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How Do Investors Interpret Announcements of Earnings Delays?

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Companies that fail to file a 10-K or 10-Q on time are required by SEC Rule 12b-25 to file a Form NT (NT for non-timely), which provides a narrative explanation for the late filing. No comparable rule exists for earnings announcements, which often precede 10-K or 10-Q filings. Therefore, for companies that are unable to report earnings by their expected date, managers face a decision—remain silent or announce the delay.

Prior research has investigated all earnings delays, whether or not they are accompanied by a delay announcement, and has found that the market reaction is negative, on average, to companies that allow their expected earnings dates to pass without disclosing results. For example, the average two-day cumulative abnormal stock return around the missed expected earnings date has been reported to be -0.3%.[2] It is not clear, however, whether this negative reaction was due to the absence of news, or to the information contained in the announcements of the earnings delays.

The aim of the study described in this article is to shed light on this issue by examining the incidence, timing, information content, and valuation consequences of earnings delay announcements. In so doing, we provide evidence on a previously unstudied corporate disclosure. We also offer insights into the potential motives for managers' decisions to make (or avoid making) such announcements.

Articles in the popular business press tend to suggest that market observers generally view announcements of earnings delays as bad news. For example, one *Wall Street Journal* writer noted that earnings delay announcements can signal "tough sledding ahead."[3]

But finance theorists tell a more complicated story—one that depends on how managers are expected to behave when deciding to make an explicit announcement of an earnings delay or to allow the delay to happen without corporate comment. Robert Verrecchia, for example, has developed a disclosure model in which managers intent on maintaining share values (at least for the near term) disclose private information only when it is sufficiently favorable to outweigh the costs of disclosure.[4] Verrecchia's model implies that managers will make earnings delay announcements in situations where disclosing private information enables them to avoid any potential market penalty associated with their failure to disclose. Now, to the extent this assumption is correct, the market reaction to earnings delay announcements could be either positive or negative; but it would likely be limited on the downside due to investors' implicit approval of management's decision to disclose the delay.

Brett Trueman has developed a modified version of Verrecchia's disclosure model that introduces a specific cost of nondisclosure—namely, legal liability under SEC Rule 10b-5.[5] In that model, expected litigation costs increase as managers' private information becomes more unfavorable. As a result, managers disclose private information not only if it is sufficiently favorable, like Verrecchia's model, but also sufficiently unfavorable in order to limit litigation costs. Trueman's model, therefore, suggests that the market reaction to earnings delays announcements could be negative, perhaps significantly so. This would occur if the factors underlying earnings delays tended to be negative in nature and legal liability concerns caused managers to disclose this information. Although Trueman's model utilizes legal liability as the cost of nondisclosure, other costs, such as managerial reputation, could also produce the same result.

Disclosure theory also predicts whether managers, having decided to announce an earnings delay, provide an explanation of the underlying cause that accurately reflects their views. The so-called "unraveling result" in a disclosure model developed by Sanford Grossman implies that managers have a motive to signal that their companies are not delaying earnings to hide disastrous results.[6] Those companies that

1. The comments and suggestions of Mark Brod, Larry Brown, Mark Bagnoli, Jim Daly, S.P. Kothari, Douglas Schwab, Susan Watts, and the workshop participants at Georgia State University, Charles River Associates, and MIT Sloan are gratefully acknowledged.

2. M. Bagnoli, W. Kross, and S.G. Watts, "The Information in Management's Expected Earnings Report Date: A Day Late, a Penny Short," *Journal of Accounting Research*, Vol. 40, No. 5 (2002), pp. 1257-1296. This paper also documented persistently negative average cumulative abnormal stock returns between the missed expected report date and actual earnings release, ranging up to -1.36% for delays lasting seven or more days. See also J. Begley and P.E. Fischer, "Is There Information in an Earnings Announcement Delay?," *Review of Accounting Studies*, Vol. 3, No. 4 (1998), pp. 347-363.

3. *The Wall Street Journal*, Mar. 4, 2002, "In Enron's Wake, Profit-Report Delays Multiply, Often on Accounting Issues."

4. R. Verrecchia, "Discretionary Disclosure," *Journal of Accounting and Economics*, Vol. 5, No. 3 (1983), pp. 179-194.

5. B. Trueman, "Managerial Disclosures and Shareholder Litigation," *Review of Accounting Studies*, Vol. 2, No. 2 (1997), pp. 181-199.

6. S. Grossman, "The Informational Role of Warranties and Private Disclosure About Product Quality," *Journal of Law and Economics*, Vol. 24, No. 3 (1981), pp. 461-484.

Table 1 **Timing of Earnings Delay Announcements**

Panel A	Calendar year and month distribution of earnings delay announcements				
Year	**Obs.**	**%**	**Month**	**Obs.**	**%**
1995	10	1.8%	Jan	61	11.2%
1996	13	2.4%	Feb	114	20.9%
1997	10	1.8%	Mar	83	15.2%
1998	25	4.6%	Apr	37	6.8%
1999	24	4.4%	May	32	5.9%
2000	29	5.3%	Jun	9	1.7%
2001	28	5.1%	Jul	33	6.1%
2002	40	7.3%	Aug	44	8.1%
2003	45	8.3%	Sep	16	2.9%
2004	51	9.4%	Oct	60	11.0%
2005	93	17.1%	Nov	49	9.0%
2006	78	14.3%	Dec	7	1.3%
2007	59	10.8%	Total	545	100.0%
2008	20	3.7%			
2009	20	3.7%			
Total	545	100.0%			

Panel B	Timing of earnings delay announcements relative to quarter-end, expected report date, and actual earnings announcement				
	Obs.	Mean	Median	25th Percentile	75th Percentile
Number of days since quarter-end	545	40	38	26	51
Number of days since expected report date	517	3	0	-3	7
Number of days until actual earnings announcement	536	45	18	8	40

are in fact concealing disastrous results will experience no benefits (in the form of a higher stock price) from revealing their true situation because the market will infer the worst from managers' decisions not to announce the delay. Thus, given their decision to delay earnings, only managers with the worst private information (e.g., knowledge of disastrous results) are expected not to disclose their true motive for delaying earnings. For much the same reason, we expect earnings delays without stated explanations for the delays to experience the most negative market reactions.

Data

We constructed a sample of earnings delay announcements using a keyword search of the Dow Jones Factiva database between January 1, 1995 and December 31, 2009.[7] After reviewing the resulting articles for pertinence, we eliminated observations due to a lack of stock return data or a stock price under $5 on the day before the earnings delay announcement. Our final sample consisted of 545 earnings delay announcements.

Panel A of Table 1 shows the distribution of earnings delay announcements across calendar years and months. The number of observations per year generally increased over the sample period, with the maximum occurring in 2005. As for variation throughout the year, two trends emerge. First, June, September, and December contained the fewest observations, which is likely due to the fact that companies with December 31 fiscal year-ends rarely report earnings during these months. Second, the first three months of the calendar year contained 47% of the sample, suggesting that annual earnings are more likely than interim periods to be explicitly delayed.

When benchmarked against data in prior research, the incidence of earnings delay announcements are rare. Specifically, only an estimated 2% of earnings delays appear to be announced.[8] This relatively low percentage suggests that

7. Specifically, we searched headlines from Business Wire, PR Newswire, Dow Jones News Service, Reuters News, and *The Wall Street Journal* in the Factiva database using the following search command: (delay* or postpone* or defer*) and (report* or announce* or earnings or results or release).

8. We calculated this figure by dividing 58 earnings delay announcements by the 3,430 delayed earnings reports in M. Bagnoli, W. Kross, and S.G. Watts, "The Information in Management's Expected Earnings Report Date: A Day Late, a Penny Short," *Journal of Accounting Research*, Vol. 40, No. 5 (2002), pp. 1257-1296. The 58 earnings delay announcements are based on our data between 1995 and 1998, the period over which our sample overlaps with this prior paper.

Table 2 **Characteristics of Earnings Delay Companies**

	Obs.	Mean	Median	25th Percentile	75th Percentile
Number of earnings delay announcements per company	481	1.13	1	1	1
Market value of equity ($ millions)	545	4,691	464	183	1,509
Total assets ($ millions)	540	7,406	743	227	3,356
Book value of equity ($ millions)	540	1,218	263	93	838
Book-to-market ratio	540	0.85	0.58	0.33	0.93

managers generally are not concerned about any potential market penalty from nondisclosure when faced with an earnings delay.

Panel B of Table 1 provides information on the timing of earnings delay announcements relative to (i) the end of the delay quarter, (ii) the expected report date for the delay quarter, and (iii) the actual earnings announcement for the delay quarter. The average number of days from quarter-end until earnings delay announcement was 40. As in prior research, we used the date on which earnings were announced for the same quarter a year ago as a proxy for the expected report date for the delay quarter.[9] The median earnings delay announcement occurred on its expected report date. Companies in our sample took 45 days, on average, from the earnings delay announcement to eventually announce earnings.

Table 2 provides descriptive statistics for the companies that explicitly announced earnings delays. The median number of earnings delay announcements per company during the sample period was one, again indicating the infrequent nature of these disclosures. Our sample companies' average (median) market value of equity on the day before the earnings delay announcement was approximately $4.7 billion ($464 million), exhibiting a skewness similar to that found in a large cross-section of public companies. Total assets and book value of equity measured as of the quarter-end immediately prior to the earnings delay announcement are similarly distributed. A median book-to-market ratio before the earnings delay announcement of 0.58 is suggestive of potential growth opportunities at our sample companies. Overall, the descriptive evidence indicates that our sample is not limited to small-cap or distressed companies, but representative of public companies generally.

Empirical Results

We calculated one-day abnormal stock returns as firm-specific stock returns minus the corresponding CRSP value-weighted market index return, including dividends. Time-of-day stamps on most newswire articles allowed for the identification of the trading day when the earnings delay announcement information first reaches the market. When a time stamp indicated that the earnings delay announcement took place after the close of trading, the following trading day was considered the event day.

Consistent with anecdotal evidence in the popular business press, the average one-day abnormal stock return for our full sample was -6.29%, while the median return was -2.27%, as reported in Table 3. These results are statistically as well as economically significant. The valuation consequences of earnings delay announcements were also more severe than those documented in prior studies for the broader population of earnings delays, whether or not they were explicitly announced. This suggests that legal liability and/or managerial reputation concerns are the likely motivations behind earnings delay announcements rather than the desire to avoid any potential market penalty from nondisclosure.

We next classified our sample according to stated reason for the delay, including a subsample of companies that provided no explanation in their earnings delay announcements. Reasons were classified as either "accounting" or "nonaccounting." "Accounting" was further subdivided into "accounting issue," "accounting process," and "accounting rule change." "Nonaccounting" was further subdivided into "business" and "other." "Accounting issue" explanations identified a specific accounting-related cause, such as revenue recognition or impairment testing, for the delay.[10] "Accounting process" was identified as the delay reason if the period-end accounting process was not complete but a specific explanation was not provided. "Accounting rule change" attributed the delay to the implementation of a new accounting standard. "Business" explanations attributed the delay to some event related to company operations (e.g., merger, divestiture, or regulatory proceeding). "Other" captured all nonbusiness reasons for delays (e.g., hurricane, earthquake, or power outage).

9. See, for example, J. Begley and P.E. Fischer, "Is There Information in an Earnings Announcement Delay?," *Review of Accounting Studies*, Vol. 3, No. 4 (1998), pp. 347-363.

10. Twelve observations from our sample have multiple delay reasons. We classified these observations as accounting issue since they all identified a specific accounting-related cause for the delay. None of our inferences were affected when we instead classified them by their other delay reasons.

Table 3 **Stock Market Reaction to Earnings Delay Announcements**

	Obs.	Mean *p*-value	Median *p*-value
Full sample	545	-6.29% <0.01**	-2.27% <0.01**
By reason			
Accounting issue	203	-8.15% <0.01**	-3.29% <0.01**
Accounting process	123	-7.04% <0.01**	-2.44% <0.01**
Business event	125	-3.74% <0.01**	-1.76% <0.01**
Accounting rule change	32	-1.29% 0.11	-0.49% 0.44
Other	25	-0.53% 0.42	0.04% 0.85
No reason	37	-10.41% <0.01**	-5.74% <0.01**

Significance tests are two-tailed.
Median statistical significance was assessed using a Wilcoxon signed-rank test.
^significant at 10% level, *significant at 5% level, **significant at 1% level

Given that mean and median statistics provide similar inferences, we limit our discussion to means for the remainder of Table 3. Consistent with our prediction that companies will generally provide explanations for earnings delay announcements, we found that only 7% of our sample (37 out of 545) did not provide a stated delay reason. The average abnormal return for this subsample was a statistically significant -10.41%, which is more negative than the returns associated with all of the reason categories just cited. Again consistent with our predictions, the market appears to interpret a lack of explanation as the worst possible delay reason.

Approximately two-thirds of earnings delay announcements were due to accounting reasons. When a specific accounting issue was identified as the cause for the delay, the average abnormal return was a statistically significant -8.15%. When the explanation provided for the delay was the accounting process not being complete, the average abnormal return was -7.04%, also statistically significant. In contrast, when accounting rule change was the delay reason, the market reaction was muted, with an average abnormal return insignificantly different from zero at -1.29%. Most earnings delay announcements due to nonaccounting reasons were driven by business events, which could conceivably represent either good news or bad news. However, the average abnormal return for this subsample was a statistically significant -3.74%, indicating that business events underlying earnings delay announcements tend to be negative in nature. The average abnormal return for the subsample classified as "other" was insignificantly different from zero at -0.53%. This suggests that the market does not penalize managers for events outside of their control that have little, if any, relevance to firm performance.

Overall, our univariate results showed that earnings delay announcements produce, on average, a statistically as well as economically significant negative market reaction. This result provides support for the notion that legal liability and/or managerial reputation concerns are primary factors affecting managers' decision to disclose private information. We also documented that the market reaction to earnings delay announcements varies by reason. This result suggests that managers, when announcing an earnings delay, attempt to influence the market reaction by disclosing the underlying cause.

Earnings Guidance

Previous research has shown that management earnings forecasts affect stock prices.[11] As a result, we wanted to ensure that the univariate results reported above were not driven by contemporaneously provided earnings guidance. To do so, we estimated a multiple regression model with earnings guidance indicator variables in addition to delay reason categories. We classified earnings guidance as positive, neutral, or negative. We defined earnings guidance as positive (negative) if the earnings delay announcement included a statement about

11. See, for example, J.M. Patell, "Corporate Forecasts of Earnings Per Share and Stock Price Behavior: Empirical Test," *Journal of Accounting Research*, Vol. 14, No. 2 (1976), pp. 246-276 and G. Pownall, C. Wasley, and G. Waymire, "The Stock Price Effects of Alternative Types of Management Earnings Forecasts," *The Accounting Review*, Vol. 68, No. 4 (1993), pp. 896-912.

Table 4 **Determinants of Stock Market Reaction to Earnings Delay Announcements**

	Coefficient *p*-value		
	(1)	(2)	(3)
Intercept	-0.1051	-0.1056	-0.1797
	<0.01**	<0.01**	<0.01**
Accounting issue	0.0248	0.0216	0.0313
	0.31	0.38	0.25
Accounting process	0.0349	0.0344	0.0404
	0.17	0.18	0.13
Accounting rule change	0.0917	0.0887	0.0698
	<0.01**	<0.01**	<0.01**
Business event	0.0685	0.0665	0.0814
	<0.01**	<0.01**	<0.01**
Other	0.0981	0.0978	0.0954
	<0.01**	<0.01**	<0.01**
Positive guidance	0.0214		
	0.16		
Neutral guidance	0.0050		
	0.76		
Negative guidance	-0.0351		
	0.03*		
Positive guidance vs. expectations		0.0134	0.0509
		<0.01**	<0.01**
Neutral guidance vs. expectations		0.0201	0.0115
		0.18	0.53
Negative guidance vs. expectations		-0.0479	-0.0439
		0.04*	0.07^
Days after expected date			0.0007
			0.13
Post-SOX			0.0635
			<0.01**
Restatement			-0.0153
			0.24
8-K filing			0.0009
			0.94
NT filing			-0.0045
			0.79
Firm size			0.0071
			<0.01**
Book-to-market ratio			0.0029
			0.54
Days until earnings release			-0.0004
			<0.01**
Change in EPS			0.1378
			<0.01**
Adjusted R^2	0.06	0.06	0.21
Obs.	545	545	468

Standard errors of the coefficients were corrected for heteroskedasticity.
Significance tests are two-tailed.
^ significant at 10% level, * significant at 5% level, ** significant at 1% level

earnings beating (missing) management or analyst expectations or historical earnings, the company reporting a profit (loss), the earnings effect of the delay being positive (negative), or general positive (negative) statements about the company's prospects. We defined earnings guidance as neutral if the earnings delay announcement included a statement about earnings meeting management or analyst expectations, or the earnings effect of the delay being immaterial. The fraction of our sample with positive, neutral, and negative earnings guidance was 12%, 14%, and 11%, respectively.

We also considered a more restrictive definition of earnings guidance that used only statements comparing earnings to management or analyst expectations. Since statements about firm performance in earnings delay announcements could simply be a reiteration of prior comments, the expectations-based earnings guidance proxies are likely more powerful controls in our market reaction tests. The fraction of our sample with positive, neutral, and negative expectations-based earnings guidance was 4%, 6%, and 4%, respectively.

Regression results using our broader definition of earnings guidance are provided in specification (1) of Table 4. The delay reason coefficients are consistent with Table 3's univariate results. The statistically significant intercept of -10.51% captures the average one-day abnormal stock return to earnings delay announcements unaccompanied by either explanation or earnings guidance. All stated delay reasons have positive coefficients, which corroborates our previous finding that earnings delay announcements lacking explanations experience the most negative market reactions. The coefficients on accounting rule change, business event, and other are statistically significant, indicating the relatively innocuous nature of these delay reasons. Consistent with previous research, the coefficient on the positive (negative) earnings guidance indicator variable is positive (negative). Specifically, positive (negative) earnings guidance is associated with an average stock market reaction of 2.14% (-3.51%). However, only the coefficient on negative earnings guidance is statistically significant.

Regression results using our more restrictive definition of earnings guidance are provided in specification (2) of Table 4. The coefficients on positive and negative earnings guidance again have the expected signs. Specifically, positive expectations-based earnings guidance is associated with an average stock market reaction of 1.34%, while negative guidance is associated with a return of -4.79%. In addition, both coefficients are now statistically significant. Importantly, all inferences regarding delay reasons are unchanged between specifications (1) and (2).

In sum, our findings provide strong evidence that earnings delay announcements are not simply instances of veiled earnings guidance.

Other Factors

Specification (3) of Table 4 includes four categories of additional variables that could also help explain the market reaction to earnings delay announcements. The first category relates to the timing of earnings delay announcements. We defined a variable as the number of days that the earnings delay was announced after the expected report date, and zero otherwise. As discussed earlier, previous research has documented persistently negative average cumulative abnormal stock returns between the missed expected report date and actual earnings release. To the extent that the market penalty associated with the implicit delay is a substitute for the subsequent market reaction to the earnings delay announcement, the coefficient on this variable is predicted to be positive.

We also included an indicator variable if the earnings delay announcement occurs after the passage of the Sarbanes-Oxley Act. Insofar as SOX was drafted partly to make corporate disclosures more forthcoming, it may have motivated managers to explicitly announce earnings delays in situations where legal liability and/or managerial reputation concerns had previously provided insufficient incentive to do so. As a result, we predict the coefficient on the post-SOX indicator to be positive.

Our second category of explanatory variables relates to the materiality of earnings delay announcements. Previous research has shown that the market tends to react negatively to restatement announcements.[12] Thus, one of our proxies for materiality is an indicator variable if the earnings delay announcement mentions the possibility of restating historical financial statements.[13] Another materiality proxy is an indicator variable if the earnings delay announcement is the subject of an 8-K filing, since these filings have been shown to possess significant information content.[14] Similarly, we include an indicator variable if there is a Form NT filing simultaneous with the earnings delay announcement to control for the previously documented negative average market reaction to NT filings.[15] We expect the coefficients on the restatement, 8-K, and NT indicators to be negative.

Our third category of explanatory variables relates to firm characteristics that may affect the market reaction to earnings delay announcements. Prior studies have shown that the magnitude of the market reaction to earnings news is larger for smaller firms.[16] To the extent that earnings

12. Z. Palmrose, V.J. Richardson, and S. Scholz, "Determinants of Market Reactions to Restatement Announcements," *Journal of Accounting and Economics*, Vol. 37, No. 1 (2004), pp. 59-89.

13. Earnings delay announcements mentioned the possibility of restating historical financial statements in 21% of our sample.

14. M.E. Carter and B.S. Soo, "The Relevance of Form 8-K Reports," *Journal of Accounting Research*, Vol. 37, No. 1 (1999), pp. 119-132 and Lerman, A. and J. Livnat, "The New Form 8-K Disclosures," *Review of Accounting Studies*, Vol. 15, No. 4 (2009), pp. 752-778. Earnings delay announcements were the subject of an 8-K filing in 36% of our sample.

15. E. Bartov, M.L. DeFond, and Y. Konchitchki, "Capital Market Consequences of Filing Late 10-Qs and 10-Ks," Working paper, University of Southern California, (2012). There was a Form NT filing simultaneous with the earnings delay announcement in 11% of our sample.

Table 5 **Stock Market Reaction to Earnings Announcements Following Explicitly Announced Delays**

	Obs.	Mean *p*-value	Median *p*-value
Full sample	527	-0.32%	-0.29%
		0.45	0.11
By reason			
Accounting issue	195	-0.24%	0.16%
		0.71	0.95
Accounting process	117	0.38%	-0.13%
		0.66	0.78
Business event	122	-0.58%	-1.14%
		0.57	0.02*
Accounting rule change	32	-0.16%	-1.38%
		0.87	0.48
Other	25	-0.58%	0.20%
		0.54	0.97
No reason	36	-2.10%	-1.26%
		0.34	0.51

Significance tests are two-tailed.
Median statistical significance was assessed using a Wilcoxon signed-rank test.
^ significant at 10% level, * significant at 5% level, ** significant at 1% level

delay announcements cause a revision in market expectations about future earnings, these disclosures are similar to earnings releases. Moreover, if larger companies are perceived to have more sophisticated financial reporting systems, investors might be less concerned about uncertainty triggered by earnings delay announcements. Both arguments predict that the coefficient on a firm size variable would be positive. We used the natural logarithm of the market value of equity on the day before the earnings delay announcement as a measure of firm size.

Douglas Skinner and Richard Sloan found that the market reaction to earnings disappointments was more severe as a company's growth opportunities, proxied by its market-to-book ratio, were higher.[17] Thus, we included the book-to-market ratio before the earnings delay announcement to capture this effect.[18] The coefficient on this variable is predicted to be positive, as a lower book-to-market ratio implies higher growth opportunities.

Our final category of explanatory variables is ex-post in nature. We defined a variable as the number of days after the earnings delay announcement that it took to report earnings. If the market can anticipate the length of time necessary to report earnings as of the earnings delay announcement, we predict the coefficient on this variable to be negative, as lengthier delays are likely indicative of more serious underlying problems. We also considered the effect of future financial performance on the market reaction to earnings delay announcements. We defined a variable as the difference in EPS for the delay quarter versus the same quarter a year prior, deflated by stock price on the day before the earnings delay announcement.[19] If the market can anticipate changing financial performance as of the earnings delay announcement, we predict the coefficient on this variable to be positive.

The results in specification (3) of Table 4 indicate that all inferences regarding delay reasons remain unchanged from prior specifications. With respect to our four categories of additional variables, we showed that the coefficient on the post-SOX indicator is positive, as predicted, and statistically significant. This indicates that the average market reaction to earnings delay announcements has become less negative since SOX passage. Timing relative to the expected report date was not shown to be a significant factor in explaining the market reaction to earnings delay announcements, although the positive sign on this variable is as predicted.

16. D. Collins, S.P. Kothari, and J.D. Rayburn, "Firm Size and the Information Content of Prices with Respect to Earnings," *Journal of Accounting and Economics*, Vol. 9, No. 2 (1987), pp. 111-138 and R. Freeman, "The Association between Accounting Earnings and Security Returns for Large and Small Firms," *Journal of Accounting and Economics*, Vol. 9, No. 2 (1987), pp. 195-228.

17. D. Skinner and R. Sloan, "Earnings Surprises, Growth Expectations, and Stock Returns: Don't Let an Earnings Torpedo Sink Your Portfolio," *Review of Accounting Studies*, Vol. 7, No. 2 (2002), pp. 289-312.

18. We used the book-to-market ratio to avoid the problem of large outliers with the market-to-book ratio.

19. The average difference in EPS for the delay quarter versus the same quarter a year prior was -3.01% for our sample. We also used the difference in EPS for the delay year versus the prior year (-6.05% sample average) as well as for the years after and before the delay year (-5.40% sample average). Results using these alternative variables are qualitatively similar to those reported.

While the restatement and NT indicators are both of the predicted negative sign, neither of these coefficients, nor the coefficient on the 8-K indicator, are statistically significant. This indicates that the market reaction to earnings delay announcements is not subsumed by the restatement announcement effect or the NT filing effect documented in the previous research, and it is not a function of 8-K filings.

The coefficient on firm size is positive, as predicted, and statistically significant. This indicates that larger companies' stock prices are not as severely impacted by earnings delay announcements. No support was found for growth opportunities explaining the market reaction to earnings delay announcements, although the positive sign on this variable is as predicted.

The statistical significance of the coefficients on our ex-post variables suggests that the market is able to anticipate certain outcomes of earnings delay announcements when these disclosures are made. As predicted, the market reaction to earnings delay announcements is negatively related to the length of time necessary to ultimately report earnings. This result is consistent with lengthier delays being indicative of more serious underlying problems. Also as predicted, the market reaction to earnings delay announcements is positively related to future earnings changes. This result is consistent with earnings delay announcements signaling deteriorating financial performance.

Actual Earnings Announcements

The positive association between future earnings changes and the market reaction to earnings delay announcements documented in Table 4 does not speak to whether this reaction is complete. To address this question, we examined the market reaction when explicitly delayed earnings were eventually announced. As shown in Table 5, the average market reaction to the actual earnings announcement for the delay quarter is insignificantly different from zero, either for our full sample or delay reason subsamples.[20] These results suggest that the market incorporates information about future earnings changes at the time earnings delay announcements are made in an unbiased manner. Consequently, at the actual earnings announcement for the delay quarter, no additional market reaction is observed, on average.

Summary and Implications

A large body of previous research has examined the market reaction to various corporate disclosures, with earnings announcements being one of the most frequently studied. A branch of this literature has investigated earnings delays but has not distinguished whether or not they were accompanied by an announcement of the delay. This paper presents evidence on earnings delay announcements, a previously unstudied corporate disclosure. Although only an estimated 2% of earnings delays are explicitly announced, the information conveyed by these disclosures can be material. We documented that earnings delay announcements produce an average one-day abnormal stock return of approximately -6%. This result is consistent with anecdotal evidence in the popular business press as well as disclosure theory predictions, in particular that legal liability and/or managerial reputation concerns motivate managers to disclose bad news. We also showed that managers who announce earnings delays attempt to influence the market reaction by disclosing the underlying cause. This result provides support for the disclosure theory prediction that managers seek to distinguish their companies from others with worse news.

Taken together, these results have potential implications for managers' disclosure behavior. First, they suggest that disclosure could potentially benefit managers with unfavorable private information by limiting legal exposure or maintaining credibility. Second, they suggest that managers with private information of a more innocuous nature could also potentially benefit from disclosure because no news tends to be interpreted as bad news, although disclosure-related costs must be considered when making the choice to disclose.

Our results also have potential implications for investors, as we showed that the market reaction to earnings delay announcements is positively related to future earnings changes. This result is consistent with these disclosures signaling deteriorating financial performance. However, we also showed that the average market reaction to actual earnings announcements for delay quarters is insignificantly different from zero, which suggests the lack of systematic over- or under-reaction to earnings delay announcements. Nevertheless, given the aggregate nature of our results, practitioners who base their investment decisions on corporate disclosures should be cognizant of earnings delay announcements.

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20. We also found no evidence of a stock price drift or reversal during the period between the earnings delay announcement and the actual earnings release.

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