TABLE 4

Cross-Sectional Variation in Earnings Differential Informativeness

Panel A: Regression Results

		Dependent Variable		
	Predicted Signs	*Ln(NEWS_RATIO)* Model 1	*Ln(NEWS_RATIO)* Model 2	*Ranked NEWS_RATIO* Model 3
Intercept		3.459***	3.426***	4.144***
		(0.101)	(0.098)	(0.120)
BIAS_ADJ		0.235***	0.240***	0.280***
		(0.007)	(0.006)	(0.007)
RInfoAsymm		−0.043***	−0.049***	−0.085***
		(0.005)	(0.007)	(0.009)
INSALE		0.007	−0.038**	−0.044
		(0.022)	(0.018)	(0.030)
TRADE_DAYS		−0.008***	−0.007***	−0.008***
		(0.001)	(0.001)	(0.001)
RBTM		−0.002	0.002	−0.004
		(0.004)	(0.005)	(0.007)
RLEV		−0.012***	−0.001	−0.023***
		(0.003)	(0.004)	(0.005)
HITECH		0.029		0.100**
		(0.031)		(0.049)
BNEWS		−0.125	−0.086	−0.258
		(0.112)	(0.118)	(0.189)
*BIAS_ADJ * BNEWS*		−0.044***	−0.044***	−0.050***
		(0.006)	(0.006)	(0.006)
*RInfoAsymm * BNEWS*	+	0.027***	0.023***	0.050***
		(0.006)	(0.006)	(0.009)
*INSALE * BNEWS*	+	0.133***	0.140***	0.243***
		(0.022)	(0.021)	(0.036)
*TRADE_DAYS * BNEWS*		0.003*	0.002	0.006**
		(0.002)	(0.002)	(0.003)
*RBTM * BNEWS*		0.002	−0.004	−0.001
		(0.005)	(0.005)	(0.009)
*RLEV * BNEWS*		0.004	0.000	0.008
		(0.004)	(0.004)	(0.007)
*HITECH * BNEWS*		0.026	0.030	−0.007
		(0.0449)	(0.042)	(0.072)
Firm Fixed Effects		No	Yes	No
S.E. Clustered by Year-Qtr		No	Yes	No
S.E. Clustered by Firm- and Year-Qtr		Yes	No	Yes
n of observations		152,275	152,275	152,275
Adjusted R^2		5.54%	7.64%	7.36%

(continued on next page)

TABLE 4 (continued)

Panel B: Implied Ratios

	Model 1		
	Base Case		
	***RInfoAsymm* = 0, *INSALE* = 0**	***RInfoAsymm* = 9, *INSALE* = 0**	***INSALE* = 1, *RInfoAsymm* = 0**
BNEWS = 1	19.70	17.00	22.64
BNEWS = 0	18.20	12.33	18.31

*, **, *** Represent statistical significance at a minimum 0.1, 0.05, and 0.01 levels, respectively.
Table 4, Panel A, Models 1 and 3, present the results of OLS regressions with standard errors clustered by firm and fiscal year-quarter, while Model 2 is estimated using OLS with firm fixed effects and standard errors clustered by fiscal year-quarter. The dependent variable in Models 1 and 2 is *Ln*(*NEWS_RATIO*). The dependent variable in Model 3 is the decile rank of *NEWS_RATIO* (*Ranked NEWS_RATIO*). All models include the sample of 152,275 firm-quarters between 1987 and 2006. Panel B reports Implied Ratios, computed as the exponent of the predicted *Ln*(*NEWS_RATIO*) obtained by setting all control variables to their means except for *BIAS_ADJ*, which is set equal to 0, *BNEWS*, equal to 1 or 0, and *RInfoAsymm* and *INSALE*, which are set to the values reported in the table. Standard errors are reported in parentheses below coefficients.
All other variables are defined in the notes to Tables 1 and 2.

Variable Definitions:
Ln(*NEWS_RATIO*) = natural logarithm of *NEWS_RATIO*;
NEWS_RATIO = 100 * *ABS*(*EAR*)/*ABS*(*NEAR*);
ABS(*EAR*) = absolute value of cumulative market-adjusted returns on trading days −1 to +1 relative to the QEA date;
ABS(*NEAR*) = absolute value of the cumulative market-adjusted non-earnings-announcement period returns; and
BNEWS = an indicator variable equal to 1 if overall quarterly return *RET* is negative, and 0 otherwise.

release of bad news in earnings, then earnings' differential informativeness should be concentrated in the fourth fiscal quarter.

Table 5 presents the results of estimating earnings' differential informativeness with respect to bad news by fiscal quarter. The coefficient on *BNEWS* is statistically insignificant in the first and second fiscal quarters, and significant at the 5 percent or higher level in the third and fourth fiscal quarters. In magnitude, the coefficient on *BNEWS* at first increases across quarters, reaching its peak in the third fiscal quarter, and then exhibits a slight decline. The coefficients imply that earnings are only around 5.6 percent more informative about bad news in the first fiscal quarter, and that this effect increases to 10.5 percent in the second fiscal quarter; the corresponding percentages are around 15.1 percent for the third fiscal quarter and 13.3 percent for the fourth. Interestingly, earnings informativeness with respect to both good and bad news exhibits a lower magnitude in the fourth fiscal quarter than in the third.

One interpretation of the results is that as the year-end audit approaches, managers release more bad news via the earnings reporting process, causing the observed rise in earnings' differential informativeness over the first three fiscal quarters. However, in the fourth quarter, the imminent release of audited annual results can generate intensified scrutiny of the firm by market participants, even prior to the earnings announcements, prompting managers to provide more voluntary disclosures (Baginski and Hassell 1990). This is possibly responsible for the diminished informativeness of earnings in the fourth quarter, with respect to both bad and good news.