entire 2000-2005 sample period (n=930 firms or 5,580 firm-years).

accelerated filers. Our goal is to isolate the implementation effects of AS2 (AS3), which became effective for fiscal years ending on or after November 15, 2004 for accelerated (all) filers. The pre- and post-regulatory periods are demarcated by a dotted line in Panel B of Table 2.

We observe that the decrease in the incidence of releasing earnings information after the audit report date is due primarily to accelerated filers in the post-AS2 time period. The percentage of accelerated filers with fiscal year-ends falling between November 15 and December 31 that wait until the audit report date to announce earnings drops from a high of 66.9% in 2000 to a low of 8.4% in 2004. Using the two years of post-regulation data we have for these firms, we see no evidence of a further decrease in the incidence beyond the first year, consistent with the posited regulatory effects. Interestingly, the accelerated filers experience some decrease in the incidence of waiting until the audit report date even in the year prior to when AS2/AS3 became effective, consistent with clients and auditors ramping up to meet Section 404 and AS2 requirements. However, as noted above, most of the change in the strategy does occur in the first post-regulation period.

Non-accelerated filers with fiscal year-ends occurring at the end of the calendar year also experience a decrease in this percentage, although less dramatic, from 68.4% in 2001 to 47.4% in 2004 and 44.2% in 2005. The drop for non-accelerated filers could be attributed to AS3 or could possibly be due to increased workload and its associated effect on audit report lags as audit firms faced supply-side constraints with their accelerated filer clients being subject to AS2.

4. Relevance versus reliability

When audit completion is significantly delayed, managers may trade off market demand for timely information with a desire to preserve the reliability of preliminary earnings information. In this section, we provide evidence on this trade-off by addressing the following two questions: (1) what disclosure incentives in the pre-regulation period influenced the managerial decision to release preliminary earnings information after the audit report date? and (2) how do the enhanced audit requirements (AS2 and AS3) impact managerial decisions regarding the timing of preliminary earnings releases?

4.1 Determinants of the decision to release preliminary earnings numbers prior to audit report date

The prior literature identifies a common set of firm characteristics that explain the timeliness of earnings releases, the determinants of disclosure quality (including the reliability of the earnings signal), and the determinants of audit report lag. Sengupta (2004) predicts that quarterly earnings announcement timeliness is associated with investor demand for information, the proprietary cost of releasing information, accounting complexity, and litigation risk. Earlier studies establish that these same factors – investor demand for information (Lang and Lundholm, 1993), the proprietary cost of releasing information (Darrough and Stoughton, 1990; Verrechhia, 2001; Guo et al., 2004; Bamber and Cheon, 1998), accounting complexity (Frankel et al., 1999; Chen et al., 2002), and litigation risk (Kasznik and Lev, 1995; Skinner, 1994; Skinner, 1997) – also explain the quantity and quality of financial disclosures.

Kinney and McDaniel (1989) show that quarterly earnings restatements are more likely in the situation in which relative to its industry, a firm is smaller, less profitable, more highly levered, has lower sales growth, and is more likely to have received an

uncertainty-qualified audit opinion. Bamber et al. (1993) present evidence that audit report lag is associated with the amount of audit work required, incentives to provide timely reports, and audit structure. Finally, Schwartz and Soo (1996) find that auditor changes are associated with longer audit reporting lags due to start-up inefficiencies and additional work related to increased litigation risk.

We use the factors identified in prior research to explain the relative timing of earnings press releases and the completion of the audit. In some instances, however, we do not offer directional predictions because factors that are positively correlated with the demand for timely release are negatively correlated with the likelihood of an increased audit report lag. For example, large firms not only respond to greater investor demand for information by releasing earnings earlier than other firms, but are also in a better position to resist lengthy audit report lags due to bargaining power with their auditors.

In other instances, factors that are positively associated with the demand for timely release are also positively correlated with the uncertainty of earnings. For example, both the variability of firm performance and accounting/audit complexity are not only associated with an increased demand for timely information arising from information asymmetries between investors and managers, but also with the manager's uncertainty about the outcome of the audit, creating an offsetting incentive to delay the earnings release pending completion of the audit. Overall, our empirical analysis should shed light on the relative dominance of market demand for timely information versus the supply considerations in the audit market.

Prior studies use the information environment, firm profitability, and the variance of firm performance to capture investor demand for information. We use firm size,

analyst following, and share volume as proxies for the information environment. Our measures of firm profitability include the presence of a loss, return on assets, and the sign of unexpected earnings. We use the standard deviation of returns, the debt-to-assets ratio, and equity beta to measure performance variability. Accounting/audit complexity is likely to be high at firms in which inventory and receivables are a larger percentage of total assets, firms reporting discontinued operations or extraordinary items, firms reporting special items, firms involved in merger and acquisition activity, firms receiving going concern opinions, and firms that have purchased the services of a Big 4 auditor. Also due to supply-side constraints, we expect firms with a 12/31 fiscal year-end to have a greater audit report lag. We use technology industry membership to proxy for litigation risk. Finally, we include industry controls for regulated industries, which are expected to shorten audit report lags due to greater regulatory oversight.

4.2 Descriptive statistics in the pre-regulation period

In Table 3, we report descriptive statistics by audit strategy group for firm-years ending in calendar year 2000 through 11/14/2004, i.e., firm-years prior to the implementation of PCAOB AS2 and AS3 ("pre-regulation period"). We create three audit strategy groups: firms that always announce earnings on or after the audit report date (the *POST-ARD* group), firms that always announce prior to the audit report date (the *PRE-ARD* group), or firms following a mixed strategy. Presumably the *POST-ARD* (*PRE-ARD*) group believes that the benefits of waiting until the audit report date outweigh (are outweighed by) the potential costs. There are 926 unique firms (2,756 firm-years) in the

POST-ARD strategy group and 476 unique firms (1,393 firm-years) in the *PRE-ARD* strategy group.[8]

With respect to investor demand for earnings information, we find that firms with a richer information environment (i.e., firms with higher market values and greater analyst following) are more likely to be in the *PRE-ARD* strategy group, while the results on firm performance are mixed. *POST-ARD* firms have lower debt-to-assets ratios, but a higher standard deviation of returns and higher betas. However, the difference between groups for beta is not significant.

Firms with higher proprietary costs (i.e., higher sales concentration and lower book-to-market ratios) are more likely to be in the *POST-ARD* strategy group, while firms with higher accounting/audit complexity are more likely to be in the *PRE-ARD* group. Consistent with supply-side constraints, we find a higher percentage of firms in the *PRE-ARD* category with fiscal year-ends occurring during busy season. Regulated and financial firms are more likely to be *PRE-ARD* whereas firms with greater litigation risk (i.e., technology firms) are more likely to be in the *POST-ARD* group.

4.3 Probit regression results for the pre-regulation period

In Table 4, we report pre-regulation period results for our model of the likelihood of firms' waiting until the audit report date to release earnings. The dependent variable equals 1 (0) if the firm is in the *POST-ARD* (*PRE-ARD*) strategy group. The independent variables are pre-regulation period averages.

[8] To be included in the *POST-ARD* or *PRE-ARD* group, we require a firm to have this data over consecutive years during the pre-regulation period. If we cannot determine the relative timing of the earnings announcement and audit report in any year during this period (i.e., we have data for one of these dates but not the other), we include the firm in the *MIXED* group. As shown in Panel B of Table 1, there are 2,707 firms (6,172 firm-years) that follow a mixed strategy over this time period and an additional 1,435 firm-years that cannot be classified due to missing data. Of the 1,402 firms in the *POST-ARD* and *PRE-ARD* groups, 80 firms have one year of data, 131 firms have two years of data, 137 firms have three years of data, 1,039 firms have four years of data, and 15 firms have five years of data.

Consistent with univariate comparisons, firms with a greater demand for information, with complex accounting or auditing issues, with higher leverage, with lower profitability, and/or firms in regulated industries are all less likely to wait until the audit report date to release earnings. The proprietary cost variables (sales concentration and book-to-market ratio), standard deviation of returns, busy season, and litigation risk variable are no longer significant.[9]

4.4 Changes in reporting strategy following changes in regulation

In this section, we examine how firms in the *POST-ARD* and *PRE-ARD* strategy groups react to increased audit report lags brought about by the recent regulations. We are particularly interested in whether firms in the *POST-ARD* group switch to a *PRE-ARD* strategy. We classify firms into four groups based on whether they retained or switched their strategy from the pre- to the post-regulation period.

Table 5 documents the number of firms in each of the four groups with sufficient data for the analysis and provides descriptive statistics on audit and reporting lags during the post-regulation year, defined as fiscal years ending between 11/15/2004 and 11/14/2005.[10] Only 12% of firms originally in the *POST-ARD* group (72 of 596 firms) continue to wait until the audit report date or after to announce earnings. For these firms, the median changes in earnings announcement and audit report lags are 2 days and 4.5 days, respectively, implying that they continue their *POST-ARD* strategy without

[9] If we replace the averages with the values of the independent variables for each firm-year, our inferences are qualitatively similar except that Book-to-market is significantly negative. We also obtain qualitatively similar results when we define *POST-ARD* and *PRE-ARD* on a year-by-year basis and include firms following a mixed strategy during the sample period, except that Industry Sales Concentration and Book-to-market are significantly negative.

[10] The total number of observations in Table 5 is less than the total number of firms in the Post-ARD and Pre-ARD strategy groups in Table 4 due to firms missing data in either the last pre-regulation year (20%) or the first post-regulation year (5%), with remaining loss of observations due to our sample selection criteria outlined in Section 3.

significantly delaying their preliminary earnings announcement. The remaining 88% of the firms originally in the *POST-ARD* group (524 of 596 firms) announced their earnings prior to the audit report date for their fiscal year ending during the first post-regulation period. For these firms, the median earnings announcement lag did not change, while the median audit report lag increased by 31 days in the post-regulation year, suggesting that it became too costly to wait until the audit report date to announce earnings.

Ninety-eight percent of *PRE-ARD* firms (294 of 300 firms) continue this strategy in the first post-regulation year. These firms' median earnings announcement lag did not change, while the median audit report lag increased by 8 days. There are six *PRE-ARD* firms that switched to a *POST-ARD* strategy in the post-regulation year. These firms experienced a median decrease in audit report lag of 4 days.[11]

We also explore the factors that explain the strategy choices of *POST-ARD* firms in the first year of the post-regulation period (n=596). In untabulated analysis, we regress a dependent variable coded as 1 if the firms continued the *POST-ARD* strategy in the first post-regulation year on the independent variables in Table 4 along with an indicator variable for accelerated filers who are subject to the internal control audit requirements in the first post-regulation year. We find that firms followed by more analysts, firms with complex accounting/audits, and firms with a Big N auditor are less likely to remain *POST-ARD*. In addition, the accelerated filer indicator variable is significantly negative, which suggests that firms are willing to forgo potentially higher earnings quality to maintain disclosure timing when faced with regulatory changes that constrain their ability to obtain timely audit completion.

[11] Three of these six companies remained *POST-ARD* in the second post-regulation year. Two of the three changed from a Big N to a non-Big N auditor in the first post- regulation year. We were unable to determine why the other four companies shifted their strategy.

5. Reliability of *PRE-ARD* preliminary releases

Results reported in the previous section suggest that a shift to a strategy of providing *PRE-ARD* preliminary earnings is more likely for accelerated filers and when there is greater accounting/audit complexity. Given the *PRE-ARD* preliminary earnings numbers are released prior to completion of audit fieldwork, they are likely to be less reliable than *POST-ARD* numbers. If this is true, auditors of firms adopting the *PRE-ARD* strategy would more often detect misstatements between the preliminary release date and the completion of the audit. On the other hand, if legal liability and reputational concerns drive firms to issue *PRE-ARD* preliminary earnings only when they are confident that the numbers are free of misstatements, then we would observe no difference in the reliability of *PRE-ARD* versus *POST-ARD* preliminary earnings.

To explore this issue, we define the inverse of reliability as the incidence of PEA revisions. For sample firm-years with different IBEI values in the annual Compustat database versus the annual Preliminary History database, we obtain the relevant earnings press release and 10-K. We eliminate differences that are due to rounding, differences that reflect Compustat's updates to the original 10-K figures in response to a firm's restatement of the originally filed numbers, and differences arising from Compustat's application of a year-end translation rate for international firms reporting in their home currency. For the sample of 17,249 observations that survived our Compustat, CRSP, and IBES screens (see Section 3), we are able to obtain data for all but 263 firm-years.[12]

[12] For 8,459 firm-years, IBEI from the earnings releases is missing in the annual Compustat Preliminary History database. Through discussions with Standard & Poor's representatives, we learned that the quarterly Preliminary History database coverage is more extensive than the annual Preliminary History coverage. Therefore, for these observations, we use the quarterly Preliminary History database matched with the Compustat Unrestated Quarterly database to determine whether our sample firm-years had fourth quarter PEA revisions.

Next, we eliminate any fourth quarter PEA revisions that had no effect on fourth quarter EPS (i.e., differences due to rounding). Finally, for the remaining fourth quarter PEA revisions, we hand collect the annual IBEI and EPS numbers from the press releases, and we compare this IBEI number to the annual IBEI number reported in the Compustat Industrial Annual database to determine whether the firm-year is an annual PEA revision. We are able to obtain the annual IBEI for all but 13 of these firm-years, leaving us with our final sample of 16,973 observations.

5.1 Frequency and magnitude of preliminary earnings revisions

Panel A of Table 6 displays PEA revision frequencies for *POST-ARD* and *PRE-ARD* preliminary announcements by accelerated filer status.[13] Unlike for the strategy analysis reported in Table 4, we assign firms on a yearly basis into the *POST-ARDPEA* (*PRE-ARDPEA*) group when their preliminary earnings announcements are made on or after (prior to) the audit report date. We note a significant increase in the number of PEA revisions over time, from a low of 12 PEA revisions in 2000 to a high of 186 in 2005 suggesting a decrease over time in the reliability of preliminary earnings. In 2004 and 2005, as the percentage of firms that release earnings prior to the audit report date increases to approximately 80% (as documented in Table 2), both the frequency of PEA revisions and the percentage of PEA revisions occurring in *PRE-ARDPEA* firms increases. In 2005, 183 out of the 186 PEA revisions, or 98.3%, occur in *PRE-ARDPEA* firms (combining non-accelerated and accelerated filers) compared to the range of 79.3% to 89.1% over the 2000-2003 period.

[13] For the periods 2004-2 and 2005, we identify firms as accelerated filers if they had a Section 404 audit report. For the earlier years, firms with at least $75 million of market value of equity at fiscal year-end are considered "accelerated filers."

Panel B presents a cross-tabulation of the number of accelerated and non-accelerated filers and by *PRE-ARDPEA* versus *POST-ARDPEA* status. A comparison of panels A and B indicates that in every year, the vast majority of the PEA revisions occur in *PRE-ARDPEA* firms, and moreover, the percentage of PEA revisions at *PRE-ARDPEA* firms exceeds the percentage of *PRE-ARDPEA* firms in the sample. In 2003, for example, 86.5% of the PEA revisions are at *PRE-ARDPEA* firms, yet *PRE-ARDPEA* firms comprise only 49.7% of firms with complete data.

In Panel C of Table 6, we examine the magnitude of upward and downward EPS revisions for the *POST-ARDPEA* and *PRE-ARDPEA* firms.[14] In general, while the incidence of PEA revisions increases over time in the *PRE-ARDPEA* firms, the magnitude of the median EPS revision declines. In untabulated results, we find that 82.2% (65.8%) of PEA revisions in *PRE-ARDPEA* (*POST-ARDPEA*) firms exceed |$0.01| per share.

5.2 Does releasing earnings after the audit report date decrease the likelihood of revisions to preliminary earnings numbers?

Table 6 presents evidence that PEA revisions are more common at *PRE-ARD* firms, but does not address the issue of whether the revision is attributable to the decision to release *PRE-ARD* preliminary numbers after controlling for other firm characteristics that are correlated with that decision. In this section, we develop a model that explains the occurrence of PEA revisions drawing upon variables from related literature.[15]

[14] The EPS revisions for the total sample of PEA revisions firms (n=544 firm-year observations) range from a maximum downward revision of $7.08 per share to a maximum upward revision of $5.74 per share. The mean (median) EPS change is -$0.07 (-$0.01) overall, with a 25th percentile of -$0.06 and a 75th percentile of $0.01.

[15] Hollie et al. (2006) examine the characteristics of firms whose quarterly filings with the SEC include earnings numbers that differ from those reported in the preliminary earnings release, but do not differentiate the audited status of the preliminary releases. They provide descriptive statistics on a subset of the variables that Sengupta (2004) identifies as associated with the timeliness of quarterly earnings releases,

Panel A of Table 7 reports descriptive statistics by PEA revision status for the independent variables used in our model. The independent variable of interest, *POST-ARD*, equals 1 for firm-years in which the earnings announcement date is on or after the audit report date. Only 7% of the observations with a PEA revision wait until on or after the audit report date to announce earnings, while 46% of the observations without a PEA revision do so. We also find that PEA revision firms are larger, are more likely to have incurred a loss (34% versus 26%), have a lower percentage of inventory and accounts receivable to total assets (25% versus 29%), have a larger proportion of discontinued operations and extraordinary items (26% versus 23%), are more likely to report special items (74% versus 59%), are less likely to have a busy season year-end (69% versus 75%), have greater earnings volatility, and have a longer wait from the earnings announcement date to the audit report date (32 days versus 12 days). In contrast, debt-to-assets ratios, book-to-market ratios, the proportion engaged in merger and acquisition activity, the proportion receiving going concern opinions, and the proportion engaging new auditors do not significantly differ between PEA revision and non-PEA revision firm-years.

Panel B of Table 7 presents the results of regressions explaining the likelihood of a PEA revision during 2000-2005. In addition to the variables discussed above, we include "*Reg*", which equals 1 if the firm-year is in the post-regulation period (i.e., fiscal years ending between 11/15/2004 and 12/31/2005) along with an interaction between *POST-ARD* and *Reg*, allowing the coefficient on *POST-ARD* to vary between periods.

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finding that revisions of preliminary quarterly numbers are positively associated with the complexity of operations, losses during the quarter, earnings volatility, financial leverage, and the occurrence of an auditor switch. Their findings are similar to those of Kinney and McDaniel (1989), who examine characteristics of firms that restate their audited financial statements.

We estimate the regressions using (a) pooled probit and (b) Chamberlain's random effects (CRE) probit estimators.[16] We report marginal effects and their p-values.[17] In general, the CRE estimator provides more conservative p-values relative to the pooled probit estimator, suggesting the existence of non-trivially correlated unobserved firm-specific heterogeneity. While the effects of the unobserved heterogeneity on some control variables are more pronounced (e.g., Earnings Volatility), *POST-ARD* is significant at the $p < 0.01$ level using both estimators. In terms of economic significance, the marginal effect of *POST-ARD* from the CRE probit estimator suggests that if firms had maintained the same incidence of issuing earnings releases after the audit report date as in the 2000-2001 period, the frequency of PEA revisions would have been 35% lower in the year 2005.[18]

The negative and highly significant ($p < 0.01$) marginal effect on the *POST-ARD* variable indicates that when a firm waits until the audit report date to announce earnings, the firm is less likely to have a subsequent PEA revision. The interaction between *POST-ARD* and *Reg* is insignificant, suggesting the value of the audit does not change after the implementation of the new audit regulations. However, the marginal effect of *Reg* is

[16] By comparing the two estimators, we provide evidence on whether unobserved firm-specific heterogeneity overstates the reported coefficients of interest in the pooled analysis. CRE probit offers a consistent approach to incorporating unobserved firm-specific heterogeneity as well as the ability to estimate the marginal effects. We do not consider fixed effects probit or fixed effects logit as the former is inconsistent and the latter does not identify marginal effects (Wooldridge 2002, Chapter 15). Additionally, our inferences hold when we use the generalized estimating equations approach to estimate our model or when the pooled probit regression is estimated using a balanced panel data.

[17] The marginal effects we report are the average partial effects (APEs), estimated by computing the marginal effect for each observation in the sample and then averaging across all observations to get an overall marginal effect (Wooldridge 2002, pp. 22-24). The coefficient APEs are obtained from Stata's margeff command. In addition to reporting the coefficient APEs, we also estimate the total APE of *POST-ARD* by considering any interaction effects in the regression model, and we use the panel bootstrapping procedure in Stata to estimate this APE's standard error.

[18] At the 2000-2001 incidence rate, 1,732 more firms would have waited for the audit report date in 2005. Multiplying 1,732 by the magnitude of the marginal effect of *POST-ARD* (0.038) gives us 66 fewer PEA revisions, which is 35% of the 186 revisions in 2005. The estimate based on pooled probit is 39%.

positive and significant suggesting an increase in the likelihood of a PEA revision following regulation, after controlling for *POST-ARD*.[19] The signs and significance levels of the control variables are largely consistent with those reported in Panel A of Table 7, although a few variables lose significance in the multiple regressions.

Given *POST-ARD* also enters the model interacted with *Reg*, we calculate its average partial effect after incorporating the interaction effect. We find that ceteris paribus, the probability of a PEA revision decreases by 0.035 when a firm waits for completion of audit fieldwork before announcing its earnings. This partial effect is economically significant given that the unconditional probability of a PEA revision is 0.032 in our sample.

Next, we examine whether the marginal effect of waiting until the audit report date varies between firms that were subject to both AS2 and AS3 (accelerated filers) versus firms subject only to AS3 (non-accelerated filers). Specifically, we re-estimate regressions (a) and (b) reported in Panel B of Table 7 separately for four groups based on two types of filers (accelerated versus non-accelerated) and two regulatory environments (*Reg* = 0 versus *Reg* = 1). The marginal effects of *POST-ARD* (along with two-tailed p-values) for the four groups are provided in Panel C of Table 7 for both pooled and CRE probit regressions (for brevity, we do not report marginal effects of all control variables). Except for the CRE probit estimation for non-accelerated filers in the post-regulatory period, we find consistent evidence that the likelihood of a PEA revision declines when firms wait for the audit report date to release their earnings information.

[19] When we include an indicator variable for firm-years with material internal control weaknesses, *Reg* is no longer statistically significant (p=0.30). While the material weakness dummy has a significantly positive slope coefficient, the *POST-ARD* variable continues to be significantly negative with virtually identical slope estimate and p-value.

While our paper focuses on PCAOB AS2 and AS3, other significant regulation affecting the corporate disclosure environment during our sample period may also have influenced firm behavior. We examine a closely-related regulation that reduced the 10-K filing deadline of "accelerated filers" to 75 days for fiscal years ending on or after December 15, 2003 (SEC 2002, 2004, 2005a).[20] To the extent that acceleration of 10-K filing deadlines limits audit due diligence, we might observe fewer PEA revisions among accelerated filers during the first phase-in of the accelerated filing deadlines. While this confounding effect could bias against our hypothesis, the univariate statistics in Table 6 do not indicate lower incidence of PEA revisions among accelerated filers in the post-regulatory environment.[21]

As a final sensitivity analysis we examine how PEA restatements could be driven by the additional time available to the external auditors. Given that a firm decides to release earnings information prior to the audit report date, the incidence of PEA revisions could be related to the gap between earnings announcement and audit report dates for those firms that choose to release earnings prior to the audit report date. Consistent with our hypothesis, a longer gap could suggest that a larger proportion of audit work is completed after the release of earnings, leading to a more frequent discovery of errors. An alternative possibility is that the longer gap might merely suggest that more time is

[20] Bryant-Kutcher et al. (2009) find that the quality of accounting information released by accelerated filers declined, as measured by an increased incidence of financial statement restatements following this first phase-in of accelerated filing deadlines. In addition, Lambert et al. (2009) show that firms that had to substantially reduce their audit lag to meet the expedited filing deadline reported poorer quality earnings as proxied by discretionary accruals, meeting or beating analyst forecasts, and accounting conservatism.

[21] Following Lambert et al. (2009), we examine the potential effect of the accelerated filing deadlines by identifying 252 firms with a fiscal year ending between 12/15/2002 to 12/14/2003 that have an audit report lag greater than the 75-day mandatory accelerated filing deadline. We would expect these firms to have difficulty meeting the first phase-in of the accelerated filing rules in the following fiscal year. For these 252 firms, we do observe a decrease in the median audit report date lag (from 83 days to 65 days) and filing lag (from 90 days to 75 days) in the first phase-in period. We re-estimate our regression (b) excluding the 252 firms in the first year they are subject to the 75-day filing deadline and find that our inferences continue to hold.

available for the occurrence of subsequent events that would require financial reporting adjustments. Regardless of which of the two explanations hold, we control for the effect of the gap between earnings announcement and audit report dates by including *Earnings Annc Lag (–) Audit Report Lag* and its interaction with (1- *POST-ARD*) as additional explanatory variables to our CRE probit regression of Table 7.

Consistent with our arguments, untabulated analysis shows that the average partial effect of *Earnings Annc Lag (–) Audit Report Lag* is -0.0005, which suggests that for a 20 day delay in the audit report date, ceteris paribus, the probability of a PEA revision would go up by one percentage point. However, the inclusion of this variable does not alter our findings on the *POST-ARD* variable, which continues to be economically significant with an average partial effect of -0.042.

5.3 Market reaction to PEA revisions

We conclude our analysis with an examination of the market reaction to disclosures related to PEA revisions. Our goal is to determine whether investors view disclosures about PEA revisions as having information content, providing additional evidence of the economic significance of a PEA revision. Before presenting our analysis, we discuss the disclosure strategies of firms with PEA revisions as well as the causes of the PEA revisions. Related descriptive statistics are presented in Table 8.

We review publicly-available information surrounding all 544 PEA revisions to examine whether the firms disclosed these revisions using a channel other than the periodic reports that included the corrected information. Some firms "foreshadow" a PEA revision via a voluntary disclosure in the preliminary earnings release. These disclosures indicate that the company expects the earnings numbers in the 10-K filing to differ from

those in the preliminary release. As can be seen in Panel A of Table 8, approximately 19% (103 of the 544) of PEA revisions are foreshadowed. Another group of firms announces PEA revisions in press releases or 8-K filings that are issued subsequent to the earnings announcement but in advance of the 10-K filing (hereafter, "8-K firms"). For the sample of PEA revision firms that did not foreshadow (i.e., 441 firms), approximately 43% (189 firms) are 8-K firms.

We review PEA disclosures of the foreshadowers and 8-K firms and assign them into three groups based on the nature of the PEA revisions. As noted in Panel A of Table 8, 29.1% of the first disclosure of PEA revisions indicate that a subsequent event is likely to occur or has occurred between the preliminary release date and the 10-K filing date, while 19.9% of the first-time PEA disclosures are attributed to difficulties in applying new accounting guidance such as the February 7, 2005 letter from the SEC to the AICPA (SEC 2005b). Difficulties in applying new accounting guidance are more likely to be disclosed in the preliminary announcement versus an 8-K (32.0% versus 13.2%), while discussions of subsequent events appear more frequently in 8-Ks that follow the original press release (36.0% versus 16.5%).

The remaining 51.0% of disclosures represent instances in which the company is either uncertain of the proper application of GAAP at the time of the preliminary release or subsequently concludes that the application of GAAP at the time of the preliminary release was incorrect. Many of the PEA revisions from this third group likely represent adjustments that auditors would detect during fieldwork or in a subsequent events review. (See Appendix B for representative examples.) Even when disclosures indicate that managers may have initiated the adjustment, it is certainly feasible that their actions were

part of the year-end review of accounting activities performed in preparation for the impending external audit.

In Panel B of Table 8, we report the incidence of the three groups of PEA revisions disclosed prior to the 10-K report date separately for the pre- and post-regulation periods. While frequencies in all three categories are higher post Section 404, we find a dramatic increase in the occurrence of PEA revisions due to rule changes.[22] However, to the extent that the third category is more likely to represent audit-related PEA revisions, the four-fold increase in their occurrence post AS2 and AS3 (from 12 to roughly 55 per year) is consistent with our expectations.

The first public disclosure of a PEA revision occurs at the time of the original earnings press release for *Foreshadow* firms, at the time of a press release or 8-K disclosure for firms that provide an alert (8-K firms), and at the time of the 10-K release for the remaining PEA revision firms (10-K firms). Table 9 provides evidence on the market reactions at these three dates. In Panel A, we consider the sample of foreshadowers and examine whether their earnings response coefficient in the foreshadowing years are different from that of the other years in our sample period. We posit that the market reaction to the release of preliminary earnings is likely to reflect the market's differential reliability concerns in the foreshadowing year. Specifically, we estimate the following regression model in which the three-day cumulative abnormal

[22] While one could argue that rule changes are not the type of accounting adjustments that an auditor is likely to identify, these PEA adjustments could reflect auditors' contemporary knowledge of evolving accounting guidelines, industry practices, and experiences with other clients. Nonetheless, we conduct a sensitivity analysis by excluding rule changes from PEA revisions and rerun the expanded probit regression in Panel B of Table 7. Our inferences remain intact, with *POST-ARD* continuing to have a statistically significant negative coefficient.

returns (CAR) surrounding the release of preliminary earnings information is the dependent variable:

$$CAR = a_0 + a_1 Bad\ News + a_2 Foreshadow + b_1 UE + b_2 UE*Bad\ News + b_3 UE*Foreshadow + b_4 UE*Bad\ News*Foreshadow + \varepsilon, \quad (1)$$

where UE is unexpected earnings based on the IBES database, *Bad News* is a dummy variable that takes a value of one when UE < 0, and *Foreshadow* takes a value of one in the foreshadowing year. Standard errors are adjusted for firm-level clustering in the data. Consistent with extant ERC literature, we consider differential slope coefficients for good versus bad news (see Kothari, 2001). In addition, we allow these coefficients to vary between the foreshadowing year and other periods.

Despite our small sample size, our results are largely consistent with prior work. While the slope of *UE* is marginally significant (two-tailed p-value of 0.12) with a positive slope, the interaction of *UE* and *Bad News* is significantly negative at conventional levels. More importantly, the differential slopes for the foreshadowing years indicate that the market assigns a lower (higher) ERC to good (bad) news, possibly reflecting increased reliability concerns regarding preliminary earnings.

Panel B of Table 9 reports significant three-day CARs of -0.9% for firms whose initial public disclosure of a PEA revision is in a press release or 8-K issued between the original earnings release and 10-K filing dates. This evidence is consistent with prior research documenting a negative market reaction to announcements that previously filed earnings numbers will be restated (e.g., Palmrose et al., 2004; Anderson and Yohn, 2002). When we split the 8-K sample by the sign of the PEA revision, we find significant CARs of -1.3% for downward revisions, but an insignificant market reaction to upward

revisions. Untabulated analyses indicate that these results are qualitatively similar when PEA revisions attributable to subsequent events are deleted from the 8-K sample.

Panel B also reports three-day returns surrounding the filing of 10-K reports that include a PEA revision. For firms whose first public disclosure of the PEA revision is in the 10-K filing, the market reaction to the filing is insignificant regardless of the sign of the PEA revision.

In untabulated results, we find that the absolute magnitudes of PEA revisions for firms that do not disclose until the 10-K are smaller than are the absolute magnitudes of revisions made by firms that foreshadow in the original earnings release or announce the PEA revision in a press release/8-K. The median per-share downward (upward) revision to diluted EPS for PEA revisions initially disclosed in the 10-K filings, press releases/8-Ks, or preliminary earnings releases is -$0.02 ($0.01), -$0.05 ($0.05), and -$0.05 ($0.02), respectively. All pairwise comparisons between the groups are significant at $p < 0.01$. Thus, firms appear to pre-announce PEA revisions when the revision is relatively large, but defer announcement to the 10-K if the revision is relatively small. The insignificant market reaction to 10-K filings is consistent with the smaller magnitude of PEA revisions disclosed.

6. Conclusion

In this study, we provide evidence that recent regulations aimed at increasing the reliability of audited financial statements ultimately have the unintended consequence of a decrease in the reliability of the numbers in preliminary releases. We begin by noting a significant increase in the frequency of firms that issue preliminary earnings prior to the audit report date. For our sample of 26,731 annual earnings releases over the period

2000-2005, the proportion of firms announcing preliminary earnings before the audit report date increased from 33% in 2000 to 79% in 2005 due to a significant increase in average audit report lags (from 46 days in 2000 to 65 days in 2005). These changes are predominantly due to accelerated filers whose auditors had to comply with both AS2 and AS3, although there are still significant changes for the non-accelerated filers whose auditors had to comply with only AS3. In response to increased audit report lags, most firms chose not to alter the timing of their preliminary earnings releases, but, instead, chose to keep the same release date even though the audit is not yet completed as of that date.

We also examine the factors that explain the decision to announce a timelier, but potentially less reliable number. We show that a preliminary earnings release that precedes the audit report date is more likely when there is greater investor demand for timely disclosure and greater accounting and auditing complexity. Regulated firms are also more likely to release earnings prior to the audit report date. Evidence on the influence of proprietary costs and legal liability is mixed.

Finally, we analyze the consequences of the decision to issue preliminary numbers before the audit report date. We document a higher frequency of PEA revisions when the preliminary earnings release precedes the audit report date, consistent with lower earnings reliability. The increase in the frequency of these PEA revisions in the post-regulation period is again largely attributable to accelerated filers that had to comply with AS2 as well as AS3. Consistent with prior evidence of a negative market reaction to announcements that previously filed earnings numbers will be restated, we find evidence

of a significant negative market reaction to announcements that the preliminary earnings number differs from the number that will be reported in the 10-K filing.

We believe these findings are of interest to investors, regulators, and academics. While audits are designed to provide reasonable assurance that financial statements are free from material misstatements, few archival studies have directly examined the value of the audit process to public companies. Evidence of a lower incidence of revisions when firms release preliminary earnings subsequent to the audit report date is consistent with auditing increasing the reliability of information in the preliminary releases.

Appendix A
Variable definitions

Variable[a]	**Definition**[b]
Mkt Value	Market value of common equity (DATA25*DATA199) measured at the beginning of the fiscal year-end (in millions).
StdDevReturns	Standard deviation of returns calculated using the CRSP daily holding period returns over the 200-day period ending 45 days before the preliminary earnings announcement.
Volume	Common shares traded (DATA28) divided by number of common shares outstanding (DATA25).
Number of Analysts	Number of analysts included in the last IBES consensus forecast before the preliminary earnings announcement.
Debt to Assets	Total debt (DATA9+DATA34) divided by total assets (DATA6).
Loss	1=Income before extraordinary items (DATA18) is less than zero; 0=otherwise.
ROA	Income before extraordinary items (DATA18) divided by total assets (DATA6).
Bad News	1=Actual reported EPS on IBES is less than the median analyst EPS forecast on IBES; 0=otherwise.
Industry Sales Concentration	Industry sales concentration measured as the total sales (DATA12) of the largest five companies within the firm's two-digit SIC code as a proportion of total sales within the firm's two-digit SIC code.
Book-to-market	Total common equity (DATA60) divided by the market value of common equity (DATA25*DATA199), both measured at the beginning of the fiscal year.
(Inv + Rec) / Assets	Sum of total receivables and inventory (DATA2+DATA3) divided by total assets (DATA6).
M&A	1=Sales footnote (AFTNT1) indicates that the Sales amount includes the effects of a merger or acquisition; 0=otherwise.
Disc & Extr Items	1=Discontinued operations and extraordinary items (DATA48) reported; 0=otherwise.
Spec Items	1= Special items (DATA17) reported; 0=otherwise.
Going Concern Opinion	1=AuditAnalytics indicates that the auditor issued a going-concern opinion; 0=otherwise.
Big N auditor	1=Auditor on AuditAnalytics is a Big 5 or Big 4 auditor; 0=otherwise.
Busy	1=Firm has a December fiscal year end; 0=otherwise.
Utilities	1=Primary SIC code is between 4900 and 4949; 0=otherwise.
Financial	1=Primary SIC code in the 6000s; 0=otherwise.
Technology	1=Primary SIC code between 2833-2836, 3570-3577, 3600-3674, 7371-7379, or 8731-8734; 0=otherwise.

POST-ARD	1=Audit opinion data from AuditAnalytics is on the same day as or before the preliminary earnings announcement; 0=otherwise.
Beta	β estimated using the CRSP daily holding period returns over the 200-day period ending 45 days before the preliminary earnings announcement.
Earnings Volatility	The standard deviation of monthly EPS/Price during the most recent 12 months to the absolute value of the average EPS/Price over the same period winsorized to a maximum value of 5.
Auditor Changes	1=The company changed its auditor during the fiscal year; 0=otherwise.
Reg	1=The firm-year is in the post-regulation period (i.e., fiscal years ending between 11/15/2004 and 12/31/2005); 0=otherwise.
Earnings Annc Lag – Audit Report Lag	The number of days between the preliminary earnings announcement date and the audit report date.
Foreshadow	1=If the firm voluntarily discloses in the earnings press release that the company expects the earnings numbers in the 10-K filing to differ from those in the preliminary earnings announcement; 0=otherwise.
Subsequent events	1=The adjustment was driven by events or transactions subsequent to the press release date but prior to the 10-K filing that have a material effect on the financial statements; 0=otherwise.
Rule change	1=Discusses interpretation issues with existing accounting rules, including SAB 101, pre-clearance of goodwill impairment charges, and the Feb. 5, 2005 public letter on lease accounting from the SEC to the AICPA; 0=otherwise.

[a] All continuous variables are winsorized at the $99^{th}/1^{st}$ percentile except as otherwise noted.
[b] When applicable, Compustat Industrial Annual data items and footnote numbers are noted in parentheses. Preliminary earnings announcement dates come from the Compustat Industrial Quarterly database.

Appendix B
Examples of PEA revisions disclosed prior to the 10-K report

Panel A: Subsequent Events

FIRSTMERIT CORPORATION
On February 7, 2006, FirstMerit Corporation (the "Company") announced a revision to its previously announced earnings for the fiscal quarter and year ended December 31, 2005 due to an increased loan loss provision expense recorded in the fourth quarter of 2005. The increase was related to additional information received by the Company on a single commercial credit in the Company's C & I sector, not related to the automotive industry.

FRANKLIN RESOURCES, INC.
Franklin Templeton Investments announced today that Franklin Templeton Distributors, Inc. ("FTDI") reached an agreement with the California Attorney General's Office ("CAGO"), resolving the issues resulting from the CAGO's investigation concerning marketing support payments to securities dealers who sell fund shares. As a result of the CAGO settlement, the previously announced results for the quarter and fiscal year ended September 30, 2004 will be adjusted to include an additional charge to income of $18.5 million ($12.2 million net of tax), which is in addition to amounts accrued for ongoing governmental investigations, proceedings and actions in quarters through June 30, 2004.

Panel B: Rule Changes

SHOE CARNIVAL INC
Like numerous other retailers, the Company has undertaken a comprehensive review of its accounting treatment for leases and lease-related items. In consultation with its independent registered public accounting firm, the Company decided to change its accounting practices in this area, and to restate its historical financial statements. The results in this press release include the adjustments related to these changes in lease accounting. Based on the Company's preliminary review, the correction of the lease accounting is expected to decrease net earnings by approximately $150,000, or approximately $0.01 per share, in fiscal 2004 and $300,000, or approximately $0.02 per share, in fiscal 2003. The change in accounting for lease transactions will not affect historical or future cash flows or the timing or amounts of payments under related leases. These estimates are still preliminary, and may change pending a final review by management and our independent auditors. The Company anticipates completing this review in conjunction with the filing of its Form 10-K for the period ended January 29, 2005.

WHITE MOUNTAINS INSURANCE GROUP LTD
The financial statements in this amendment reflect an increase in White Mountains' 2005 net income of $21.1 million and a decrease in White Mountains' after-tax unrealized

investment gains of an equal amount. This change has no impact on White Mountains' fully converted tangible book value per share, its shareholders' equity or its adjusted comprehensive net income for 2005. The amended financial statements reflect EITF Topic D-46, "Accounting for Limited Partnership Investments", whereby changes in the value of limited partnership investments over which White Mountains is deemed to have influence (generally by virtue of an ownership interest greater than five percent) are accounted for under the equity method. As a result, changes in the value of White Mountains' interests in these limited partnership interests have been reclassified to realized investment gains from unrealized investment gains.

Panel C: Audit-related

COMMONWEALTH INDUSTRIES INC
Commonwealth Industries, Inc. today announced that the Company is recording a net favorable adjustment of $2.2 million, or $0.13 per share, to fourth-quarter and full-year 2003 operating results previously announced by the Company on January 29, 2004, following completion of the annual audit by its independent auditors. The adjustments relating to the fourth-quarter and full-year 2003 results are the effect of various corrections, detected after the Company's January 29, 2004, results announcement, resulting primarily from errors in sales and metal costs accruals, which occurred during the implementation of an enterprise resource planning (ERP) accounting system for its aluminum business in 2003. These adjustments, which have been identified and corrected by Commonwealth, do not affect the Company's net cash position.

JDA SOFTWARE GROUP INC
Final determination of the impairment charge is subject to JDA's financial reporting processes and procedures as well as testing by JDA's outside auditors. The Company expects to issue an additional press release with a final reporting of GAAP net income once its processes are complete.

PEPSICO INC
PepsiCo revised its 2003 and 2002 financial results issued on February 5, 2004 to correct the overstatement of stock option expense due to a computational error. The revision increased the previously reported earnings per share for 2003 by $0.04 to $2.05, and for 2002 by $0.02 to $1.68, on a fully diluted basis. The stock option expense is a non-cash charge and the revision had no impact on the company's previously reported cash flow or division operating profit.

PROVANT INC
In addition to a transitional goodwill loss that has already been recorded, Provant is conducting its annual goodwill impairment review to determine if an additional fourth quarter expense is necessary.

PROVIDIAN FINANCIAL
The Company noted that the results are unaudited, and that its external accountants at Ernst & Young have not yet completed their procedures with regard to certain

assumptions used in estimating the value of interest-only strips recorded in connection with the Company's securitized receivables. The Company believes that its assumptions are appropriate and are consistent with GAAP and with regulatory expectations. However, there are no assurances as to how the question may ultimately be resolved.

TECO ENERGY

Teco today issued revised 2003 results to reflect the treatment of the sale of Hardee Power Partners as a component of continuing, rather than discontinued, operations and to reflect the 2003 sale of Hardee in the fourth quarter, rather than the third quarter. Hardee Power Partners (HPP), which owns the 370-megawatt combined cycle Hardee Power Station, was sold by TECO Energy to a privately held third party in the fall of 2003. Total net income (loss), cash flows, and non-GAAP results from continuing operations for 2003 remain unchanged by the revised accounting treatment. The company and its independent auditors, in connection with the annual audit of the company’s financial results, reevaluated the accounting originally applied in the third quarter As a result, TECO Energy has revised its 2003 results to reflect the $34.6 million after-tax gain on the sale of Hardee in continuing operations for the fourth quarter and to keep the Hardee net income of $9.0 million through September 30 in full-year continuing operations. The accounting change moves $43.6 million for the year from discontinued operations to continuing operations.

TOWER AUTOMOTIVE INC

Tower Automotive previously announced its fourth quarter 2003 results in a press release dated February 12, 2004. Those results included an extraordinary gain at its Metalsa joint venture in Mexico of $9.1 million, related to a tax planning transaction at the venture. The recognition of the gain had initially been determined by the company's independent auditors and accepted by the company. Upon further review by the independent auditors, the initial position was changed and the auditors concluded and the company agreed that under accounting principles generally accepted in the United States, the recognition of this gain should be deferred and recognized on a quarterly basis based on the joint venture's taxable earnings. Accordingly, the company has reversed the previously reported extraordinary gain and is recognizing a portion in the fourth quarter of 2003 as additional joint venture equity earnings of $1.2 million, offset by additional deferred tax expense of approximately $0.4 million in the quarter.

ULTRA PETROLEUM CORP

It should be noted that the company's independent accountants' audit will not be completed and the related audit opinion with respect to the year-end audit will not be dated, until the company completes the final 10K report and assessment of internal controls over financial reporting. Accordingly, the financial reports are preliminary and subject to adjustment.

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Table 1
Sample selection

Panel A: Overall Sample Reconciliation

	Firm-years
Audit Analytics Opinion File firm-years from 2000-2005	89,514
Less: duplicate observations (amended filings, auditor changes)	(254)
Observations not found in Compustat	(30,178)
No earnings announcement date in Compustat	(29,065)
Subsample with complete EAL and audit report lag data	30,017
Late filings (EAL or Audit Report Lag > 1 year)	(3,286)
Timely filers with complete EAL and audit report lag data	26,731
Missing financial data on Compustat	(1,820)
No data on IBES	(6,682)
No data or insufficient data on CRSP	(980)
Missing Compustat preliminary earnings data	(263)
Unable to verify annual preliminary earnings in press release	(13)
Firm-years available for analysis	16,973

Panel B: Sample Period Details

Pre-Regulation Period Firm-years:		
POST-ARD strategy (926 firms)	2,756	
PRE-ARD strategy (476 firms)	1,393	
MIXED strategy (2,707 firms)	6,172	
Cannot determine strategy	1,435	
Total firm-years		11,756
Post-Regulation Period Firm-years		5,217
		16,973

Table 2
Earnings announcement lag, audit report lag and file lag

Panel A: Overall earnings announcement lag, audit report lag and file lag[a]

Year	N	Earnings Annc. Lag mean (median)	Audit Report Lag mean (median)	File Lag mean (median)	Earn Annc Lag – Audit Report Lag mean (median) % > 0
2000	3595	42.34 (39.00)	46.39 (43.00)	85.24 (88.00)	-4.05 (1.00) 67.45%
2001	4965	42.91 (39.00)	46.76 (43.00)	83.91 (87.00)	-3.85 (1.00) 67.29%
2002	4717	45.07 (40.00)	47.64 (45.00)	82.88 (86.00)	-4.57 (1.00) 64.70%
2003	4514	42.29 (40.00)	49.81 (49.00)	77.12 (75.00)	-7.51 (0.00) 54.30%
2004	4433	44.61 (41.00)	61.76 (66.00)	76.11 (75.00)	-17.15 (-18.00) 28.92%
2005	4507	46.34 (45.00)	64.97 (68.00)	74.95 (75.00)	-18.63 (-20.00) 20.75%
Total	26,731				

Table 2 Continued
Earnings announcement lag, audit report lag and file lag

Panel B: Percentage of POST-ARD firm-years for accelerated and non-accelerated filers[b]

	Accelerated Filers		Non-Accelerated Filers	
	Year ended Jan to 11/14 % Post-ARD	**Year ended 11/15 to 12/31 % Post-ARD**	**Year ended Jan to 11/14 % Post-ARD**	**Year ended 11/15 to 12/31 % Post-ARD**
2000	77.4%	66.9%	79.4%	67.7%
2001	74.2%	63.6%	70.5%	68.4%
2002	69.2%	61.1%	70.5%	65.7%
2003	63.4%	46.8%	70.6%	64.0%
2004	47.6%	8.4%	64.9%	47.4%
2005	7.5%	9.2%	58.1%	44.2%

[a]Earnings announcement lag is the number of days between the fiscal year-end and the preliminary earnings announcement date. Audit report lag is the number of days between the fiscal year-end and the audit report date. File lag is the number of days between the fiscal year-end and the 10-K filing date.

[b]% Post-ARD represents the percentage of firms waiting until the audit report date to announce earnings. In the pre-regulation period, firms are classified as accelerated or non-accelerated filers based on market value (greater than or less than $75 million). In the post-regulation period, firms are classified as accelerated filers if they have a 404 report available on Audit Analytics, and are classified as non-accelerated filers otherwise.

Table 3
POST-ARD versus *PRE-ARD* descriptive statistics in the pre-regulation period

Variable	Post-ARD n=2,756 firm-years (926 firms)		Pre-ARD n=1,393 firm-years (476 firms)		t-test/ prop	Wilcoxon test
	mean	median	mean	median	p-value	p-value
Demand for Information						
Mkt Value (in millions)	3,198.32	465.47	5,623.95	783.79	<0.01	<0.01
Volume	1.53	1.03	1.46	1.04	0.16	0.45
Number of Analysts	6.61	4.00	7.82	5.00	<0.01	<0.01
Loss	0.24	0.00	0.23	0.00	0.20	0.20
Return on Assets	-0.01	0.03	-0.03	0.01	0.05	<0.01
BadNews	0.31	0.00	0.34	0.00	0.09	0.09
StdDevReturns	0.04	0.03	0.03	0.03	<0.01	<0.01
Debt to Assets	0.19	0.14	0.25	0.22	<0.01	<0.01
Beta	0.86	0.75	0.84	0.72	0.25	0.21
Proprietary Costs						
Industry Sales Concentration	0.39	0.36	0.38	0.36	0.02	<0.01
Book-to-Mkt at beg. of year	0.59	0.49	0.62	0.54	0.06	0.01
Acct & Aud Complexity						
(Inv + Rec) / Assets	0.29	0.25	0.33	0.26	<0.01	<0.01
Disc & Extr Items	0.20	0.00	0.30	0.00	<0.01	<0.01
Spec Items	0.54	1.00	0.58	1.00	0.01	0.01
M&A	0.19	0.00	0.19	0.00	0.79	0.79
Going Concern Opinion	0.01	0.00	0.01	0.00	0.11	0.11
Big N auditor	0.91	1.00	0.93	1.00	0.18	0.18
Busy	0.71	1.00	0.80	1.00	<0.01	<0.01
Industry/Litigation Risk						

Utilities	0.01	0.00	0.05	0.00	<0.01	<0.01
Financial	0.19	0.00	0.33	0.00	<0.01	<0.01
Technology	0.23	0.00	0.18	0.00	<0.01	<0.01

Variables are defined in Appendix A. All p-values are from two-tailed tests. The means and medians reported are from fiscal years ending in the 2000-11/14/2004 period.

Table 4
Probit regression of the determinants of *POST-ARD* versus *PRE-ARD* in the pre-regulation period (n=1,402 firms)

Variable	**Coefficient**	**p-value**
Intercept	2.657	<0.01
Demand for Information		
Ln Mkt Value	-0.180	<0.01
Volume	-0.073	0.06
Number of Analysts	0.014	0.17
Loss	-0.209	0.19
ROA	0.445	0.09
Bad News	-0.089	0.42
StdDevReturns	-3.588	0.33
Debt to Assets	-0.554	<0.01
Beta	0.155	0.17
Proprietary Costs		
Industry Sales Concentration	-0.243	0.40
Book-to-market	-0.085	0.37
Acct & Aud Complexity		
(Inv + Rec) / Assets	-0.751	<0.01
Disc & Extr Items	-0.276	0.02
Spec Items	-0.155	0.15
M&A	-0.138	0.28
Going Concern Opinion	-0.202	0.60
Big N auditor	-0.047	0.74
Busy	-0.130	0.15
Industry/Litigation Risk		
Utilities	-1.113	<0.01
Financial	-0.538	<0.01
Technology	-0.028	0.81

The dependent variable, *POST-ARD*, equals 1 for firms that follow a *POST-ARD* strategy over the 2000-11/14/2004 time period; 0=otherwise (as described in Section 4.2). All other variables are as defined in Appendix A. The independent variables are calculated as the average value for each firm over the 2000-11/14/2004 time period. All p-values are from two-tailed tests. Reported results use heteroskedasticity-robust standard errors. The pseudo-R^2 equals 0.083.

Table 5
Changes in reporting strategy following regulation

Pre-Regulation Strategy	Post-Regulation Year	First Post-Regulation Year Median EAL	Median Audit Report Lag	Median Chg in EAL	Median Chg in Audit Report Lag
POST-ARD (n=596 firms)	*POST-ARD* (n=72 firms)	53	45.5	2	4.5
	PRE-ARD (n=524 firms)	38	67	0	31
PRE-ARD (n=300 firms)	*POST-ARD* (n=6 firms)	39	34.5	5	-4
	PRE-ARD (n=294 firms)	28	69.5	0	8

The pre-regulation period includes fiscal years ending prior to 11/15/2004, while the post-regulation year includes fiscal years ending on or after 11/15/2004 and before 11/15/2005. The total number of observations in Table 5 is less than the total number of firms in the *POST-ARD* and *PRE-ARD* strategy groups in Table 4 due to firms missing data in either the last pre-regulation year (20%) or the first post-regulation year (5%), with remaining loss of observations due to our sample selection criteria outlined in Section 3. *POST-ARD* firms wait until on or after the audit report date to announce earnings. *PRE-ARD* firms announce earnings prior to the audit report date. In the pre-regulation period, firms are assigned to one of the these groups based on their reporting strategy (as described in Section 4.2). EAL is the earnings announcement lag which is the number of days from the fiscal year-end until the preliminary earnings announcement date. The audit report lag is the number of days from the fiscal year-end until the audit report date. Chg in EAL is the post-regulation year EAL minus the last pre-regulation year EAL (i.e., fiscal years ending between 11/15/2003 and 11/14/2004). Chg in audit report lag is the post-regulation year audit report lag minus the last pre-regulation year audit report lag.

Table 6
Frequency and magnitude of preliminary earnings announcement revisions

Panel A: PEA revisions for POST-ARDPEA and PRE-ARDPEA firms by accelerated filer status[a] *(n=544)*

	2000	**2001**	**2002**	**2003**	**2004-1**	**2004-2**	**2005**
Post-ARD firm-years:							
Non-accelerated Filers							
number of PEA revisions	1	0	1	0	0	4	1
% of total PEA revisions	8.3%	0.0%	1.7%	0.0%	0.0%	3.0%	0.6%
Accelerated Filers							
number of PEA revisions	1	5	11	10	2	0	2
% of total PEA revisions	8.3%	10.9%	19.0%	13.5%	5.9%	0.0%	1.1%
Pre-ARD firm-years:							
Non-accelerated Filers							
number of PEA revisions	2	6	8	4	0	9	17
% of total PEA revisions	16.7%	13.0%	13.8%	5.4%	0.0%	6.7%	9.1%
Accelerated Filers							
number of PEA revisions	8	35	38	60	32	121	166
% of total PEA revisions	66.7%	76.1%	65.5%	81.1%	94.1%	90.3%	89.2%
Total no. of PEA revisions	12	46	58	74	34	134	186

Panel B: Pre-ARD and post-ARD accelerated filers and non-accelerated filers in the overall sample (n=16,973)[a]

	2000	**2001**	**2002**	**2003**	**2004-1**	**2004-2**	**2005**
Post-ARD firm-years:							
Total no. (%) of non-accelerated filers with complete data	277 (13.5%)	320 (10.7%)	322 (10.9%)	147 (4.9%)	26 (3.3%)	94 (4.4%)	133 (4.3%)
Total no. (%) of accelerated filers with complete data	1086 (53.0%)	1662 (55.7%)	1545 (52.1%)	1351 (45.4%)	328 (42.0%)	111 (5.2%)	180 (5.9%)
Pre-ARD firm-years:							
Total no. (%) of non-accelerated filers with complete data	156 (7.6%)	172 (5.7%)	170 (5.7%)	97 (3.3%)	28 (3.6%)	146 (6.8%)	217 (7.0%)
Total no. (%) of accelerated filers with complete data	530 (25.9%)	832 (27.9%)	929 (31.3%)	1379 (46.4%)	399 (51.1%)	1787 (83.6%)	2549 (82.8%)
	2049	2986	2966	2974	781	2138	3079

Table 6 Continued
Frequency and magnitude of preliminary earnings announcement revisions

Panel C: Median diluted EPS changes from PEA revisions for POST-ARDPEA and PRE-ARDPEA firms (n=544)[b]

		2000	2001	2002	2003	2004	2005
POST-ARDPEA	Increases	N/A	0.01	0.125	0.10	N/A	0.00
	Obs.	0	2	4	3	0	1
	Decreases	-0.34	-0.01	-0.02	-0.02	-0.01	-0.03
	Obs.	2	3	8	7	6	2
PRE-ARDPEA	Increases	0.11	0.27	0.01	0.04	0.02	0.02
	Obs.	2	8	10	21	59	74
	Decreases	-0.11	-0.06	-0.09	-0.04	-0.03	-0.03
	Obs.	8	33	36	43	103	109
Total no. of PEA revisions		12	46	58	74	168	186

[a]Firms with a 2004 fiscal year end prior to 11/15/2004 are included in the 2004-1 column, while firms with a 2004 fiscal year end on or after 11/15/2004 are included in the 2004-2 column. For the periods ending 2004-2 and 2005, we identify firms as accelerated filers if they had a Section 404 audit report. For the earlier years, firms with at least $75 million of market value of equity at fiscal year-end are considered "accelerated filers."

[b]The observations included in this panel have data available from Audit Analytics, Compustat Industrial, CRSP, IBES, and Compustat Preliminary History (for the PEA revision data). The *POST-ARDPEA* firm-years consist of preliminary earnings announcements that occur on or after the date of the audit report, while the *PRE-ARDPEA* firm-years consist of preliminary earnings announcements that are issued prior to the date of the audit report. The increases and decreases are in dollars, e.g., 0.03 indicates a 3 cent change in EPS from the press release to the 10-K.

Table 7
The relation between releasing earnings after the audit report date and PEA revisions[a]

Panel A: Characteristics of firms that revise preliminary earnings announcements

	PEA Revision n=544 firm-years		**No PEA Revision n=16,429 firm-years**		**t-test/ prop**	**Wilcoxon test**
Variable	mean	median	mean	median	p-value	p-value
POST-ARD	0.07	0.00	0.46	0.00	0.00	0.00
Mkt Value	4401.54	766.03	3315.05	516.49	0.03	0.00
Loss	0.34	0.00	0.26	0.00	0.00	0.00
ROA	-0.04	0.02	-0.02	0.02	0.10	0.00
Debt to Assets	0.20	0.17	0.21	0.17	0.06	0.23
Book-to-market	0.54	0.44	0.56	0.47	0.25	0.16
(Inv + Rec) / Assets	0.25	0.19	0.29	0.24	0.00	0.00
Disc & Extr Items	0.26	0.00	0.23	0.00	0.08	0.08
Spec Items	0.74	1.00	0.59	1.00	0.00	0.00
M&A	0.21	0.00	0.19	0.00	0.18	0.18
Going Concern Opinion	0.01	0.00	0.01	0.00	0.72	0.72
Big N Auditor	0.90	1.00	0.91	1.00	0.57	0.57
Busy	0.69	1.00	0.75	1.00	0.00	0.00
Earnings Volatility	1.22	0.68	0.93	0.45	0.00	0.00
Auditor Changes	0.06	0.00	0.08	0.00	0.23	0.23
Accelerated Filer	0.90	1.00	0.86	1.00	0.00	0.00
Earnings Annc Lag - Audit report lag	-31.79	-35.00	-11.95	-4.00	0.00	0.00

Table 7 Continued
The relation between releasing earnings after the audit report date and PEA revisions

Panel B: Probit Regression of PEA Revision versus No PEA Revision[b,c]

	Pooled Probit Estimation		CRE Probit Estimation	
	marginal effect	p-value	marginal effect	p-value
Intercept				
Ln Mkt Value	0.004	0.000	0.011	0.006
Loss	0.017	0.000	0.016	0.012
ROA	-0.004	0.395	0.004	0.440
Debt to Assets	-0.022	0.003	-0.004	0.813
Book-to-market	0.004	0.274	0.014	0.029
(Inv + Rec) / Assets	-0.015	0.053	-0.012	0.733
Disc & Extr Items	0.002	0.600	-0.005	0.257
Spec Items	0.010	0.000	0.011	0.001
M&A	0.003	0.460	0.003	0.571
Going Concern Opinion	0.003	0.802	0.002	0.912
Big N Auditor	-0.019	0.009	-0.034	0.098
Busy	-0.016	0.000	-0.005	0.770
Earnings Volatility	0.004	0.000	0.002	0.243
Auditor Changes	-0.004	0.372	-0.006	0.315
Reg	0.018	0.013	0.017	0.021
POST-ARD	-0.042	0.000	-0.038	0.000
Reg*POST-ARD	0.009	0.497	0.022	0.325

Table 7 Continued
The relation between releasing earnings after the audit report date and PEA revisions

Panel C: Marginal effects of waiting until the audit report date by accelerated versus non-accelerated files and pre- versus post-regulation[c,d]

	Pooled Probit Estimation		CRE Probit Estimation	
	marginal effect	p-value	marginal effect	p-value
Accelerated Filers:				
Pre-regulation (n=10,041 firm-years)	-0.035	0.000	-0.038	0.000
Post-regulation (n=4,627 firm-years)	-0.060	0.000	-0.053	0.000
Non-accelerated Filers:				
Pre-regulation (n=1,715 firm-years)	-0.032	0.000	-0.036	0.052
Post-regulation (n=590 firm-years)	-0.059	0.000	-0.026	0.549

[a] n = 16,973 firm-years over the 2000-2005 time period. All variables are as defined in Appendix A. All p-values are from two-tailed tests.

[b]The pseudo-R^2 for the pooled probit and the Chamberlain's correlated random effects (CRE) probit estimations are 0.1339 and 0.1414, respectively. p-values are based on heteroskedasticity-robust standard errors.

[c]The dependent variable equals 1 when the income before extraordinary items (IBEI) reported at the time of the preliminary annual earnings announcement differs from the annual IBEI reported when the 10-K is filed, and equals 0 otherwise. Marginal effects are estimated using the "margeff" command in Stata. All models are estimated including industry and year dummy variables that are not reported here for expositional convenience. The marginal effects of all control variables are suppressed in Panel C.

[d]p-values are based on standard errors obtained from the panel bootstrapping procedure in Stata.

Table 8
PEA revisions disclosed prior to the 10-K report date

Panel A: Preliminary earnings release versus subsequent 8-K release

Disclosure Venue	**Preliminary Earnings Announcement**		**Subsequent 8-K release**		**Either**	
	N	Percent	N	Percent	N	Percent
Variable						
Subsequent events	17	16.5	68	36.0	85	29.1
Rule change	33	32.0	25	13.2	58	19.9
Other	53	51.5	96	50.8	149	51.0
Total	103		189		292	

Panel B: Pre-Reg versus post-Reg

Disclosure Venue	**Pre-Reg (2000-11/14/04)**		**Post-Reg (11/15/04-2005)**		**Total**	
	N	Percent	N	Percent	N	Percent
Variable						
Subsequent events	39	39.4	46	23.8	85	29.1
Rule change	7	7.1	51	26.4	58	19.9
Other	53	53.5	96	49.8	149	51.0
Total	99		193		292	

The sample for Table 8 excludes 252 PEA revisions that were not announced prior to the 10-K report date. Variables are defined in Appendix A.

Table 9
Market reaction to earnings announcements and PEA revisions

Panel A: ERCs at time of earnings announcements[a]

$CAR = a_0 + a_1 Bad\ News + a_2 Foreshadow + b_1 UE + b_2 UE*Bad\ News + b_3 UE*Foreshadow + b_4 UE*Bad\ News*Foreshadow + \varepsilon,$

	Coefficient	**p-value**
Intercept	0.006	0.240
Bad News	-0.029	0.001
Foreshadow	-0.010	0.221
UE	0.644	0.118
UE*Bad News	-0.875	0.060
UE*Foreshadow	-1.597	0.024
UE*Bad News*Foreshadow	1.965	0.011

Panel B: 3-day cumulative returns surrounding press release/8-K or 10-K filings[b]

	Press release or 8-K announcement[c]	No pre-announcement (10-K firms)[d]
Overall reaction	-0.009 (0.02) [189]	-0.003 (0.26) [252]
downward revisions	-0.013 (0.01) [130]	-0.005 (0.15) [172]
upward revisions	0.001 (0.88) [59]	0.001 (0.83) [80]

[a] The dependent variable is three-day CARs over the window (-1, + 1) centered on the earnings announcement date, and the independent variables are defined in Appendix A. The sample includes only Foreshadow firms across the entire sample period (n = 435 firm-years). The p-values represent the two-tailed p-values testing whether the coefficients equal zero and are based on heteroskedasticity-robust standard errors.

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[b] Reported amounts represent mean three-day CARs over the window (-1, + 1) (two-tailed p-values from t-tests of whether the respective mean is significantly different from zero) and [number of observations].

[c] Amounts represent three-day CARs over the window (-1, + 1) centered on the press release or 8-K date.

[d] Amounts represent three-day CARs over the window (-1, + 1) centered on the 10-K filing date.