Do Critical Audit Matters (CAMs) Provide a Road Map for Litigation? Evidence from Revenue CAMs

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ABSTRACT: PCAOB AS 3101 requires the auditor to communicate in the audit report any critical audit matters (CAMs) identified during the planning or performance of the audit. One of the most common type of CAMs (revenue CAMs) relates to core earnings, which is fundamental to valuing a corporation (Penman 2001; Bradshaw and Sloan 2002). We examine whether attorneys use revenue CAMs to identify litigation targets when there is a drop in the stock price. We demonstrate that companies with revenue CAMs are more likely to be sued than companies without revenue CAMs when there is a drop in the stock price. Further analysis shows that attorneys specifically focus on revenue CAMs when there is a decrease in sales from the prior year or when there are higher levels of discretionary revenues. Our results highlight an unintended consequence associated with the recent change in the PCAOB audit report.

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I. INTRODUCTION

In 2017, the Public Company Accounting Oversight Board (PCAOB) ushered in a new auditor reporting regime by mandating the inclusion of critical audit matter (CAM) disclosures in audit reports issued to U.S. publicly traded registrants (PCAOB AS 3101). The PCAOB defines a CAM as 'any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements; and (2) involve especially challenging, subjective, or complex auditor judgment' (PCAOB 2017). When the standards were first proposed, a key concern was auditor and corporation litigation exposure. Critics argued that CAMs could be used by plaintiffs as a "road map" for litigation against the company or the auditor (PCAOB 2017). While the PCAOB acknowledged the potential for CAMs to elicit litigation, the Board stated this concern was inherently uncertain and that it would monitor the standard after implementation for any unintended consequences. In our study, we address this concern by investigating whether CAMs expose a company to greater litigation risk.

Management of publicly held companies in the United State have routinely expressed concern over the risks and costs associated with legal disputes (Bhagat, Bizjak and Coles 1998). In 2022, aggregate settlements from class action lawsuits totaled $4 billion, with an average settlement value of $38 million (McIntosh, Starykh and Flores 2023), suggesting that litigation costs represent a non-trivial risk to a company. Aside from the direct costs of litigation, corporations also face indirect costs (e.g., higher interest rates [Yuan and Zhang 2015], higher directors' and officers' insurance premiums [Cao and Narayanamoorthy 2014] and management turnover [Strahan 1998]). Thus, understanding how CAMs can potentially affect a company's risk exposure is a vital concern.

To successfully sue a company for securities fraud under Section 10b-5 of 1934 Securities Exchange Act, a plaintiff must establish two elements. First, the plaintiff must demonstrate that the defendant made a material misstatement or omission in a corporate disclosure. Second, the plaintiff must have suffered economic losses resulting from his or her reliance on the misstatement or omission. While a CAM is not an admission that the financial statements are materially misstated, the disclosure alerts financial statement users to areas with high misstatement risk that often involves relatively higher levels of managerial and auditor judgment (Kachelmeier, Rimkus, Schmidt and Valentine 2020; Christensen, Glover and Wolfe 2014). Areas involving subjectivity or complex auditor judgment provide plaintiff attorneys an avenue to demonstrate that there existed an opportunity for management malfeasance. Further, this effect will be magnified for revenue CAMs given that (a) revenue is a prominent income statement line item used for valuation purposes and (b) misstatements involving revenue are perceived as more meritorious in the judicial process (Palmrose and Scholz 2004). Thus, we posit that attorneys will use revenue CAMs to identify potential litigation targets when investors have incurred economic losses.

To test this theory, we start by identifying corporations that experienced a significant stock price drop during the fiscal year preceding the release of the 10-K. We do so since litigation is usually a function of poor stock price performance (Rogers, Van Buskirk, and Zechman 2011). Using the Hutton, Marcus and Tehranian (2009) model, we identify companies that had weekly abnormal return more than 3.09 standard deviations below the company-specific weekly mean abnormal returns. Consistent with expectations, companies with significant stock price drops were far more likely to be sued following the release of the 10-K than companies without significant stock price drops. Next, we examine whether the results vary based on the

presence (absence) of a revenue CAM in the audit report. Both univariate and logistic regression results are consistent with attorneys using revenue CAMs to identify litigation targets. Specifically, companies that experienced a stock price drop were 1.6% more likely to be sued in the sixty days following the release of the 10-K if their audit report contained a revenue CAM.

In our additional analysis, we examine two settings where revenue CAMs should have greater informational value to attorneys: companies with negative sales growth and companies with high discretionary revenues. A precipitous drop in sales may indicate that management used unsustainable measures to boost revenue in previous years (e.g., offering discounts and generous credit terms to increase sales, recognizing gains from sales of long-term assets), whereas discretionary revenues may signal premature revenue recognition (Stubben 2010). In both settings, we find a revenue CAM increases the likelihood of a lawsuit. Specifically, a revenue CAM is (not) useful in predicting litigation when the company's revenue decreased (increased) from the prior year, and a revenue CAM is (not) useful in predicting litigation when revenue quality, calculated using the Stubben (2010) model, is low (high). The results suggest revenue CAMs have greater informational value to attorneys when there is evidence that management may have overstated revenues.

Finally, we perform an exhaustive evaluation using sensitivity tests to ensure our results are robust to different specifications and additional controls. First, we perform entropy balancing to confirm that companies in our revenue CAM sample are similar to the non-revenue CAM sample. Second, we perform a placebo test using two other commonly occurring CAMs: intangible CAMs and merger and acquisition (M&A) CAMs. Neither of the other CAMs predicts lawsuits. Finally, we match observations in our revenue CAM sample to observations in our non-revenue CAM sample based on size and industry.

Overall, our findings address concerns voiced by the PCAOB that critical audit matters may impose additional legal risks for companies and auditors. While researchers have extensively examined how the new rule impacts auditors' litigation exposure (Brasel, Doxey Grenier and Reffett 2016; Gimbar, Hansen and Ozlanski 2016; Vinson, Robertson and Cockrell 2019; Kachelmeier, Rimkus, Schmidt, Valentine 2020), they have largely ignored its impact on corporations. Thus, our study should be of interest to the PCAOB, who stated that they "will monitor the standard after implementation for any unintended consequences." (PCAOB 2017). The PCAOB may want to examine whether there has been a change in auditor behavior (i.e., a shift away from CAMs that impose greater litigation risk on an auditor's clients).

Second, our results highlight the context-specific importance of CAMs to the investing community. Apart from Abbott and Buslepp (2022), who show that M&A CAMs affect investors' perceptions of subsequent M&A transactions, most studies find CAMs and key audit matters (KAMs) do not provide incremental information to the market (Burke, Hoitash, Hoitash and Xiao 2023; Lennox, Schmidt and Thompson 2022).[1] Similar to Abbott and Buslepp (2022), we demonstrate an association between the behaviors of financial statement users and the information gleaned from specific CAM types. Our results suggest that future researchers should consider the type of CAM/KAM, as well as the context, when evaluating whether the investment community is using CAM information.

Finally, our results are consistent with attorneys using CAMs to identify litigation targets. Prior literature finds that attorneys are more likely to sue auditors and their clients when there are

[1] KAMs are required for audits regulated by the International Federation of Accountants (IFAC), whereas critical audit matters are required for audits regulated by the PCAOB. KAMs and CAMs are similar except KAMs focus on matters most significant during the audit, whereas CAMs focus on matters that are material to the financial statements (Beaubrun 2019).

signs that the company manipulated earnings (Heninger 2001; Boone, Khurana and Raman 2011; Hopkins 2017). Our findings should also be of interest to auditors and their clients who may want to adjust the wording of the critical audit matters to avoid enterprising attorneys who may use the disclosure against their clients. Further, auditors may want to change the scope of their testing to prepare for greater scrutiny of their work.

The remainder of this paper is organized as follows. Section II reviews prior literature related to CAMs and litigation. In Section III, we develop our hypothesis. Section IV describes our research methodology, while Section V outlines the sample selection process and provides descriptive statistics and results. Section VI offers additional analyses, and Section VII concludes.

II. PRIOR RESEARCH AND HYPOTHESIS DEVELOPMENT

PCAOB Auditing Standard 3101

The standard U.S. audit report, which includes introductory, scope and opinion paragraphs, has been the benchmark audit report for the last seventy years. In essence, the standard audit report represented a 'pass/fail' audit report regime. Auditors contended that the standard audit report format was necessary and sufficient to underscore that (a) the financial statements are the responsibility of management, (b) the auditor's responsibility is limited to providing financial statement assurance and (c) auditors are not 'information providers'. Criticisms of the standard audit report within the investing community revolved around its boilerplate nature and extremely small variation in audit opinions – both of which led to dissatisfaction with 'uninformative' audit reports.[2] These criticisms compelled the PCAOB to investigate whether there were benefits to expanding the audit report.

[2] Lennox (2005) examined a sample of 28,292 audit opinions between 1995 and 1998 and found that 99.8% were unqualified, 0.1% contained 'except for' qualifications, 0.1% contained opinion disclaimers and none were adverse.

After seven years of deliberation, the PCAOB enacted Auditing Standard 3101 (AS 3101), 'The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion'. An auditor must include critical audit matters, identified during the planning or performance of the audit, in any audit report issued for a large accelerated filer with a fiscal year end of June 30, 2019 or later. For other filers, the implementation date started December 15, 2020. The PCAOB also provided guidance on what constitutes a CAM. In particular, a CAM 'is required to relate to accounts or disclosures that are material to the financial statements' (PCAOB 2019). Moreover, a CAM also corresponds to 'the degree of auditor judgment related to areas in the financial statements that involved the application of significant judgment or estimation by management' (PCAOB 2019). In enacting the CAM regulation, the PCAOB asserted that CAMs would be informative to U.S. capital market participants (Abbott and Buslepp 2023).

Archival analysis of CAM disclosures focused on the stock market reaction to the initial U.S.-based CAM disclosures in the 10-K's audit report. More specifically, Burke et al. (2023) investigate the stock market reaction to the initial CAM disclosures and find little evidence that stock market participants find CAMs to be informative. However, archival analysis of CAMs from the perspective of litigation does not yet exist, even though litigation risk was often cited during the formulation of CAM disclosure regulation.[3] In particular, one commenter noted that CAMs 'could increase litigation risk for companies as well as the auditor because the new statements required of the auditor could form a basis for new legal claims, could be

[3] The PCAOB encouraged all interested parties to comment on its proposed rules and standards. Comments are made public and posted on the PCAOB website (Open for Public Comment | PCAOB (pcaobus.org)). Related to Release No. 34-81916 on CAMs, 155 (248) [88] Comment Letters were received and made publicly available on the initial Concept Release (Proposed Rule) [Reproposed Rule]. These Comment Letters can be found here: Docket 034 | PCAOB (pcaobus.org). Many of these letters noted the potential liability impacts of CAMS for both auditors and companies.

misinterpreted as acts of negligence on the part of the company, or could be used by plaintiffs as a "road map" for litigation against the company' (PCAOB 2017).

Research on U.S. Capital Markets Litigation Levied Against Corporations

Per Rule 10b-5 of the Securities Exchange Act of 1934, shareholders can sue publicly held registrants for damages. To successfully sue a company for securities fraud, a plaintiff must establish that (1) the plaintiff suffered economic losses *and* (2) the losses were the result of his or her reliance upon materially misleading information provided by the company. In particular, Rule 10b-5 makes it unlawful to "make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made…not misleading."

The first component of securities fraud is demonstrating damages incurred by the plaintiff with the usual measure being the difference between the value of what the plaintiff gave up and the value of what the plaintiff received (commonly referred to as an out-of-pocket loss). Overwhelmingly, the litigation involves plaintiffs alleging that they had purchased stock at artificially and misleadingly high prices (and suffered losses afterwards) (Field, Lowry and Shu 2006). Given that a plaintiff can only be compensated for economic losses actually sustained, enterprising lawyers will look for companies where there has been a significant drop in share price. These lawsuits are informally known as "stock-drop lawsuits" (Levine 2014).

For plaintiff attorneys, quantifying losses is fairly straightforward. Conversely, establishing that the disseminated information was materially misstated can be difficult. This is particularly true when there does not exist an *ex post*, unambiguous signal of malfeasance such as a restatement (Palmrose and Scholz 2004). Consequently, prior archival research has focused on whether and how management disclosures or actions may mitigate or intensify the likelihood of litigation.

Field, Lowry and Shu (2005) investigate the impact that additional, discretionary disclosures (usually in the form of an early earnings warnings about subsequent earnings disappointments) can have on litigation. These authors provide some evidence that early, discretionary 'bad news' disclosures can pre-emptively deter litigation. Extending Field et al. (2005), Billings and Cedergren (2015) find that the absence of a warning combined with the presence of management stock selling interact to increase the likelihood of litigation in the wake of an earnings disappointment. This perhaps not surprising as it allows plaintiff attorneys to more easily ascribe misleading information to managerial opportunism. Rogers et al. (2011) examine the relation between disclosure tone and shareholder litigation. Specifically, these authors note that misleading, 'soft' disclosures in the form of unusually optimistic conference call tone can increase the likelihood of litigation. Field et al. (2005) and Billings and Cedergren (2015) focus on how management actions can potentially reduce the size of the stock price drop after an earnings disappointment occurs, whereas Rogers et al. (2011) focus on how optimistic disclosures could have artificially inflated stock price prior the stock price drop.

Auditor and CAMs-related Litigation Research

With respect to litigation against the auditor, the U.S. capital markets are characterized by a hybrid 'joint and several' and 'proportionate' liability regime (DeFond and Zhang 2014). Joint and several liability holds auditors liable for up to one-hundred percent of the damages when other defendants are unable to pay their share, even when the auditor is only partially at fault. In contrast, proportionate liability holds auditors liable only for damages in proportion to their fault. Because information in the 10-K is characterized as a joint product of management (the information providers) and auditors (information assurers), plaintiffs can levy lawsuits against

companies and/or their auditors in cases where the 10-K (including the audit report) contained material errors.

The audit report is (a) mandatory per SEC Act of 1933 (b) pass/fail by nature (DeFond and Zhang 2014) and (c) the only means of communication between the auditor and the stock market (DeFond and Zhang 2014). Given these conditions, prior archival research on auditor litigation has, for the most part, focused on auditor litigation arising from restatements or bankruptcies. Schmidt (2012) finds that restatements pose a greater risk to auditors when they provide non-audit services (NAS) to their clients. This suggests that juries can be persuaded to believe that NAS increased the auditor's negligence in failing to prevent/detect the materially misstated financial statement. Christensen, Lundstrom and Newton (2021) show that negative PCAOB inspection report findings increase the likelihood of litigation against an auditor following a restatement or bankruptcy. The authors conjecture that deficiencies identified by the PCAOB provide attorneys a signal about poor auditor performance, galvanizing attorney claims regarding auditor negligence.

With the advent of CAMs in the U.S., investors who suffer a financial loss could potentially assert legal claims against the auditor or the company based on their reliance on the auditor's statements in the auditor report regarding CAMs (e.g., a misleading or omitted critical audit matter). Consistent with this theory, Vinson, Robertson and Cockrell (2019) find that jurors' assessments of auditor negligence are higher when a previously issued audit report contained a CAM that was removed from the most recent audit report. However, most studies show that a CAM disclosure reduces auditor legal exposure because it makes investors aware of risks and challenges in the financial statements (Kachelmeier, Rimkus, Schmidt and Valentine

2020; Brasel, Doxey, Grenier and Reffett 2016), reducing auditor culpability (Brown, Majors and Peecher 2020).

A review of the prior research yields two important implications for the current study. First, prior CAMs research has focused almost entirely on the relationship between CAMs and auditor litigation. The impact of CAMs on client litigation has not been thoroughly examined. Given that PCAOB Release No. 2017-001 specifically mentions the threat that CAMs may pose to corporations, a study of changes in the litigation rates for corporations should be relevant to policy makers, auditors and management of companies. Second, researchers have used experiments to investigate whether CAMs impact litigation risk which may not generalize to the real world. Archival researchers have not yet investigated the impact of CAMs on client litigation. These artifacts provide motivation for our research question, which we develop in the succeeding section.

III. HYPOTHESIS DEVELOPMENT

From the perspective of plaintiff attorneys, CAMs exhibit several characteristics that could expedite the litigation process on their behalf. First, CAMs, which were privately communicated to audit committees prior to PCAOB AS 3101, are easily accessible to the public. In essence, this transparency – an important goal of AS 3101 – provides insights into the audit process that were previously unavailable and may inadvertently be interpreted as arising from auditor-client disagreement about accounting practices. Second, CAMs are salient as they appear on the face of the audit report, are readily available and do not entail tremendous processing costs on the part of attorneys or potential jurors (Christensen et al 2014). Third, CAMs are auditor-generated and possess greater source credibility from both an expertise perspective and independence perspective. Fourth, there is variation in the nature of the CAMs. In particular,

because CAMs represent a form of discretionary disclosure by auditors, there is not a dominant individual CAM.

Within the spectrum of different CAM disclosures, revenue CAMs are likely to be particularly appealing to plaintiff attorneys for at least two non-mutually exclusive reasons. First, revenue CAMs typically underscore concerns about judgments and assumptions made by management about revenue recognition (see Appendix A for examples). A revenue CAM may create the appearance that management has intentionally manipulated the reported revenue numbers. In other words, revenue CAMs depict a situation in which management has the opportunity to make overly optimistic projections about revenue and future revenue realizability. Second, revenue is consistently the largest single income statement item and is critical for valuation purposes – allowing an easier depiction of a 'straight line path' to plaintiff injury. In contrast, demonstrating how a goodwill CAM or a tax-related CAM impacts share price is more complex and potentially requires too much processing on the part of potential jurors. Third, there is literature indicating that lawsuits alleging overstatement of revenue is more likely to result in favorable litigation outcomes for plaintiffs (Palmrose and Scholz 2004). Fourth, while revenue CAMs are pervasive (Burke et al. 2023), there still exists ample variation in revenue CAMs as approximately 30% of all U.S. companies have a revenue CAM disclosure.

Given the factors discussed above, we conjecture that the presence of a revenue CAM facilitates plaintiff attorneys' strategy of targeting certain companies for litigation vis-a-vis companies without a revenue CAM. This leads to our hypothesis.

Hypothesis: Conditional upon a stock price drop, the presence of a revenue CAM increases the likelihood of a shareholder lawsuit against the company.

IV. RESEARCH METHODOLOGY

To test whether CAMs expose a corporation to greater litigation risk, we examine the likelihood of a lawsuit when a company receives an audit report containing a revenue CAM *following* a stock price crash. In our model, the stock price crash is a triggering event in which investors sustained significant losses. After the triggering event has occurred, attorneys need to demonstrate that there was a material misstatement or omission in a corporate disclosure. We posit that a revenue CAM is a signal to attorneys that there is higher likelihood of a material misstatement in the core earnings number, boosting the attractiveness of pursuing a legal claim. Together this should increase the likelihood that a lawsuit is filed against the company after it releases its 10-K.

To assess whether a stock price crash occurred during the fiscal year, we start by calculating company-specific weekly returns for observations with available data in CRSP. We then estimate the following residual return model developed by Hutton, Marcus and Tehranian (2009) for each week over the fiscal year preceding the audit report.

$$r_{)j\tau} = \alpha_j + \beta_{1\,j}\, r_{m\tau\text{-}1} + \beta_{2\,j}\, r_{i\tau\text{-}1} + \beta_{3\,j}\, r_{m\tau} + \beta_{4\,j}\, r_{i\tau} + \beta_{5\,j}\, r_{m\tau+1} + \beta_{6\,j}\, r_{i\tau+1} + \varepsilon_{j\tau} \quad (1)$$

In Model (1), $r_{)j\tau}$, $r_{i\tau}$, and $r_{m\tau}$ are the returns in week τ on stock j, the Fama-French value-weighted index for industry i, and the CRSP value-weighted market index, respectively. The weekly abnormal return ($W_{j\tau}$) is the natural logarithm of one plus the residual ($\varepsilon_{j\tau}$). A price crash occurred if at least one weekly abnormal return falls 3.09 or more standard deviations below $\overline{W}_{j\tau}$ over the fiscal year (Kim, Wang and Zhang 2019; Hong, Kim and Welker 2017; Hutton et al. 2009; Kim, Li and Zhang 2011a, b; Kim and Zhang 2016; Kim, Wang and Zhang 2016).

To test our prediction that attorneys target companies with revenue CAMs, we estimate the following logistic regression model with standard errors clustered by company.[4]

$$\begin{aligned} Lawsuit = {} & \alpha_0 + \beta_1 PriceCrash_t + \beta_2 RevenueCam_t + \beta_3 PriceCrash_t \times RevenueCam_t \\ & + \beta_4 OtherCams + \beta_5 Big4 + \beta_6 ln(Tenure) + \beta_7 NewAuditor + \beta_8 MW \\ & + \beta_9 NasFeeRatio + \beta_{10} ln(AuditFees) + \beta_{11} GoingConcern + \beta_{12} Beat \\ & + \beta_{13} ln(Analysts) + \beta_{14} ln(Size) + \beta_{15} Leverage + \beta_{16} BTM + \beta_{17} AbAccruals \\ & + \beta_{18} Receivables + \beta_{19} DefRevenue + \beta_{20} ForeignSales + \beta_{21} Inventory \\ & + \beta_{22} CurrRatio + \beta_{23} ROA + \Sigma Industry + \Sigma Year + \varepsilon \end{aligned} \quad (2)$$

The dependent variable in the model, *Lawsuit*, is an indicator variable equal to one if the start date for the lawsuit falls within 60, 120 or 180 days following the filing of the 10-K, and zero otherwise.[5] Information regarding lawsuits is obtained from the Audit Analytics Legal Case database. Consistent with Schmidt (2012) and Christensen, Lundstrom and Newton (2021), we limit the lawsuits to class action (category one), accounting malpractice (category two), merger (category thirty-three), professional liability (category thirty-seven), securities law (category forty-one), financial reporting (category forty-eight), bankruptcy chapters 7 and 11 (categories fifty-two and fifty-three), accounting and auditing enforcement release (category fifty-four), stockholders' suit (category sixty-two), and initial public offering (category ninety-three) lawsuits.[6]

The variables of interest in Model (2) are *PriceCrash*, *RevenueCam* and the interaction between the two variables (*PriceCrash* × *RevenueCam*). *PriceCrash*, as described above, equals one if there was a stock price crash during the fiscal year and zero otherwise. We expect a positive and significant coefficient on *PriceCrash* since a plaintiff must demonstrate damages to

[4] See Appendix B for variable definitions.
[5] We report results using alternative windows to demonstrate that our findings are robust to multiple specifications of the dependent variable. The choice of time periods is arbitrary. However, we find similar results using alternative time periods (e.g., 30 days, 90 days, 150 days, etc.).
[6] The two most common types of lawsuits were class actions and securities law violations followed by stockholders' suits and mergers. None of the lawsuits in our sample involve failure of professional liability, Chapter 7 bankruptcy or Chapter 11 bankruptcy. Very few involve accounting malpractice, AAERs or IPOs.

secure a favorable judgement. *RevenueCam* is an indicator variable equal to one if the audit report discloses a revenue CAM and '0' otherwise.[7] The *RevenueCam* measures any pre-litigation risk differences between the companies that received a Revenue CAM and those that did not. Thus, we make no prediction regarding the sign of the coefficient on the *RevenueCam* variable. The coefficient on the interaction captures the variation in the stock price crash variable when a Revenue CAM is disclosed in the audit report. If our hypothesis is correct, the coefficient on the interaction of stock price crash and revenue CAM should be significantly positive (*PriceCrash* × *RevenueCam* > 0). A positive and significant coefficient on the interaction is consistent with evidence suggesting attorneys use the revenue CAM disclosure to identify potential targets.

In addition to our variables of interest, we also include controls for several auditor characteristics that may be associated with both revenue CAMs and litigation risk. To ensure that attorneys are focusing on revenue CAMs rather than the total number of CAMs, we include the number of CAMs minus the number of revenue CAMs in the audit report (*OtherCams*). Larger auditors provide higher audit quality (DeAngelo 1981), which should reduce the overall rate of litigation. However, larger auditors also have deeper pockets making them more likely to be a target of litigation (Lennox 1999). To control for either possibility, we include an indicator variable equal to one if the client is audited by a Big Four auditor (*Big4*), and zero otherwise. The length of the auditor's relationship with the client may also impact litigation risk. Stice (1991) and St. Pierre and Anderson (1984) argue that auditor litigation risk is greater in early

[7] Revenue CAMs data was obtained from the Audit Analytics Critical Audit Matters database. Following, Burke, Hoitash, Hoitash and Xiao's (2022), we classify a CAM as revenue-related if it had one of the following CAM topic keys: 61 (revenue from customer contracts), 63 (sales returns and allowances), 54 (other revenue) and 78 (interest revenue). The overwhelming majority of revenue CAMs in our sample relate to revenue from customer contracts (80.8%). Sales returns and allowances (14.8%), other revenue (4.2%) and interest revenue (0.1%) CAMs represent a small portion of the overall revenue CAMs in our sample.

audit engagements because of an increased probability of overlooking errors due to the auditor's unfamiliarity with the client. However, Lys and Watts (1994) find that auditor litigation risk increases over time as auditor independence declines. To address both possibilities, we include the length of the auditor's tenure (*ln(Tenure*) and an indicator variable equal to one if the auditor is auditing the client for the first time (*NewAuditor*). We also control for material weaknesses in the internal control over financial reporting (*MW*) since material weaknesses may increase idiosyncratic risk (Ashbaugh-Skaife, Collins and Kinney and LaFond 2009) leading to lawsuits. Auditors providing non-audit services are also more likely to be sued when there is an audit failure (Schmidt 2012), so we include the ratio of non-audit fees to total fees (*NasFeeRatio*). Finally, we include audit fees (*ln(AuditFees)*) and going concern opinions (*GoingConcern*) since both reflect greater litigation risk (Seetharaman, Gul and Lynn 2002; Kaplan and Williams 2013).

In addition to auditor characteristics, we also control for company characteristics that may affect the likelihood of litigation based on previously established models (Stice 1991; Shu 2000; Christensen et al. 2021; Rogers, Buskirk and Zechman 2011; Burke et al. 2023). These variables include whether the company met or beat analyst expectations (*Beat*), the number of analysts following the company (*ln(Analysts)*), the size of the company (*ln(Size)*), the ratio of long-term debt to total assets (*Leverage*), the book-to-market ratio (*BTM*), discretionary accruals calculated using the modified-Jones method adjusted for company performance (*AbAccruals*), receivables (*Receivables*), deferred revenues (*DefRevenue*), non-domestic sales (*ForeignSales*), inventory (*Inventory*), the company's current ratio (*CurrRatio*) and return on assets (*ROA*). Finally, we include industry and year fixed effects to control for shifts in litigation risk across time and industry.

V. SAMPLE SELECTION, DESCRIPTIVE STATISTICS AND RESULTS

Sample Selection and Descriptive Statistics

Table 1 Panel A provides a summary of our sample selection process. Our initial sample consists of all U.S.-based companies in the Audit Analytics audit opinion database with fiscal year ends between June 30, 2019 (the effective date for paragraphs .11-.17 of PCAOB AS 3101) and December 31, 2022. Auditors of non-large accelerated filers were not required to report critical audit matters before December 15, 2020 (fiscal years ending on or after December 15, 2020), so we exclude audit opinions issued to non-accelerated filers prior to that date. The sample was then merged with Compustat to obtain financial information, CRSP to obtain stock price crash data and I/B/E/S to obtain analyst forecast data, reducing our sample by 21,449 observations.[8]

Consistent with Shu (2000), we exclude observations in regulated utilities and financial industries (n = 2,176) because they are subject to various regulations, which may impact litigation rates. Further, we require each observation to have the necessary information to calculate abnormal accruals. This includes data in Compustat for period t-1, net income and cash flow from operations data, assets of at least $10 million and at least ten observations in the same industry in the same fiscal year. After excluding companies not meeting this criterion, we are left with 6,297 observations.

Table 1 Panel B provides industry statistics for our sample. Approximately 21% (79%) of the observations in our sample had a (no) stock price crash in the current fiscal year, and 27%

[8] Observations without financial data in Compustat include funds and trusts (n = 13,190) and shell companies (n = 1,242).

(73%) of the observations had an audit report containing a (no) revenue CAM.[9] For companies with (without) a stock price crash, the industry composition is relatively similar. In both sub-samples, pharmaceuticals, durable goods and computers are the three largest industries. When we compare companies with (without) a revenue CAM, we find that the companies in the computer industry are more likely to receive a revenue CAM from their auditor, and companies in the retail industry are less likely to receive a revenue CAM from their auditor. However, both sub-samples include observations from a variety of different industries. As noted above, we include fixed effects in our logistic regression model to control for shifts in litigation risk across industries.

Descriptive statistics on variables used in our analyses are reported in Table 2. In Panel A, we assess whether our price crash measure is capturing economic losses sustained by shareholders. Prominent attorneys are compensated on a contingency basis, and the decision to pursue a claim depends on whether the plaintiff's damages are large enough to justify the time and effort to secure a settlement (Maksymov, Pickerd, Lowe, Peecher and Reffett 2020). If our measure is capturing economic losses, we should expect the lawsuit rate to be higher for companies that sustained a stock price crash during the current fiscal year. Consistent with our expectations, we find that the number of lawsuits filed against companies with a stock price crash is significantly higher than the number of lawsuits filed against companies without a stock price crash across all time periods ($p < 0.05$). This supports our contention that a stock price crash is a material event that is likely to generate legal action.

[9] While the number of companies with a price crash may appear high, it is important to remember that we measure price crashes on a weekly basis. Each observation has fifty-two chances (i.e., the number of weeks in a year), significantly increasing the likelihood of occurrence.

Table 2 Panel B provides a comparison of the variables used in Model (2). On the lefthand side, we report descriptive statistics for observations that experienced a stock price crash during the fiscal year and observations that did not experience a stock price crash during the fiscal year. Approximately 30% of our sample have a revenue CAM in their audit report. Companies with a stock price crash were more likely to receive a revenue CAM (32.0%) relative to companies without a stock price crash (25.9%). Companies in our sample are relatively large and stable. The average company with (without) a stock price crash has total assets of $6.7 billion ($7.6 billion), is audited by a Big Four auditor and has retained the same auditor for the past ten years. Companies with a stock price crash are more likely to employ a Big Four auditor. They also have lower levels of inventory and have a lower return on assets. Finally, companies with a stock price crash are more likely to receive a going concern report modification from their auditor than companies without a stock price crash. For all other variables, we find minimal differences across the two groups.

On the righthand side of Table 2 Panel B, we provide descriptive statistics for companies that received a revenue CAM from their auditor and companies that did not receive a revenue CAM from their auditor. The results show that companies receiving a revenue CAM appear to be larger and more profitable than companies that did not receive a revenue CAM. Consistent with Burke et al. (2023), companies with a revenue CAM also have larger amounts of deferred revenue and foreign sales than companies without a revenue CAM. We address these differences later in the paper.

Table 3 presents the Pearson correlation matrix for the variables used in this study. To simplify reporting, *Lawsuit* is equal to one if a lawsuit is filed in the first sixty days following the

release of the 10-K and zero otherwise.[10] Consistent with results reported in Table 2, *PriceCrash* is positively correlated with the likelihood of a lawsuit ($\rho = 0.03$, $p < 0.01$ [two-tailed]), suggesting that attorneys target companies with a steep drop in share price. We also find that lawsuits are more likely to occur when there is a revenue CAM in the audit report ($\rho = 0.04$, $p < 0.01$ [two-tailed]). Consistent with prior literature (Lennox 1999; Seetharaman et al. 2002; Schmidt 2012), we find that lawsuits are positively associated with auditor size (*Big4*), non-audit services (*NasFeeRatio*) and audit fees (*ln(AuditFees)*). Finally, we find that larger companies (*ln(Size)* and companies with a greater analyst following (*ln(Analysts)*) are more likely to be sued, whereas companies with a higher book-to-market ratio (*BTM*) are less likely to be sued. While a few of the variables are highly correlated (notably, audit fees is strongly correlated with auditor size, total assets and analyst following, and tenure is negatively correlated with new auditor), none of the findings change when variables are excluded from the logistic regression model.

Results

Table 4 provides univariate tests of our hypothesis. If our hypothesis is correct, we should find a higher likelihood of lawsuits when both a stock price crash occurs in the fiscal year and a revenue CAM is disclosed in the audit report. In Panel A, we find results consistent with our hypothesis. The lawsuit rate is 5.6% for companies with both a revenue CAM and a stock price crash, which is significantly higher than the lawsuit rate for companies with a stock price crash and no revenue CAM (2.1%). Results are similar when we expand measurement of our lawsuit variable to 120 days after the 10-K filing (Panel B) and 180 days after the 10-K filing (Panel C).

[10] We find similar correlations with all other permutations of the lawsuit variable.

These univariate results provide evidence suggesting that attorneys are using the revenue CAMs to identify potential litigation targets.

In Table 5, we present the multivariate results from the estimation of Model (2). In the first set of columns, we include all the control variables except for the interaction between price crash and revenue CAM. Consistent with our univariate analysis, the likelihood of litigation increases when there is a stock price crash in the current fiscal year (β_1 = 0.451; t-value = 2.51). A stock price crash increases the likelihood of a company being sued by approximately 1% (marginal probability). We find no evidence that the disclosure of a revenue CAM (β_2 = 0.130; t-value = 0.54) increases litigation risk. Examining the control variables, we find that larger companies (*ln(Size)*) and companies with higher levels of abnormal accruals (*AbAccruals*) are more likely to be sued, and companies with foreign sales (*ForeignSales*) are less likely to be sued, consistent with attorneys pursuing cases against companies with resources available to remunerate plaintiffs.

In the second set of columns in Table 5, we test our hypothesis by including the interaction between stock price crash and revenue CAM. We find that a stock price crash does not increase the likelihood of a lawsuit when there is no revenue CAM in the audit report (β_1 = 0.096; t-value = 0.37). However, a stock price crash and the disclosure of a revenue CAM significantly increases the likelihood of a lawsuit ($\beta_1 + \beta_3$ = 0.903; t-value = 3.27). A company with both a stock price crash and revenue CAM is roughly 2.0% more likely to be sued in the sixty days following the release of the 10-K than an ordinary company (marginal probability). In the last two sets of columns, we expand the window for the lawsuits to four months (120 days) and six months (180 days). While we continue to find an increase in the likelihood of being sued when there is both a stock price crash and a revenue CAM, the difference is no longer significant

at 180 days. This implies that the value of the revenue CAM to an attorney dissipates as we get further away from the disclosure date.

Collectively, the results in Table 5 support our hypothesis. Logistic regression results imply that a company is more likely to be sued when there is a stock price drop *and* the audit report contains a revenue CAM. These results provide initial evidence suggesting that revenue CAMs act as a source of information used by lawyers, but only in the presence of a stock price drop. The interactive result is not surprising given that, to successfully sue a company for securities fraud, a plaintiff must establish (1) the defendant made a material misstatement or omission in a corporate disclosure and (2) the plaintiff suffered economic losses from his or her reliance on the misstatement or omission.[11]

VI. ADDITIONAL ANALYSIS

In our additional analysis, we examine two settings where litigation risk should vary with the risk of material misstatement in the revenue account. Specifically, the revenue CAM should be of greater interest to attorneys when (1) there is a decline in revenue from the prior year and (2) when there are higher levels of discretionary revenues. We describe our tests in the following paragraphs.

Positive and Negative Sales Growth

Lys and Watts (1994) find that there is a precipitous drop in sales between the wrongdoing year and the year the lawsuit is filed. Revenue CAMs should be more valuable when

[11] To ensure that our measure is capturing lawsuits related to financial reporting, we perform a keyword search of the web summary field in the Audit Analytics lawsuit database. If the web summary field contains any of the following terms: "GAAP", "generally accepted accounting principles", "accounting", "revenue", "sales", "financial statement", "income statement", "audit opinion", or "critical audit matter", we classify the lawsuit as accounting related. While the number of lawsuits that specifically mention these accounting terms is relatively small and likely not comprehensive (only 32 (59) [78] lawsuits in the first 60 (120) [180] days), we continue to find results in support of our hypothesis. Specifically, the interaction between stock price crash and revenue CAMs is positive and significantly associated with accounting-related lawsuits. This supports our contention that attorneys are using the revenue CAMs to pursue lawsuits related to issues in the financial statements.

there is a decrease in revenue because it allows the attorneys to assess whether the decrease was due to changing economic conditions or the unraveling of prior manipulation by management (e.g., unreported sales discounts or sales of fixed assets). To test this theory, we separate our sample into observations with an increase in sales from the prior year (n = 4,027) and observations with a decrease in sales from the prior year (n = 2,225). In untabulated univariate tests, we find that the likelihood of a lawsuit is not significantly different across the two samples.[12]

Logistic regression results for the positive and negative sales growth samples are reported in Table 6. The columns on the left-hand side display the results for our sub-sample with positive sales growth. The interaction between stock price crash and revenue CAM is not significantly different from zero for any of the time periods. This implies that revenue CAMs are less useful to attorneys when revenue increases during the year. The columns on the right-hand side display the results for our sub-sample with negative sales growth. Consistent with our expectations, the coefficient on the stock price crash and revenue CAM interaction is significantly positive for all three time periods. Revenue CAMs appear to be an important information source for attorneys when management may have manipulated revenue in prior years.

Discretionary Revenues

Managers work to maintain predictable earnings (Graham, Harvey and Rajgopal 2005). One method to ensure consistent earnings involves prematurely recognizing (deferring) sales using an aggressive or incorrect application of Generally Accepted Accounting Principles. Consistent with this theory, Stubben (2010) finds that revenue manipulation predicts SEC

[12] The percentage of companies with positive sales growth and a lawsuit in the first 60 (120) [180] days following the release of the 10-K is 2.38% (4.46%) [6.14%]. The percentage of companies with negative sales growth and a lawsuit in the first 60 (120) [180] days following the release of the 10-K is 2.11% (3.86%) [5.18%].

enforcement actions. We believe that an auditor is more likely to express concern (i.e., a revenue CAM) when the accounts receivable account does not move in conjunction with the revenue account. In this situation, we predict that revenue CAMs will be a valuable resource to attorneys in assessing whether the company is recognizing revenue prematurely.

To test this theory, we use the Stubben (2010) revenue quality measure. Stubben (2010) calculates discretionary revenue using the residual from the regression of the annual change in accounts receivable at time t on the annual change in revenue at time t, both scaled by average total assets. The regression model is estimated by industry and year, allowing the parameters to vary across fifteen industries and over time.[13] Thus, it is a relative measure of revenue quality that compares each company against its industry peers each year. Because abnormally high or low residual values suggest revenue management, we use the absolute value of the residual as our measure of discretionary revenue.[14]

We divide the sample into observations with high revenue quality (the absolute value of the residual from the Stubben (2010) model is below the median) and observations with low revenue quality (the absolute value of the residual from the Stubben (2010) model is above the median). We estimate our logistic regression on each of these subsamples and present logistic regression results in Table 7. Given the data requirements necessary to calculate discretionary revenues, our sample size decreases from 6,297 to 5,060 observations. On the left-hand side, we display the results for our sub-sample of observations with high-quality revenues. The coefficient on the price crash revenue CAM interaction is positive and insignificant for lawsuits filed 60

[13] Similar to Stubben (2010), industry is defined consistent with Barth, Beaver, Hand, and Landsman (2005) and requires at least 15 observations for each industry-year regression.

[14] We recognize that other forms of discretionary revenue may exist that may not be identified in our measure (e.g., incorrect application of GAAP). We choose Stubben's (2010) measure because other measures (e.g., Caylor 2010) require multiple years of data to compute discretionary revenues. The Stubben measure avoids timing and measurement issues with respect to the relation between changes in revenue auditing and revenue quality.

days after the 10-K and mildly significant for lawsuits filed 120 days (180 days) after the 10-K. The right-hand side displays the results for our subsample of observations with low-quality revenue. For lawsuits filed within 60 and 120 days after the release of the 10-K, the coefficient on the price crash revenue CAM interaction is significantly positive (60 days: β_3 = 1.649; t-value = 2.34; 120 days: β_3 = 1.037; t-value = 1.96). Further, there is a significant increase in the magnitude of the interaction coefficient. The interaction coefficient for low-quality revenue companies is more than two and a half times the interaction coefficient for high-quality revenue companies for lawsuits filed within 60 days following the release of the 10-K. These results suggest that revenue CAMs act as valuable sources of information when revenue quality is low.

Sensitivity Analysis

Reduced Sample

In the first column of Table 5, we find a significant main effect on *PriceCrash*. However, the main effect is no longer significant when we include the interaction between *PriceCrash* and *RevenueCam.* To ensure that our results are capturing variation in the price crash sample rather than variation in the non-price crash sample, we repeat our results omitting observations without a price crash from the sample. The results reported on the left-hand side of Table 8 are consistent with our earlier findings. We find a positive and significant coefficient on *RevenueCam* when our *Lawsuit* variable is defined as 60 or 120 days after the filing of the 10-K. These results support our contention that attorneys use revenue CAMs as information sources to identify companies to target for litigation, but only in the presence of a stock price crash.

Entropy Balancing

Logistic regression requires proper specification of the relation between the dependent variable and explanatory variables to obtain unbiased estimates. If the relation between the

dependent and independent variables is misspecified, then the model suffers from "functional form misspecification", which can produce biased estimates (Shipman, Swanquist and Whited 2017). One key assumption is that observations in the revenue CAM sample are similar to observations in the non-revenue CAM sample. To address this concern, we restrict our sample to observations that had a stock price crash and then use entropy balancing to reweight the observations in the control sample (i.e., observations that did not receive a revenue CAM).[15] The results reported on the right-hand side of Table 8 are slightly weaker but continue to support the conclusion that revenue CAMs are a valuable source of information to attorneys.

Other Types of CAMs

To ensure that attorneys are scrutinizing the audit report for a specific signal (i.e., revenue CAMs), we perform a placebo test involving two other commonly occurring CAMs: intangible asset CAMs (*IntCam*) and merger and acquisition CAMs (*M&ACam*).[16,17] The results reported in Table 9 show that the attorneys do not utilize either of these two CAMs. The interaction between the price crash variable and intangible assets CAM is insignificant across all three time periods, and the interaction between price crash and M&A CAMs is opposite the predicted sign. These results suggest that attorneys' efforts are focused on high-risk areas such as revenue and ignore other CAMs related areas.

Matched Sample based on Industry and Size

[15] We balance based on three moments (mean, variance and skewness). The mean weight for our control sample is 0.634 with a maximum weight of 14.084, which should alleviate concerns regarding reproducibility of our findings (McMullin and Schonberger 2022).

[16] Intangible assets CAMs are the most commonly occurring type of CAMs. Merger and acquisition CAMs are the third most commonly occurring type of CAMs (following intangible assets and revenue CAMs) (see Burke et al. 2022).

[17] With the exception of *OtherCams*, all other variables are the same as Model (2). In Table 9, *OtherCams* is the number of critical audit matters in the audit report minus the number of intangible (M&A) CAMs in the audit report.

The descriptive statistics for our sample suggest that companies in certain industries are more likely to receive a revenue CAM and that companies receiving a revenue CAM are larger than companies that do not receive a revenue CAM. This may influence our findings since larger companies and companies in certain industries have higher litigation rates (Francis, Philbrick and Schipper 1994a, 1994b; Kim and Skinner 2012). To address this concern, we match, without replacement, companies that received a revenue CAM to companies that did not receive a revenue CAM based on industry (Fama and French's forty-eight industry categories), fiscal year and total assets.[18] After matching, we are left with a sample of 2,744 observations (1,372 companies that received a revenue CAM and 1,372 companies that did not receive a revenue CAM). There is no significant difference in total assets between the two samples (t-value = 0.02; untabulated). The results with the matched sample are reported in Table 10. For brevity, they are similar to the results reported in Table 5. We continue to find that companies receiving a revenue CAM are significantly more likely to be sued when there is a stock price crash.

VII. CONCLUSION

We examine whether CAMs expose a company to greater litigation risk. When PCAOB AS 3101 was promulgated, there were concerns that CAMs may expose auditors and companies to greater litigation risk since they identify risky areas in the financial statements. While several studies have examined the possible litigation exposure that CAMs pose to auditors (Brasel, Doxey Grenier and Reffett 2016; Gimbar, Hansen and Ozlanski 2016; Vinson, Robertson and Cockrell 2019; Kachelmeier, Rimkus, Schmidt, Valentine 2020), to our knowledge, we are the first researchers to address whether CAMs affect corporations' litigation risk.

[18] We exclude any match where the difference in total assets between the company in the control sample and the company in the treatment sample exceeds $500 million. We find similar, but slightly weaker, results when we restrict the difference to a maximum of $100 million.

To test our research questions, we use the presence (absence) of a revenue CAM since revenue is arguably the most important account in the financial statements and is associated with higher litigation risk (Palmrose and Scholz 2004; PricewaterhouseCoopers 2000; Fuerman 1997). Using a sample of 6,297 company-year observations between June 2019 and December 2022, we demonstrate that a revenue CAM significantly increases the likelihood of a lawsuit when the company had a stock price drop in the previous fiscal year. We also find that the association is stronger when the company had a decrease in sales or when there is greater discontinuity between the revenue and accounts receivable accounts. These findings suggest that attorneys use the revenue CAMs particularly when there are irregularities in the revenue account. Our analyses also include three additional cross-sectional tests and two placebo tests to address concerns that attorneys are utilizing information unrelated to revenue CAMs. The results of these additional tests provide additional evidence that attorneys limit their searches to revenue CAMs. Specifically, when we replace our revenue CAM disclosure variable with two other frequently occurring CAM disclosures, we fail to document any association. In summary, our evidence suggests a very discerning use of a commonly occurring CAM disclosure.

We believe our paper should be of interest to regulators, academics, and practitioners. Prior research has cast doubt on the value of CAM disclosures because the information disclosed in the CAM is already publicly available in the financial statements. The evidence provided herein indicates that CAM disclosures, unlike footnotes, may provide unique insights into the core earnings of the business. We believe the relevance of our research is underscored when noting the frequency of the revenue CAM and its dispersion across industries. We encourage future research on the causes and consequences of CAM disclosures.

Appendix A
Examples of Revenue CAMs

AbbVie Inc. 10-K for the year ending December 31, 2021

As discussed in Note 2 to the consolidated financial statements under the caption "Revenue Recognition," the Company established provisions for sales rebates in the same period the related product is sold. At December 31, 2021, the Company had $8,254 million in sales rebate accruals, a large portion of which were for rebates provided to pharmacy benefit managers, state government Medicaid programs, insurance companies that administer Medicare drug plans and private entities for Medicaid, Medicare and managed care programs. In order to establish these sales rebate accruals, the Company estimated its rebates based upon the identification of the products subject to a rebate, the applicable price and rebate terms and the estimated lag time between the sale and payment of the rebate.

Auditing the Medicaid, Medicare and managed care sales rebate accruals was complex and required significant auditor judgment because the accruals consider multiple subjective and complex estimates and assumptions. These estimates and assumptions included the estimated inventory in the distribution channel, which impacts the lag time between the sale to the customer and payment of the rebate, and the final payer related to product sales, which impacts the applicable price and rebate terms. In deriving these estimates and assumptions, the Company used both internal and external sources of information to estimate product in the distribution channels, payer mix, prescription volumes and historical experience. Management supplemented its historical data analysis with qualitative adjustments based upon changes in rebate trends, rebate programs and contract terms, legislative changes, or other significant events which indicate a change in the reserve is appropriate.

Emergent Biosolutions Inc.'s 10-K for the year ending December 31, 2020

As described in Note 3 to the consolidated financial statements, the Company recognized revenues of $1,555.4 million for the year ended December 31, 2020. The Company enters into or periodically modifies revenue contracts whose terms are complex and require a significant level of judgment related to management's identification of performance obligations, the determination of standalone selling prices underlying each performance obligation, and the determination of the transaction price including variable consideration. At contract inception, management assesses the products or services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a product or service that is distinct including evaluating whether the contract includes a customer option for additional goods or services which could represent a material right. For contracts with multiple performance obligations, the Company allocates the contract price to each performance obligation on a relative standalone selling price basis using the Company's best estimate of selling price of each distinct product or service in the contract. The primary method used to estimate standalone selling price is the price observed in standalone sales to customers, however when prices in standalone sales are not available the Company may estimate the standalone selling price using various estimation approaches that maximizes observable inputs. In addition, the Company estimates the transaction price of the contract, including variable consideration that is subject to a constraint. The Company's estimation of variable consideration is subject to management's judgment and assumptions including returns, certain fees, discounts and rebates.

Appendix B
Variable Definitions*

Variable Name	Description
Lawsuit	An indicator variable equal to '1' if a lawsuit is filed following the release of the 10-K, and '0' otherwise (from the Audit Analytics Legal Case database category types 1, 2, 33, 37, 41, 48, 52, 53, 54, 62, 93).
PriceCrash	Equal to '1' if at least one weekly abnormal return ($W_{j\tau}$) calculated using Model (1) falls 3.09 or more standard deviations below $\bar{W}_{j\tau}$ over the fiscal year, and '0' otherwise.
RevenueCam	Equal to '1' if the audit report in the 10-K contains a revenue related critical audit matter, and '0' otherwise (from the Audit Analytics Critical Audit Matters database category types 54, 61, 63 and 78).
OtherCams	The number of unique critical audit matters in the audit report excluding revenue related critical audit matters (from the Audit Analytics Critical Audit Matters database).
Big4	If the audit opinion was issued by a Big Four auditor, and '0' otherwise (from the Audit Analytics Audit Opinion database).
ln(Tenure)	The natural logarithm of the number of years that the auditor has audited the company's financial statements (from the Audit Analytics Audit Opinion database).
NewAuditor	Equal to '1' if this is the initial year of the audit engagement, and '0' otherwise (from the Audit Analytics Audit Opinion database).
MW	Equal to '1' if the 10-K report identifies a material weakness in the internal control over financial reporting, and '0' otherwise (from the Audit Analytics SOX 404 database).
NasFeeRatio	The ratio of fees paid to the auditor for non-audit services to total fees paid to the auditor (from the Audit Analytics Audit Opinion database).
ln(AuditFees)	The natural logarithm of audit fees (from the Audit Analytics Audit Opinion database).
GoingConcern	Equal to '1' if the audit report includes a going concern report modification, and '0' otherwise (from the Audit Analytics Audit Opinion database).
Beat	Equal to '1' if the company meet or beat the most recent annual earnings forecast issued a minimum of three days prior to the release of earnings (from the I/B/E/S Detail History database).
ln(Analysts)	The natural logarithm of the number of analysts issuing a forecast for company i in year t.
ln(Size)	The natural logarithm of one plus total assets [ln(1 + AT)] (from Compustat).
Leverage	Total long-term debt scaled by total assets [(DLTT + DLC) ÷ AT] (from Compustat).
BTM	The book-to-market ratio [CEQ ÷ MKVALT] (from Compustat).
AbAccruals	Abnormal accruals calculated using the modified Jones method adjusted for company performance (from Compustat).
Receivables	Receivables scaled by total assets [RECT ÷ AT] (from Compustat).

Variable Name	Description
DefRevenue	Deferred revenues scaled by total assets [(DRC +DRLT) ÷ AT] (from Compustat).
ForeignSales	Non-domestic revenues divided by total revenues. Non-domestic revenue is from the Compustat Segments database with a three in the GEOTP field.
Inventory	Inventory scaled by total assets [INVT ÷ AT] (from Compustat).
CurrRatio	The ratio of current assets to current liabilities [ACT ÷ LCT] (from Compustat).
ROA	Income before extraordinary items scaled average total assets over the year [IB ÷ ((AT_t + AT_{t-1}) ÷ 2)] (from Compustat).
IntCam	Equal to '1' if the audit report in the 10-K contains an intangible asset related critical audit matter, and '0' otherwise (from the Audit Analytics Critical Audit Matters database category types 26, 30, 27 and 14).
M&ACam	Equal to '1' if the audit report in the 10-K contains a merger or acquisition related critical audit matter, and '0' otherwise (from the Audit Analytics Critical Audit Matters database category types 6, 76 and 9).

**Compustat variables are in brackets*

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Table 1
Sample Selection and Industry Statistics

Panel A: Sample Attrition

	Number of Observations
U.S.-based companies in the Audit Analytics Audit Opinion database with fiscal year ends between June 30, 2019 and December 31, 2022.	34,678
Less: Non-large accelerated filers with fiscal year ends before December 15, 2020.	(4,529)
Less: Observations without financial data in Compustat	(17,343)
Less: Observations without stock return data in CRSP.	(1,899)
Less: Observations without analyst forecast data in I/B/E/S	(2,207)
Less: Companies in the financial services industry (SIC codes 6000 to 6999) or utilities industry (SIC codes 4900 to 4999).	(2,176)
Less: Companies without available data in Compustat for period t-1.	(15)
Less: Companies with missing net income or cash flow from operations data or companies with assets of less than $10 million.	(28)
Less: Companies with less than ten observations in the same industry in the same fiscal year.	(184)
Final Sample	**6,297**

Panel B: Industry Statistics

	Observations with a Stock Price Crash		**Observations without a Stock Price Crash**		**Observations with a Revenue CAM**		**Observations without a Revenue CAM**	
	n	%	*n*	%	*n*	%	*n*	%
Mining	25	1.9%	172	3.5%	60	3.5%	137	3.0%
Food	35	2.6%	124	2.5%	34	2.0%	125	2.7%
Textile	52	3.9%	161	3.3%	30	1.8%	183	4.0%
Chemical	37	2.8%	164	3.3%	20	1.2%	181	3.9%
Pharmaceuticals	300	22.3%	835	16.9%	300	17.5%	835	18.2%
Extraction	37	2.8%	206	4.2%	13	0.8%	230	5.0%
Durable Goods	274	20.4%	1,094	22.1%	339	19.8%	1,029	22.4%
Transportation	55	4.1%	252	5.1%	57	3.3%	250	5.5%
Retail	111	8.3%	552	11.1%	66	3.9%	597	13.0%
Service	126	9.4%	463	9.3%	186	10.9%	403	8.8%
Computers	292	21.7%	923	18.6%	604	35.3%	611	13.3%
Other	1	0.1%	6	0.1%	4	0.2%	3	0.1%
Total	1,345	100.0%	4,952	100.0%	1,713	100.0%	4,584	100.0%

Table 2
Descriptive Statistics

Panel A: Lawsuits Announced Following the Release of the 10-K

Days After the Release of the 10-K	Observations with a Stock Price Crash	Observations without a Stock Price Crash	Test of Means
30 days	0.022	0.010	2.67***
60 days	0.032	0.020	2.35**
90 days	0.045	0.029	2.61***
120 days	0.054	0.039	2.26**
150 days	0.063	0.047	2.19**
180 days	0.072	0.054	2.35**

Panel B: Comparisons of Means

	Observations With and Without a Stock Price Crash			Observations With and Without a Revenue CAM		
Variable	**Price Crash**	**No Price Crash**	**(t-value)**	**Revenue CAM**	**No Revenue CAM**	**(t-value)**
RevenueCam	0.320	0.259	4.34***			
PriceCrash				0.252	0.199	4.34***
OtherCams	0.911	0.907	0.17	0.562	1.036	23.33***
Big4	0.818	0.786	2.63***	0.834	0.778	5.13***
Tenure (years)	10.379	10.560	0.79	11.245	10.251	4.88***
NewAuditor	0.109	0.114	0.53	0.068	0.129	7.86***
MW	0.070	0.064	0.72	0.053	0.070	2.59***
NasFeeRatio	0.117	0.118	0.18	0.123	0.115	2.09**
AuditFees (millions)	3.196	3.166	0.22	3.661	2.990	5.14***
GoingConcern	0.037	0.024	2.35**	0.020	0.029	2.29**
Beat	0.613	0.617	0.22	0.647	0.604	3.07***
Analysts	10.516	10.415	0.40	12.249	9.760	10.09***
Size (billions)	6.731	7.623	1.54	8.380	7.078	2.20**
Leverage	0.306	0.295	1.48	0.299	0.297	0.39
BTM	0.391	0.374	1.48	0.292	0.409	12.78***
AbAccruals	0.107	0.115	1.52	0.091	0.121	7.25***
Receivables	0.100	0.103	1.05	0.132	0.091	15.00***
DefRevenue	0.045	0.041	1.48	0.081	0.028	19.17***
ForeignSales	0.564	0.563	0.06	0.618	0.543	3.81***
Inventory	0.068	0.080	4.04***	0.055	0.086	12.05***
SalesGrowth	0.170	0.185	0.44	0.295	0.140	5.08***
CurrRatio	3.995	3.969	0.16	2.879	4.384	13.05***
ROA	-0.101	-0.072	3.33***	-0.037	-0.093	8.75***
n	1,345	4,952		1,713	4,584	

*See Appendix B for variable description and calculations. All continuous variables are winsorized at the top and bottom 1%. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively.*

Table 3
Correlation Matrix

Variable	*Lawsuit*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1. PriceCrash	**0.03**																						
2. RevenueCam	**0.04**	**0.06**																					
3. OtherCams	0.01	0.00	**-0.27**																				
4. Big4	**0.04**	**0.03**	**0.06**	**0.10**																			
5. ln(Tenure)	0.01	0.00	**0.09**	**0.27**	**0.27**																		
6. NewAuditor	0.00	-0.01	**-0.09**	**-0.15**	**-0.15**	**-0.66**																	
7. MW	0.00	0.01	**-0.03**	0.00	**-0.18**	**-0.19**	**0.14**																
8. NasFeeRatio	**0.03**	0.00	**0.03**	**0.08**	**0.09**	**0.05**	0.01	-0.02															
9. ln(AuditFees)	**0.07**	0.00	**0.11**	**0.29**	**0.52**	**0.33**	**-0.17**	**-0.11**	**0.15**														
10. GoingConcern	-0.01	**0.03**	**-0.03**	**-0.08**	**-0.10**	**-0.11**	**0.06**	**0.11**	0.00	**-0.16**													
11. Beat	0.00	0.00	**0.04**	**0.06**	**0.09**	**0.14**	**-0.08**	**-0.10**	**0.03**	**0.13**	**-0.07**												
12. ln(Analysts)	**0.07**	0.02	**0.13**	**0.19**	**0.42**	**0.32**	**-0.23**	**-0.18**	**0.12**	**0.55**	**-0.14**	**0.16**											
13. ln(Size)	**0.08**	-0.02	**0.07**	**0.36**	**0.48**	**0.44**	**-0.21**	**-0.18**	**0.18**	**0.81**	**-0.25**	**0.18**	**0.67**										
14. Leverage	0.00	0.02	0.00	**0.20**	**0.16**	**0.15**	**-0.08**	**-0.03**	**0.06**	**0.27**	**0.03**	**0.03**	**0.18**	**0.32**									
15. BTM	**-0.03**	0.02	**-0.14**	**0.12**	**-0.08**	**0.03**	0.00	0.01	**-0.06**	**-0.06**	**-0.04**	**-0.03**	**-0.21**	0.02	**-0.15**								
16. AbAccruals	0.01	-0.02	**-0.08**	**-0.17**	**-0.16**	**-0.32**	**0.26**	**0.15**	0.00	**-0.24**	**0.14**	**-0.13**	**-0.24**	**-0.32**	**-0.15**	**-0.06**							
17. Receivables	0.00	-0.01	**0.20**	0.01	**-0.05**	**0.17**	**-0.08**	-0.02	0.00	**0.13**	**-0.08**	**0.10**	**-0.08**	**0.07**	-0.01	0.02	**-0.15**						
18. DefRevenue	0.01	0.02	**0.29**	**-0.17**	**0.04**	0.00	**-0.03**	**-0.03**	-0.01	**0.03**	**0.04**	**0.05**	**0.09**	**-0.04**	**-0.05**	**-0.21**	**0.05**	**0.06**					
19. ForeignSales	0.00	0.00	**0.05**	**0.16**	**0.12**	**0.19**	**-0.09**	**-0.07**	**0.12**	**0.39**	**-0.08**	**0.10**	**0.19**	**0.30**	**0.04**	**-0.05**	**-0.16**	**0.16**	**0.03**				
20. Inventory	-0.02	**-0.05**	**-0.13**	**0.12**	**-0.03**	**0.16**	**-0.05**	-0.01	**-0.04**	**0.03**	**-0.06**	**0.07**	**-0.09**	**0.08**	**0.06**	**0.11**	**-0.11**	**0.19**	**-0.16**	**0.10**			
21. SalesGrowth	0.01	-0.01	**0.06**	**-0.04**	-0.02	**-0.03**	0.02	**0.05**	-0.01	**-0.03**	**0.04**	0.00	0.02	-0.02	**-0.03**	**-0.06**	**0.08**	0.01	**0.10**	**-0.04**	**-0.03**		
22. CurrRatio	-0.01	0.00	**-0.12**	**-0.24**	**-0.12**	**-0.31**	**0.18**	**0.04**	**-0.06**	**-0.33**	-0.02	**-0.13**	**-0.21**	**-0.37**	**-0.38**	0.00	**0.26**	**-0.30**	**-0.15**	**-0.19**	**-0.21**	**-0.05**	
23. ROA	0.02	**-0.04**	**0.09**	**0.21**	**0.16**	**0.38**	**-0.23**	**-0.16**	**0.06**	**0.35**	**-0.35**	**0.22**	**0.25**	**0.50**	**0.14**	**0.05**	**-0.47**	**0.30**	**-0.04**	**0.23**	**0.25**	**0.06**	**-0.34**

Lawsuit is an indicator variable equal to '1' if a lawsuit is initiated within sixty days after the release of the 10-K, and '0' otherwise. See Appendix B for additional variable descriptions and calculations. All continuous variables are winsorized at the top and bottom 1%. Pearson correlations significant at p-value less than or equal to 0.05 (two-tailed) are in bold.

Table 4
Likelihood of a Lawsuit when a Company has a Revenue CAM and a Stock Price Crash

Panel A: Lawsuits initiated within 60 days following the release of the 10-K

	Stock Price Crash		
Revenue CAM	*Stock Price Crash*	*No Stock Price Crash*	**t-value**
Revenue CAM	24 of 431 (5.6%)	30 of 1,282 (2.3%)	**2.73*** **
No Revenue CAM	19 of 914 (2.1%)	68 of 3,670 (1.9%)	**0.43**
t-value	**2.90*** **	**1.02**	

Panel B: Lawsuits initiated within 120 days following the release of the 10-K

	Stock Price Crash		
Revenue CAM	*Stock Price Crash*	*No Stock Price Crash*	**t-value**
Revenue CAM	35 of 431 (8.1%)	57 of 1,282 (4.5%)	**2.56*** **
No Revenue CAM	38 of 914 (4.2%)	136 of 3,670 (3.7%)	**0.62**
t-value	**2.69*** **	**1.13**	

Panel C: Lawsuits initiated within 180 days following the release of the 10-K

	Stock Price Crash		
Revenue CAM	*Stock Price Crash*	*No Stock Price Crash*	**t-value**
Revenue CAM	40 of 431 (9.3%)	81 of 1,282 (6.3%)	**1.90***
No Revenue CAM	57 of 914 (6.2%)	186 of 3,670 (5.1%)	**1.33**
t-value	**1.89***	**1.62**	

*See Appendix B for variable description and calculations. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively.*

Table 5
Logistic Regression of the Likelihood of a Lawsuit when a Company has a Revenue CAM and a Stock Price Crash

Variable	$Lawsuit_{60\ days}$		$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$	
	Coefficient	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**
Intercept	-15.851	-7.57***	-15.854	-7.62***	-17.191	-10.38***	-16.477	-11.32***
PriceCrash	0.451	2.51***	0.096	0.37	0.079	0.42	0.183	1.17
RevenueCam	0.130	0.54	-0.135	-0.50	-0.110	-0.57	-0.013	-0.08
PriceCrash × RevenueCam			0.807	2.13**	0.568	1.95**	0.210	0.80
OtherCams	-0.089	-0.65	-0.084	-0.61	-0.030	-0.31	-0.059	-0.70
Big4	0.133	0.42	0.114	0.36	-0.126	-0.54	-0.291	-1.50
ln(Tenure)	-0.019	-0.14	-0.019	-0.13	-0.088	-0.85	0.015	0.15
NewAuditor	0.449	1.14	0.453	1.16	0.016	0.05	0.317	1.25
MW	0.470	1.28	0.462	1.24	0.531	1.95*	0.399	1.70*
NasFeeRatio	0.143	0.22	0.100	0.15	0.034	0.07	0.016	0.04
ln(AuditFees)	-0.120	-0.72	-0.105	-0.64	0.066	0.52	0.075	0.66
GoingConcern	0.770	1.16	0.774	1.17	0.667	1.50	0.758	2.09**
Beat	-0.209	-1.08	-0.211	-1.09	-0.172	-1.25	-0.193	-1.68*
ln(Analysts)	0.198	1.12	0.198	1.12	0.326	2.31**	0.220	1.81*
ln(Size)	0.474	3.53***	0.472	3.53***	0.329	3.42***	0.282	3.20***
Leverage	-0.803	-1.57	-0.796	-1.55	-0.841	-2.24**	-0.383	-1.22
BTM	-0.234	-0.74	-0.191	-0.60	-0.316	-1.27	-0.456	-2.13**
AbAccruals	0.966	1.65*	0.969	1.67*	0.697	1.64*	0.415	1.08
Receivables	1.124	1.00	1.071	0.95	-1.286	-1.32	-1.167	-1.42
DefRevenue	-0.247	-0.22	-0.206	-0.18	0.481	0.63	-0.265	-0.38
ForeignSales	-0.465	-2.84***	-0.468	-2.85***	-0.426	-3.35***	-0.335	-3.12***
Inventory	0.390	0.28	0.314	0.23	0.671	0.67	0.619	0.76
SalesGrowth	0.005	0.08	0.008	0.12	-0.014	-0.25	0.024	0.51
CurrRatio	0.007	0.34	0.007	0.31	0.002	0.09	-0.012	-0.70
ROA	0.021	0.04	0.005	0.01	-0.170	-0.39	-0.235	-0.63
Industry Fixed Effects	Yes		Yes		Yes		Yes	
Year Fixed Effects	Yes		Yes		Yes		Yes	
Test: PriceCrash + PriceCrash × RevenueCam > 0			*p < 0.01*		*p < 0.01*		*p < 0.05*	
Pseudo R^2	0.092		0.095		0.086		0.071	
N	6,297		6,297		6,297		6,297	

*In Table 5, the dependent variable is Lawsuit which is equal to '1' if a lawsuit is initiated following the release of the 10-K. See Appendix B for all other variable definitions. The model is estimated using a logistic regression model with standard errors cluster by company. All continuous variables are winsorized at the top and bottom 1%. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively, for one-tailed tests where predicted and two-tailed otherwise.*

Table 6
Logistic Regression of the Likelihood of a Lawsuit when a Company has a Revenue CAM and a Stock Price Crash
Positive and Negative Sales Growth

	Positive Sales Growth						Negative Sales Growth					
	$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$		$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$	
Variable	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**
Intercept	-13.184	-5.47***	-14.941	-7.24***	-15.266	-8.76***	-17.251	-4.01***	-16.001	-5.38***	-14.350	-5.50***
PriceCrash	0.077	0.23	0.102	0.42	0.213	1.05	-0.006	-0.01	-0.013	-0.04	0.117	0.44
RevenueCam	-0.329	-1.03	-0.239	-1.06	-0.167	-0.85	0.305	0.60	-0.011	-0.03	0.233	0.76
PriceCrash × RevenueCam	0.583	1.19	0.296	0.80	-0.053	-0.16	1.238	1.89**	1.236	2.43***	0.785	1.78**
OtherCams	-0.057	-0.33	-0.074	-0.59	-0.110	-1.06	-0.178	-0.68	0.027	0.17	-0.013	-0.10
Big4	-0.001	0.00	-0.229	-0.80	-0.400	-1.72*	0.474	0.78	0.187	0.47	0.008	0.02
ln(Tenure)	-0.169	-1.09	-0.247	-2.15**	-0.190	-1.73*	0.265	0.81	0.125	0.57	0.369	1.93*
NewAuditor	0.295	0.66	-0.197	-0.53	0.115	0.39	0.838	1.08	0.255	0.43	0.718	1.37
MW	-0.218	-0.40	0.215	0.59	0.146	0.48	1.508	2.71***	1.039	2.41**	0.905	2.44**
NasFeeRatio	-0.241	-0.29	-0.540	-0.86	-0.608	-1.13	1.122	0.98	0.877	1.00	1.079	1.44
ln(AuditFees)	-0.152	-0.93	0.061	0.41	0.056	0.43	-0.075	-0.18	0.077	0.29	0.089	0.38
GoingConcern	1.117	1.22	0.816	1.18	1.315	2.70***	-0.488	-0.50	0.245	0.39	-0.186	-0.31
Beat	-0.153	-0.62	-0.142	-0.82	-0.171	-1.20	-0.304	-0.93	-0.192	-0.84	-0.220	-1.11
ln(Analysts)	0.401	1.88*	0.533	3.05***	0.303	1.94*	-0.145	-0.49	0.091	0.45	0.142	0.77
ln(Size)	0.470	3.68***	0.370	3.53***	0.374	3.81***	0.511	1.65*	0.219	1.17	0.101	0.62
Leverage	-1.372	-2.05**	-1.093	-2.30**	-0.452	-1.15	0.415	0.53	-0.350	-0.55	-0.356	-0.69
BTM	0.337	0.81	0.185	0.58	-0.267	-0.89	-0.687	-1.23	-0.786	-1.80*	-0.632	-1.96**
AbAccruals	1.604	2.23**	1.188	2.06**	0.804	1.60	-0.323	-0.38	-0.407	-0.53	-0.501	-0.74
Receivables	1.275	0.89	-0.627	-0.54	-0.245	-0.26	0.337	0.18	-2.860	-1.59	-3.456	-2.17**
DefRevenue	-0.845	-0.63	0.576	0.66	-0.194	-0.25	2.067	0.85	1.034	0.62	-0.739	-0.44
ForeignSales	-0.635	-3.29***	-0.528	-3.83***	-0.382	-3.11***	-0.311	-1.00	-0.334	-1.36	-0.333	-1.70*
Inventory	-0.233	-0.12	0.949	0.77	0.946	0.97	-0.563	-0.24	-0.392	-0.22	-0.519	-0.32
SalesGrowth	-0.091	-1.03	-0.088	-1.14	-0.043	-0.67	1.219	1.96**	0.807	1.57	0.811	1.88*
CurrRatio	0.021	0.69	0.019	0.74	-0.003	-0.15	0.038	1.20	0.020	0.75	0.006	0.24
ROA	0.116	0.15	0.341	0.57	-0.073	-0.14	-1.227	-1.28	-1.177	-1.85*	-0.967	-1.70*
Industry Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
Year Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
PriceCrash + PriceCrash × RevenueCam > 0	*p < 0.05*		*p < 0.10*		*p = 0.26*		*p < 0.01*		*p < 0.01*		*p < 0.01*	

Pseudo R^2	0.114		0.113		0.056		0.176		0.099		0.083	
N	4,072		4,072		4,072		2,225		2,225		2,225	

*In Table 7, the dependent variable is Lawsuit which is equal to '1' if a lawsuit is initiated following the release of the 10-K. See Appendix B for all other variable definitions. The model is estimated using a logistic regression model with standard errors cluster by company. All continuous variables are winsorized at the top and bottom 1%. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively, for one-tailed tests where predicted and two-tailed otherwise.*

Table 7
Logistic Regression of the Likelihood of a Lawsuit when a Company has a Revenue CAM and a Stock Price Crash
High and Low Revenue Quality

	High Revenue Quality						Low Revenue Quality					
	$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$		$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$	
Variable	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**
Intercept	-22.445	-5.57***	-20.082	-7.99***	-18.083	-8.49***	4.638	1.55	-0.165	-0.07	-1.557	-0.67
PriceCrash	0.227	0.66	0.176	0.67	0.132	0.58	-0.363	-0.64	-0.414	-0.98	0.053	0.17
RevenueCam	-0.222	-0.58	-0.297	-1.06	-0.349	-1.37	-0.140	-0.34	0.146	0.53	0.280	1.14
PriceCrash × RevenueCam	0.634	1.11	0.657	1.52*	0.526	1.32*	1.649	2.34***	1.037	1.96**	0.264	0.61
OtherCams	-0.174	-0.88	-0.040	-0.29	-0.095	-0.74	-0.097	-0.43	-0.113	-0.72	-0.191	-1.33
Big4	0.425	0.59	-0.142	-0.34	-0.190	-0.58	0.543	1.22	0.350	1.06	0.028	0.10
ln(Tenure)	0.111	0.53	0.034	0.21	0.027	0.18	-0.267	-1.07	-0.255	-1.55	-0.127	-0.86
NewAuditor	0.367	0.54	0.043	0.08	0.412	1.05	0.379	0.64	-0.091	-0.20	0.117	0.31
MW	-1.169	-0.97	0.286	0.59	0.277	0.71	0.850	1.69*	0.580	1.42	0.554	1.62
NasFeeRatio	2.229	2.33**	0.801	1.08	0.526	0.78	-1.713	-1.60	-0.724	-0.87	-0.431	-0.60
ln(AuditFees)	0.297	0.83	0.269	1.27	0.105	0.60	-0.683	-2.91***	-0.242	-1.21	-0.083	-0.41
GoingConcern	-7.718	-9.67***	-0.632	-0.54	0.829	1.46	1.405	1.68*	1.253	2.00**	0.699	1.17
Beat	-0.148	-0.50	-0.102	-0.49	-0.166	-0.94	-0.320	-1.03	-0.142	-0.63	-0.202	-1.08
ln(Analysts)	0.311	1.29	0.472	2.14**	0.344	1.95*	0.164	0.59	0.432	2.05**	0.341	1.79*
ln(Size)	0.278	1.22	0.249	1.70*	0.300	2.34**	0.512	2.88***	0.226	1.58	0.188	1.33
Leverage	0.130	0.17	-0.286	-0.47	0.248	0.51	-2.349	-2.72***	-1.202	-2.40**	-1.071	-2.40**
BTM	0.439	0.98	0.366	1.08	0.163	0.54	-0.996	-2.25**	-0.994	-2.61***	-1.094	-3.06***
AbAccruals	1.581	1.45	1.066	1.39	0.509	0.79	1.354	1.72*	0.442	0.60	0.654	1.09
Receivables	1.180	0.59	-1.913	-1.02	0.072	0.05	0.332	0.18	-0.894	-0.70	-1.640	-1.41
DefRevenue	1.599	0.91	2.379	2.01**	1.716	1.72*	-1.036	-0.65	-0.643	-0.57	-2.099	-1.91*
ForeignSales	-0.227	-0.99	-0.197	-1.11	-0.150	-0.95	-0.544	-1.82*	-0.427	-2.09**	-0.359	-2.08**
Inventory	1.730	0.88	0.794	0.48	-0.059	-0.04	1.566	0.75	1.332	0.90	1.042	0.89
SalesGrowth	0.053	0.58	0.037	0.45	0.125	1.88*	-0.220	-2.81***	-0.068	-0.74	-0.089	-1.09
CurrRatio	0.043	1.43	0.012	0.45	-0.004	-0.16	-0.102	-1.78*	-0.054	-1.25	-0.075	-1.88*
ROA	-0.458	-0.42	-0.640	-0.86	-0.639	-1.01	1.316	1.57	0.946	1.40	0.481	0.85
Industry Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
Year Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
PriceCrash + PriceCrash × RevenueCam > 0	*p <0.05*		*p < 0.01*		*p < 0.05*		*p < 0.01*		*p < 0.05*		*p = 0.14*	

Pseudo R^2	0.140		0.115		0.101		0.142		0.104		0.084	
N	2,530		2,530		2,530		2,530		2,530		2,530	

*In Table 8, the dependent variable is Lawsuit which is equal to '1' if a lawsuit is initiated following the release of the 10-K. See Appendix B for all other variable definitions. The model is estimated using a logistic regression model with standard errors cluster by company. All continuous variables are winsorized at the top and bottom 1%. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively, for one-tailed tests where predicted and two-tailed otherwise.*

Table 8
Logistic Regression of the Likelihood of a Lawsuit when a Company has a Revenue CAM
Price Crash Sample

	All Observations						Entropy Balanced Sample					
	$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$		$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$	
Variable	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**z-score**	**Coef.**	**z-score**	**Coef.**	**z-score**
Intercept	-13.979	-3.20***	-14.287	-4.02***	-13.197	-4.19***	-11.335	-2.53***	-17.213	-3.13***	-18.868	-3.89***
RevenueCam	0.902	2.22**	0.635	2.10**	0.375	1.44*	0.720	1.80**	0.454	1.30*	0.293	0.82
OtherCams	-0.075	-0.31	-0.013	-0.07	-0.119	-0.69	0.246	0.70	0.115	0.44	-0.060	-0.24
Big4	0.284	0.54	-0.161	-0.38	-0.392	-1.10	0.685	1.11	0.619	0.87	0.892	1.48
ln(Tenure)	-0.025	-0.09	-0.066	-0.33	0.161	0.83	-0.237	-0.64	-0.654	-1.87*	-0.647	-1.94*
NewAuditor	0.416	0.56	0.062	0.11	0.678	1.39	0.828	0.98	-0.386	-0.38	0.103	0.12
MW	-0.224	-0.33	-0.087	-0.17	-0.228	-0.47	-0.928	-1.01	-0.872	-1.08	-1.087	-1.36
NasFeeRatio	-1.575	-1.21	-1.901	-1.75*	-1.969	-2.15**	-5.482	-2.77***	-2.972	-1.71*	-3.465	-2.20**
ln(AuditFees)	-0.217	-0.57	-0.043	-0.14	-0.016	-0.06	-0.776	-2.00**	-0.218	-0.44	-0.045	-0.10
GoingConcern	1.665	1.86*	0.629	0.78	0.831	1.44	4.107	3.56***	2.572	2.42**	3.008	2.99***
Beat	-0.514	-1.44	-0.211	-0.78	-0.242	-1.03	-0.946	-1.91*	-0.525	-1.24	-0.602	-1.52
ln(Analysts)	0.057	0.20	0.076	0.31	-0.157	-0.79	-0.198	-0.56	-0.193	-0.65	-0.454	-1.68*
ln(Size)	0.451	1.75*	0.429	2.24**	0.390	2.39**	0.721	2.37**	0.520	1.71*	0.505	1.85*
Leverage	0.506	0.75	-0.546	-0.89	-0.453	-0.90	0.889	0.96	-1.059	-1.03	-1.010	-1.13
BTM	0.475	1.25	-0.277	-0.77	-0.444	-1.36	0.643	0.75	0.444	0.58	0.465	0.66
AbAccruals	-0.234	-0.20	-0.342	-0.37	-0.932	-1.20	0.729	0.48	1.076	0.80	1.079	0.88
Receivables	-1.576	-0.70	-5.080	-2.29**	-3.484	-1.97**	0.020	0.01	-2.452	-0.90	-2.093	-0.90
DefRevenue	1.898	1.11	1.597	1.31	0.135	0.11	1.498	0.76	2.198	1.48	1.175	0.73
ForeignSales	-0.163	-0.59	-0.357	-1.60	-0.181	-0.99	0.405	1.42	0.181	0.65	0.087	0.34
Inventory	3.642	1.36	3.368	1.50	1.940	0.96	3.858	1.22	4.016	1.72*	3.326	1.52
SalesGrowth	-13.979	-3.20***	-0.008	-0.07	0.110	1.35	0.111	0.67	-0.066	-0.35	-0.085	-0.47
CurrRatio	0.902	2.22**	0.009	0.27	0.010	0.31	0.029	0.48	0.014	0.28	-0.002	-0.04
ROA	-0.075	-0.31	-0.518	-0.60	-0.609	-0.86	1.864	1.14	0.804	0.64	1.816	1.41
Industry Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
Year Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
Pseudo R^2	0.132		0.100		0.086		0.217		0.136		0.184	
N	1,345		1,345		1,345		1,345		1,345		1,345	

*In Table 8, the dependent variable is Lawsuit which is equal to '1' if a lawsuit is initiated following the release of the 10-K. See Appendix B for all other variable definitions. The model is estimated using a logistic regression model with standard errors cluster by company. All continuous variables are winsorized at the top and bottom 1%. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively, for one-tailed tests where predicted and two-tailed otherwise.*

Table 9
Logistic Regression of the Likelihood of a Lawsuit when a Company has a Revenue CAM and a Stock Price Crash
Intangible and M&A CAMs

	Intangible CAMs						M&A CAMs					
	$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$		$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$	
Variable	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**	**Coef.**	**t-value**
Intercept	-15.645	-7.47***	-17.099	-10.26***	-16.486	-11.27***	-15.790	-7.54***	-17.139	-10.31***	-16.474	-11.31***
PriceCrash	0.487	2.34**	0.297	1.82**	0.242	1.69**	0.633	3.27***	0.417	2.72***	0.385	2.91***
IntCam	0.177	0.60	0.001	0.01	-0.158	-0.83						
M&ACam							0.210	0.76	-0.020	-0.09	-0.008	-0.04
PriceCrash × IntCam	-0.118	-0.28	0.039	0.12	0.108	0.37						
PriceCrash × M&ACam							-1.195	-2.18**	-0.763	-1.82*	-0.851	-2.24**
OtherCams	-0.080	-0.51	-0.026	-0.26	-0.036	-0.42	0.027	0.18	0.059	0.57	0.029	0.32
Big4	0.140	0.44	-0.113	-0.48	-0.286	-1.47	0.155	0.49	-0.097	-0.41	-0.275	-1.40
ln(Tenure)	-0.023	-0.16	-0.090	-0.87	0.016	0.16	-0.036	-0.26	-0.104	-1.00	0.001	0.01
NewAuditor	0.446	1.15	0.008	0.03	0.315	1.24	0.462	1.18	0.018	0.06	0.324	1.27
MW	0.472	1.27	0.538	1.97**	0.404	1.72*	0.465	1.27	0.546	2.00**	0.410	1.74*
NasFeeRatio	0.138	0.21	0.058	0.11	0.030	0.07	0.171	0.27	0.080	0.16	0.044	0.10
ln(AuditFees)	-0.131	-0.79	0.056	0.43	0.073	0.64	-0.123	-0.74	0.058	0.45	0.072	0.63
GoingConcern	0.765	1.15	0.663	1.49	0.755	2.08**	0.729	1.10	0.641	1.44	0.734	2.03**
Beat	-0.216	-1.12	-0.175	-1.27	-0.194	-1.68*	-0.208	-1.08	-0.171	-1.24	-0.190	-1.65*
ln(Analysts)	0.219	1.23	0.335	2.36**	0.222	1.83*	0.214	1.20	0.332	2.35**	0.226	1.86*
ln(Size)	0.472	3.50***	0.329	3.39***	0.283	3.21***	0.460	3.41***	0.318	3.27***	0.273	3.07***
Leverage	-0.824	-1.59	-0.846	-2.25**	-0.368	-1.17	-0.788	-1.56	-0.848	-2.28**	-0.387	-1.24
BTM	-0.300	-0.93	-0.356	-1.41	-0.453	-2.11**	-0.263	-0.83	-0.360	-1.46	-0.481	-2.27**
AbAccruals	0.975	1.68*	0.692	1.62	0.400	1.04	0.957	1.65*	0.694	1.63	0.411	1.07
Receivables	1.336	1.23	-1.148	-1.20	-1.038	-1.30	1.322	1.22	-1.204	-1.26	-1.094	-1.36
DefRevenue	0.022	0.02	0.558	0.75	-0.186	-0.27	-0.070	-0.07	0.477	0.65	-0.229	-0.34
ForeignSales	-0.481	-2.99***	-0.430	-3.42***	-0.339	-3.17***	-0.478	-2.98***	-0.431	-3.44***	-0.343	-3.22***
Inventory	0.353	0.25	0.691	0.69	0.601	0.73	0.293	0.21	0.588	0.59	0.542	0.66
SalesGrowth	0.005	0.07	-0.015	-0.26	0.025	0.54	0.004	0.06	-0.015	-0.26	0.024	0.52
CurrRatio	0.007	0.33	0.002	0.11	-0.013	-0.71	0.008	0.36	0.002	0.10	-0.012	-0.69
ROA	0.095	0.16	-0.140	-0.32	-0.228	-0.61	0.080	0.13	-0.112	-0.26	-0.190	-0.51

Industry Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
Year Fixed Effects	Yes		Yes		Yes		Yes		Yes		Yes	
PriceCrash + PriceCrash × IntCam > 0	*p =0.16*		*p =0.12*		*p < 0.10*							
PriceCrash + PriceCrash × M&ACam > 0							*p =0.73*		*p =0.63*		*p =0.81*	
Pseudo R^2	0.092		0.084		0.071		0.094		0.086		0.073	
N	6,297		6,297		6,297		6,297		6,297		6,297	

*In Table 9, the dependent variable is Lawsuit which is equal to '1' if a lawsuit is initiated following the release of the 10-K. See Appendix B for all other variable definitions. The model is estimated using a logistic regression model with standard errors cluster by company. All continuous variables are winsorized at the top and bottom 1%. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively, for one-tailed tests where predicted and two-tailed otherwise.*

Table 10
Logistic Regression of the Likelihood of a Lawsuit Within Sixty Days Following the Release of the 10-K
Matched on Industry and Total Assets

Variable	$Lawsuit_{60\ days}$		$Lawsuit_{60\ days}$		$Lawsuit_{120\ days}$		$Lawsuit_{180\ days}$	
	Coefficient	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**	**Coefficient**	**t-value**
Intercept	-2.184	-0.62	-2.881	-0.79	-5.754	-1.87*	-6.154	-2.12**
PriceCrash	0.673	2.24**	-1.458	-1.33	-0.359	-0.73	0.063	0.17
RevenueCam	0.656	1.53	0.038	0.08	-0.234	-0.74	-0.240	-0.95
PriceCrash × RevenueCam			2.730	2.34***	1.001	1.78**	0.360	0.82
OtherCams	0.172	0.71	0.172	0.72	-0.012	-0.07	0.020	0.15
Big4	0.921	1.81*	0.817	1.56	0.464	1.22	-0.077	-0.19
ln(Tenure)	-0.124	-0.48	-0.100	-0.39	-0.192	-1.13	-0.005	-0.03
NewAuditor	-0.011	-0.02	-0.037	-0.05	-0.673	-1.29	-0.299	-0.77
MW	0.666	1.16	0.596	1.01	0.339	0.71	0.054	0.12
NasFeeRatio	0.007	0.01	-0.044	-0.04	-0.436	-0.52	-0.365	-0.51
ln(AuditFees)	-0.356	-1.35	-0.289	-1.08	0.212	0.83	0.311	1.27
GoingConcern	1.217	1.25	1.229	1.22	1.362	2.09**	1.318	2.00**
Beat	-0.018	-0.05	0.029	0.08	-0.086	-0.35	-0.243	-1.15
ln(Analysts)	0.309	0.88	0.315	0.90	0.326	1.39	0.183	0.95
ln(Size)	0.321	1.43	0.311	1.41	0.051	0.29	-0.022	-0.14
Leverage	-1.367	-1.85*	-1.327	-1.81*	-0.773	-1.45	-0.013	-0.03
BTM	-0.291	-0.59	-0.023	-0.04	-0.112	-0.27	0.022	0.06
AbAccruals	2.003	2.48**	2.069	2.60***	1.172	1.71*	1.054	1.75*
Receivables	0.371	0.15	0.582	0.24	-2.657	-1.54	-2.039	-1.61
DefRevenue	-0.217	-0.16	-0.117	-0.08	0.544	0.54	0.199	0.21
ForeignSales	-0.285	-0.97	-0.312	-1.06	-0.453	-1.79*	-0.208	-1.07
Inventory	1.663	0.57	1.860	0.61	0.874	0.41	-1.663	-0.86
SalesGrowth	-0.118	-1.36	-0.121	-1.44	-0.069	-0.72	-0.045	-0.60
CurrRatio	-0.042	-0.77	-0.041	-0.76	-0.057	-1.37	-0.033	-1.05
ROA	0.394	0.49	0.328	0.39	0.508	0.68	0.631	1.08
Industry Fixed Effects	Yes		Yes		Yes		Yes	
Year Fixed Effects	Yes		Yes		Yes		Yes	

Test: PriceCrash + PriceCrash × RevenueCam > 0			*p < 0.01*		*p < 0.05*		*p < 0.05*	
Pseudo R^2	0.121		0.141		0.103		0.072	
N	2,744		2,744		2,744		2,744	

*In Table 10, the dependent variable is Lawsuit which is equal to '1' if a lawsuit is initiated following the release of the 10-K. See Appendix B for all other variable definitions. The model is estimated using a logistic regression model with standard errors cluster by company. All continuous variables are winsorized at the top and bottom 1%. ***, **, * indicate p-value significance at the 0.01, 0.05, and 0.10 levels, respectively, for one-tailed tests where predicted and two-tailed otherwise.*