REPETITIVE DISCLOSURES IN THE MD&A

by

Han (Heather) Li

A thesis submitted in conformity with the requirements
for the degree of Doctor of Philosophy

Joseph L. Rotman School of Management
University of Toronto

August 2014

REPETITIVE DISCLOSURES IN THE MD&A

Han (Heather) Li

A thesis submitted in conformity with the requirements
for the degree of Doctor of Philosophy

Joseph L. Rotman School of Management
University of Toronto

August, 2014

ABSTRACT

This study is the first to empirically analyze repetitive disclosures in the Management Discussion and Analysis (MD&A) section of the 10-K filing. I define repetitive disclosures as the amount of content in the MD&A repeated from the notes. The Securities and Exchange Commission (SEC) believes that repetitive disclosures are uninformative and that such disclosures decrease the informativeness of other disclosures (non-repetitive) in the MD&A. Building on research from the communication literature, I find evidence contradicting the SEC's views. First, repetitive disclosures are informative to investors and financial analysts. Second, repetitive disclosures increase the informativeness of non-repetitive disclosures, especially for individual investors. I further examine whether there is a variation across firms in their use of repetitive disclosures. I find that firms with greater year-to-year absolute change in earnings, less powerful CEOs and more operational uncertainty are associated with more repetitive disclosures. Overall, my results suggest that repetitive disclosures are informative and such disclosures are likely an effective tool for providing information to investors and financial analysts.

Chapter 2 distinguishes between Item 103 and contingency note disclosures and is the first to examine the complementary relation between Item 103 and contingency note disclosures. A firm has two locations in the 10-K to disclose litigation information: (1) Item 103, legal proceedings and (2) contingency note disclosures. I find evidence that firms with high proprietary costs and litigation-risk are associated with more modifications in litigation disclosures. This finding implies that other than increase in litigation risk high proprietary cost can encourage managers to update litigation disclosures in a timely manner. Next, I find that, on average, approximately 40% of Item 103 is repetitive information from contingency note disclosures, and approximately 20% of contingency note disclosures are repetitive information from Item 103. This finding confirms the SEC's and the FASB's concern that firms are repeating a large quantity of information between the two litigation sections. Finally and most importantly, with the existence of repetitive litigation disclosures, I find that Item 103 and contingency note disclosures are both positively associated with the absolute stock returns around 10-K filings. Overall, my results suggest that although firms repeat information between the two litigation sections, litigation disclosures are sufficiently complementary so that each provides useful information to investors.

ACKNOWLEDGMENTS

I thank my co-supervisors, Gus De Franco and Ole-Kristian Hope, for their amazing support and mentorship throughout my time at Rotman. The best co-supervisors I could possibly had. I also thank the other members of my dissertation committee: Alex Edwards, Jennifer Tucker (the external reviewer), and Aida Sijamic Wahid for their useful comments and encouragement. I am grateful for Alex Aiken for providing access to the MOSS program, and to Michael Guerzhoy for providing technical assistance. I dedicate this dissertation to my family, specifically, to my parents, as I could not have succeeded without their support and love.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

CHAPTER 1 – REPETITIVE DISCLOSURES IN THE MD&A

1.1. INTRODUCTION

The Securities and Exchange Commission (SEC) often documents instances in which firms repeat the note disclosures in the MD&A, failing to meet the SEC's objective (SEC 2012). For instance, in 2001, when the Securities and Exchange Commission (SEC) issued a proposed rule requiring firms to include a "critical accounting policies" section in the Management Discussion and Analysis (MD&A), it specified that this new section should not repeat the "accounting policies" section in the audited financial statement notes (referred to as "notes" hereafter). This has not happened. In consensus with the SEC, the Financial Accounting Standards Board (FASB)'s Investors Technical Advisory Committee (ITAC) recommended in 2007 the elimination of repetitive text between the MD&A and the overall financial statements. The FASB emphasized the need to work closely with the SEC and minimize duplicative disclosures in financial reports because generally accepted accounting principles (GAAP) and the SEC rules often contain similar disclosure requirements (FASB 2001).

Recently, the International Accounting Standards Board (IASB) Discussion Forum has also listed duplicative (i.e., repetitive) disclosures as an urgent matter that needs to be addressed through the examination of the annual report as a whole instead of restricting attention only to audited financial statements (IASB 2013). Supporting the views of regulators and standard setters, a 2011 KPMG disclosure survey concludes that repetitions in financial reports are redundant and unnecessary. This survey suggests that the removal of repetitive disclosures would help control the length of financial reports (KPMG 2011).

In this study, I define repetitive disclosures as the amount of content in the MD&A repeated from the notes. This type of repetitive disclosures is important for two main reasons: (1)

the MD&A is one of the most widely read disclosures in financial reports (e.g., Li 2010); and, (2) the SEC, the FASB, and the IASB have all shown an interest in understanding and eliminating repetitive disclosures. My analysis shows that approximately forty percent of repetitive disclosures in the MD&A come from repeating information in the significant accounting policy note disclosures and that repetitive disclosures have been steadily increasing since SEC EDGAR became available. The increase in repetitive disclosures is especially evident after major disclosure policy changes (such as after the enactment of Sarbanes–Oxley Act on July 30, 2002).

Regulators and standard setters maintain that repetitive disclosures result from ambiguity in disclosure requirements and are uninformative (SEC 2003; FASB 2001), leading to less transparent financial reporting and worse decision making.[1] However, the "succession hypothesis" from the communication literature argues that the use of repetitive disclosures is an effective tool for disseminating information to recipients (Stephens 2007). For instance, the MD&A and the notes can be considered two separate information channels because a person can obtain information separately from each of the two sections. This hypothesis posits that repetitive disclosures are informative because investors may miss the information communicated in one channel but notice it through another channel.

The succession hypothesis also argues that by repeating information through an alternative channel (e.g., repeating the note information in the MD&A), a person's processing capacity is not overburdened; rather, the information is reinforced (Dahle 1954). Using an experimental design, Stephens and Rains (2011) find that using repetitive messaging to communicate in a situation of informational overload decreases perceptions of overload and

[1] See "Speech by SEC Commissioner: Twelfth Annual A.A. Sommer, Jr. Lecture on Corporate, Securities and Financial Law," http://www.sec.gov/news/speech/2011/spch102711tap.htm (accessed March 3, 2012).

increases perceptions of information effectiveness. The succession hypothesis supports the argument that repetitive disclosures should not hinder investors' ability to process other (non-repetitive) disclosures in the MD&A.

Motivated by these competing arguments, I conduct the following empirical analysis. I apply the MOSS plagiarism-detecting program on a large sample of MD&As spanning from 1995 to 2011 to examine three research questions. Measure of Software Similarity (MOSS) is a web-based plagiarism-detecting program hosted through the Stanford server by Professor Alex Aiken. See http://theory.stanford.edu/~aiken/moss/. To use MOSS, the user uploads a group of files to the server and MOSS generates the results as illustrated in Appendix A. First, I examine whether the decision to include repetitive disclosures varies cross-sectionally with managerial incentives. I find that managers tend to use more repetitive disclosures when firms have greater absolute change in earnings, less powerful CEOs, and higher uncertainty, while controlling for firms' competitive and litigation environment. Moreover, using a changes specification, I find that changes in repetitive disclosures are positively associated with bad news and negatively associated with change in the CEO's power. Thus, these results suggest that managers have incentives to vary the level of repetitive disclosures included in financial reports.

Second, I investigate whether repetitive disclosures are informative to investors. This question is the focal point of my study because it directly addresses regulators' and standard setters' concerns regarding repetitive disclosures' informativeness. In contrast to the SEC and the FASB's views, I find that repetitive disclosures are indeed informative to investors. Specifically, the magnitude of absolute cumulative market-adjusted stock return over the three days beginning with the 10-K filing date is positively associated with the level of repetitive disclosures. This relation is only significant in firms with low institutional ownership, suggesting that individual

investors find repetitive disclosures more informative. Some additional analyses shows that repetitive disclosures are positively associated with analyst earnings forecast revisions immediately following the 10-K release date, indicating that repetitive disclosures are informative also to financial analysts.

Third, I examine the SEC's claim that the presence of repetitive disclosures decreases the informativeness of other (non-repetitive) disclosures in the MD&A. My evidence contradicts this claim. My results suggest that repetitive disclosures increase investors' ability to process non-repetitive disclosures, at least in firms with low institutional ownership. The above findings are robust to controlling for a number of other 10-K filing and firm characteristics, and to alternative variable measurements.

In addition to my main contribution of providing initial empirical evidence on regulators' and standard setters' concerns over repetitive disclosures, I contribute to the literature in the following three ways. First, I provide empirical evidence suggesting that repetitive disclosures are informative to users of financial statements. My results question the SEC's view that firms should eliminate repetitive disclosures because individual investors may lose useful information if repetitive disclosures are removed. Understanding how individual investors use financial information is an important concern for standard setters and regulators. Thus, the results of my study can assist the SEC as it works closely with the FASB and the IASB in deciding how to best address repetitive disclosures, while keeping in mind their mandate to protect individual investors.

Second, there is a growing interest in the textual analysis literature to use advances in computer science to further our understanding of repetitive disclosures in various forms. For instance, Brown and Tucker (2011) show that when developing the MD&A firms are more likely

to repeat information from the prior year than incorporate new information. McMullin (2012) finds that firms tend to have similar notes disclosures when they are geographically closer and when they share the same auditor office. My study differs from these studies in that it provides an initial understanding on how investors react when a firm contemporaneously repeats disclosures in the same financial reports. By examining the MD&A and the notes within the same filing, I am essentially using the firm as its own control, thereby avoiding problems associated with cross-sectional differences and differences through time in firms' disclosure policies. This *within-firm* design allows me to isolate the effect of repetitive disclosures from other disclosure factors that might create cross-sectional and time-series differences.

Finally, I contribute to the communication literature, a field with a longstanding interest in the topic of repetitive communication (Shannon and Weaver 1949), which has become increasingly common (Leonardi, Neeley, and Gerber 2012). Although the succession hypothesis was developed within the perspective of an organizational setting (i.e., communicating within an organization), my use of a financial reporting setting to test this hypothesis broadens our understanding of financial reporting.

The following section presents background information, reviews relevant literature, and develops testable hypotheses on repetitive disclosures. Section 1.3 describes the research design and variable measurement. Section 1.4 describes the sample formation. Section 1.5 presents the empirical results. Section 1.6 provides additional robustness analyses. Section 1.7 concludes.

1.2. BACKGROUND AND HYPOTHESIS DEVELOPMENT

1.2.1. Background

Item 303 of Regulation S-K mandates that companies provide MD&A as Item 7 in the 10-K filing. According to the SEC the MD&A should: (1) provide an insider's view of a

company's financial performance with a forward-looking orientation; and, (2) complement as well as supplement audited financial statements in providing a discussion of capital resources, results of operations, off-balance sheet arrangements, critical accounting estimates, significant contractual obligations, and other material and relevant information (SEC 2003; SEC 1987). The SEC emphasizes the need for managers to discuss factors that would likely cause future results to differ from those reported in the past.[2]

1.2.2. Repetitive Disclosures and Managerial Incentives

The content of MD&A disclosure is unaudited and considered voluntary. In fact, the SEC encourages managers to exercise discretion and provide "investors with an opportunity to look at the company through the eyes of management by providing both a short- and long-term analysis of the business of the company" (SEC 1987). Given this discretion, I expect the decision to include repetitive disclosures to vary cross-sectionally with managerial disclosure incentives. Research on the succession hypothesis provides potential managerial incentives to vary the level of repetitive disclosures. I discuss these managerial incentives in the following paragraphs.

Discrepant Events

The communication and the organizational behavior literatures define discrepant events as "unforeseen disruptive occurrences during the course of business operations." Leonardi, Neeley, and Gerber (2012) find that managers often use repetitive communication to ensure that receivers are aware of discrepant events and that information relating to such events is processed

[2] A clear difference to the notes, the FASB states that the notes should not include forecasts, predictions and expectations about the future. See "FASB issues proposal on board decision process for disclosure framework project," http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB/FASBContent_C/NewsPage&cid=1176163869073 (accessed March 15, 2014).

by receivers. Stephan, Stephan, and Gudykunst (1999) conclude that using repetitive communication lowers the rate of error and increases the credibility of the information transferred. Belanger and Watson-Manheim (2006) suggest that by sending the same message through multiple media channels, the recipient is led to think that the transmitted message is more important than if the message is communicated only once. These findings indicate that repetitive communication could be a useful tool for managers needing to communicate discrepant events.

Applying this reasoning to a financial disclosure setting, discrepant events can be interpreted as unexpected operational events that have impacted firms' financial performance in a way unexpected by investors. An example of a discrepant event could be an unexpected environmental problem that causes a firm to lose a major contract, resulting in a deviation from its budgeted financial targets. Managers, usually having first-hand knowledge regarding discrepant events, can choose to use repetitive disclosures to communicate such events to ensure investors have the relevant information. Taken together, the above discussion suggests that firms experiencing more discrepant events will provide more repetitive disclosures. I propose my directional hypothesis (in alternative form):

H1a: Managers facing more discrepant events use more repetitive disclosures.

In contrast to the argument above, the "obfuscation hypothesis" claims that only firms with negative discrepant events would have more repetitive disclosures, because self-serving managers may use repetitive disclosures to increase disclosure volume and obfuscate reported financial results in an attempt to conceal their firm's true performance and obstruct investors' monitoring abilities. For example, Bloomfield (2008) demonstrates how Teradyne, a company with poor fiscal performance, used approximately 1,200 repetitive words in the MD&A section

that were already included in the audited notes. Bloomfield (2008) suggests that managers have the intention to obfuscate investors by increasing repetitive disclosures and delaying investors' reactions to bad news. Li (2008) reinforces this argument by finding that firms with negative earnings news tend to have less readable MD&As than firms with positive earnings news. Thus, when I examine H1a, I incorporate an indicator variable to distinguish firms experiencing negative news from firms experiencing positive news to test this alternative explanation.

CEO Power

CEOs often differ in their degree of power. Leonardi, Neeley, and Gerber (2012) find that less powerful managers are more likely to use repetitive communication to ensure their messages are processed by receivers. Powerful managers may feel that they do not need to use communication tools to persuade people to process their messages as they simply assume their version of reality is shared by all (Magee and Galinsky 2008). In contrast, less powerful managers feel the need to use communication tools (e.g., repetition) because they are aware that people often hold different views and it is important to take an active role in trying to persuade others to listen to the message. Relying on the above reasoning, I predict that less powerful CEOs will use more repetitive disclosures because less powerful CEOs may believe that by communicating repeatedly they can persuade recipients to regard the message with importance. My directional hypothesis is (in alternative form):

H1b: Less powerful CEOs use more repetitive disclosures.

1.2.3. Market Reaction to Repetitive Disclosures

In this section, I discuss the economic consequences of repetitive disclosures for investors. The SEC believes that repetitive disclosures have two effects. First, repetitive

disclosures are uninformative to investors because they contain the exact same information already included in the audited notes, which are available to all investors concurrently with the MD&A. Second, repetitive disclosures "overwhelm investors' information environment and make it difficult for investors to identify and process material information" (SEC 2003). The SEC provides no direct explanation on what MD&A disclosures are considered material. However, by emphasizing duplicative (repetitive) disclosures as unnecessary, the SEC implicitly implies that non-repetitive disclosures in the MD&A are likely the material information. These two beliefs are not mutually exclusive, and respectively produce two separate testable hypotheses. I combine the SEC's beliefs with prior literature to formulate two hypotheses.

Repetitive Disclosures' Informativeness

The SEC's first claim that repetitive disclosures are uninformative to investors is supported by the following arguments. In an efficient market, repetitive disclosures should not have market effects and would be considered uninformative, because repeating information conveys no new information (Fama 1970). Furthermore, the "no differences" view, discussed in Schipper (2007), posits that once an item enters the financial reports, its location and presentation should have no direct implication. According to this view, all information in financial reports is processed based on the informational content, not on how and where it is presented. Clearly, under the "no differences" view, repetitive disclosures are considered uninformative because repetitive disclosures provide investors with no new information. Thus, controlling for the informational content of the notes, investors should not be reacting to repetitive disclosures contained in the MD&A. Hence, I propose my hypothesis two in line with the SEC's first claim:

H2: Disclosures in the MD&A that repeat information from the financial notes are uninformative.

However, alternative and strong arguments exist to support the idea that repetitive disclosures are informative to investors. The succession hypothesis from the communication literature argues that people have different preferences on how they receive a message (Carlson and Zmud 1999; King and Xia 1999), and by successively communicating a repetitive message using two or more channels the sender increases the probability of choosing a channel more tailored toward recipients' needs (Stephens 2007). It is possible that the recipient may be unwilling to process the message if the message is sent through a channel not preferred by the recipient (Fulk, Schmitz, and Steinfield 1990). Here, a channel is defined as a tool that handles information and enables communication among people (Stephens 2007). Hence, successively communicating through various channels implies that a single message is sent through more than one channel.

Applying the succession hypothesis to my setting, repetitive disclosures are informative because investors have two channels to process information: from the notes or from the MD&A. Supporting the premise of the succession hypothesis, a 2008 "Mandatory Disclosure Documents Telephone Survey" commissioned by the SEC concludes that, on average, investors spend around ten to thirty minutes reviewing financial reports. Given that financial reports often exceed one hundred pages, the short time frame investors allocate toward reviewing the report implies that investors limit their review to only certain sections of the report. Furthermore, a recent survey concludes that when investors require non-financial information, only a small percentage of investors review both the MD&A and the notes (Arnold, Bedard, Phillips, and Sutton 2010). It follows that repetitive disclosures could be informative because such disclosures are likely investors' only exposure to that information.

Continuing to build on the succession hypothesis, the "repetition priming effect" from cognitive research argues that repetitive disclosures improve investors' information-processing ability. For example, the memory formed during a first reading can facilitate the processing ability during a second reading (Harrison 1968; Johnson, Thomson, and Frincke 1960; Matlin 1970; Zajonc 1968). This implies that repetition can help investors process the information more easily, which in turn makes repetitive disclosures informative even if investors can obtain the same information from the notes.[3]

I also expect repetitive disclosures' relevance to vary by investor type. Arnold, Bedard, Phillips, and Sutton (2012) find that when individual (i.e., retail) investors acquire information, in 59% of instances such investors review at least one item in the MD&A section, and in approximately 30% of instances, they review at least one item in the notes. However, when institutional (i.e., professional) investors acquire information, in 85% of instances such investors review at least one item in the MD&A section, and in around 69% of instances they review at least one item in the notes. This survey hence suggests that, relative to institutional investors, a greater percentage of individual investors neglect the notes but review the MD&A. This result is consistent with the succession hypothesis, which argues that people have different preferences about the channel through which they would like to receive information (Stephens 2007). Taken together, these arguments suggest that the informativeness of repetitive disclosures will vary by investor type, and that repetitive disclosures are more informative and useful to individual investors because individual investors are likely more dependent on repetitive disclosures for information. I test this idea when examining hypothesis two.

[3] Admittedly, the repetition priming effect could also be negative, as there is no consensus on the level of repetition required to strengthen the positive repetition effect and improve subsequent information processing ability. While a moderate level of repetition may produce the greatest message acceptance, it is difficult to identify such an optimal repetition level (Schacter 1987; Roediger III 2008).

Repetitive and Non-Repetitive Disclosures

I now turn to the SEC's second belief. The SEC claims that repetitive disclosures overwhelm investors' information environment and make it difficult for investors to identify and process non-repetitive disclosures. The limited attention hypothesis suggests that investors have limited attention and processing power (Hirshleifer and Teoh 2003). For example, depending on the presentation form, informationally equivalent disclosures can have different effects on investor perceptions. The limited attention hypothesis provides arguments supporting the idea that if an investor focuses on understanding repetitive disclosures when processing the MD&A, he is unable to fully process non-repetitive disclosures in the MD&A. Therefore, the limited attention hypothesis supports the SEC's claim that repetitive disclosures could pull investors' attention away from non-repetitive disclosures. These arguments suggest that the informativeness of non-repetitive disclosures decreases when firms have more repetitive disclosures. Thus, I propose my third hypothesis in line with the SEC's claim:

H3: Disclosures in the MD&A that repeat information from the financial notes decrease the informativeness of other (non-repetitive) disclosures in the MD&A.

The SEC believes that repetitive disclosures decrease non-repetitive disclosures' informativeness for all investors. The natural extension to this claim is to investigate whether this effect differs for a specific investor type. Survey results indicate that institutional investors are more likely than individual investors to review repetitive disclosures multiple times (Arnold, Bedard, Phillips, and Sutton 2010). Under the limited attention hypothesis, the more information a person receives, the less likely he is to incorporate all available information into his decisions, because of limited attention and processing ability. Institutional investors are subjected to the limited attention hypothesis because, according to survey results, they are more likely than individual investors to process repetitive disclosures multiple times (i.e., from the MD&A and

from the notes) and feel the impact of receiving repetitive information. Thus, although institutional investors are considered more sophisticated than individual investors, institutional investors' ability to process non-repetitive disclosures may still be affected by repetitive disclosures.

Experimental research suggests that individual investors lack investment expertise and have ill-defined models when processing available financial disclosures (Maines and McDaniel 2000). Additionally, Lawrence (2013) finds that individual investors prefer to invest in firms with concise financial disclosures. Thus, individual investors may also react adversely toward non-repetitive disclosures when there are high levels of repetitive disclosures. Clearly, high levels of repetitive disclosures have the potential to influence institutional and individual investors' ability to process information contained in non-repetitive disclosures, and it is uncertain *ex ante* which investor type's processing ability will be more impacted. In light of the above discussion, I partition my sample by investor type when I examine hypothesis three.

In support of the null to my third hypothesis and contrary to the SEC's view, the succession hypothesis argues that repetitive disclosures should not decrease investors' processing capacities to incorporate non-repetitive disclosures into their trading decisions. Testing the succession hypothesis, Stephens and Rains (2011) find that using repetitive messaging to communicate in an information-dense environment decreases perceptions of overload and increases the effectiveness of the information. An explanation of this finding is that the repeated information provides additional cues that reinforce the information previously provided to recipients (Dahle 1954). Moreover, the "no difference" view discussed in Schipper (2007) is premised on the view that investors are fully rational, knowledgeable, and not constrained by cognitive limitations. Consequently, a rational investor's ability to process non-repetitive

disclosures should not be hindered by the existence of repetitive disclosures. Combined, these arguments suggest that the presence of repetitive disclosures should not obscure investors' ability to process non-repetitive disclosures or decrease non-repetitive disclosures' informativeness.

1.3. RESEARCH DESIGN

This section describes the empirical analyses. I use a *within-firm* design to isolate the effect of repetitive disclosures from other disclosure factors that might create cross-sectional and time-series differences. I first explain how I measure repetitive and non-repetitive disclosures. Second, I describe the model that explains variations in repetitive disclosures observed across firms. Lastly, I describe the empirical models used to examine the research questions of whether repetitive disclosures are informative to investors and whether high levels of repetitive disclosures decrease the informativeness of other (non-repetitive) disclosures in the MD&A.

1.3.1. Measures of Repetitive and Non-Repetitive Disclosures

Consistent with the SEC's comment "Say it well, but say it once," I define repetitive disclosures as the amount of content in the MD&A repeated from the notes.[4] To partition the MD&A into repetitive and non-repetitive disclosures, I perform the following steps. First, for each firm-year, I use the MOSS plagiarism-detecting program to compare the MD&A with the notes. For each compared file, MOSS generates a plagiarism score. The plagiarism score ranges from 0% to 100% and it depicts the percentage of text in one file considered to be plagiarized from the other file. The higher the score the more text is plagiarized in the file. In addition to the score, for each file uploaded, MOSS generates an HTML page that indicates sections of

[4] See "SEC's Advisory Committee on Improvements to Financial Reporting Releases Final Report," SEC Flash Report, http://www.protiviti.it/en-US/Documents/Regulatory-Reports/SEC/SEC_Update_080408.pdf.

documents that are plagiarized and sections of documents that are not plagiarized. An illustration is presented in Appendix A. Using plagiarized sections identified by MOSS, I partition the MD&A into repetitive and non-repetitive disclosures. Repetitive disclosures contain textual content considered repeated from the notes (i.e., plagiarized sections), whereas non-repetitive disclosures contain the MD&A content excluding repetitive disclosures (i.e., non-plagiarized). Step 1 of Appendix B provides an illustration of how the MD&A is partitioned into repetitive and non-repetitive disclosures.

The MOSS plagiarism-detecting program was developed in 1994 by Professor Alex Aiken, currently at Stanford University. According to discussions with Professor Aiken, MOSS has around 145,000 users. Professor Aiken estimates there are approximately 10,000 active users at any point of time. The MOSS submission script works for Unix/Linux platforms and also works under Windows with Cygwin. MOSS has been shown in various computer science publications as a top plagiarism-detection performer and it is widely used by professors and university teaching assistants (Bowyer and Hall 1999; Hage, Rademaker, and Vugt 2011). MOSS is also used in practice by companies to help with intellectual property lawsuits. Although MOSS is mainly used in the field of computer science to detect plagiarized code, it is also capable of detecting plagiarism in plain text because it is much easier to detect plagiarism in plain text than to detect plagiarism in computer science languages (Upreti and Kumar 2012). MOSS has thousands of users who use the program to detect plagiarism in various documents; the program should thus be capable of identifying repetitive disclosures in my study with reasonable accuracy.

I use MOSS in my setting because I need to process a large sample of textual files and to the best of my knowledge, alternative plagiarism programs do not allow submission “bash”

commands.[5] Using MOSS, I can automate the comparison of the MD&A with the notes and the partitioning of the MD&A into repetitive and non-repetitive disclosures. MOSS is effective and efficient in generating results and it saves manual processing time when processing a large number of textual files. Next, I provide a description of the steps MOSS uses to detect plagiarism. MOSS treats all submitted files as text files and uses a document fingerprinting algorithm called winnowing (Schleimer, Wilkerson, and Aiken 2003). Specifically, MOSS conducts the following steps:

> 1. Remove all whitespace and punctuation from each file and convert all characters to lowercase.
>
> 2. Divide the remaining non-whitespace characters of each file into k-grams, which are contiguous substrings of length k, by sliding a window of size k through the file. In this way, the second character of the first k-gram is the first character of the second k-gram, and so on.
>
> 3. Hash each k-gram and select a subset of all k-grams to be the fingerprints of the document. The fingerprint includes information about the position of each selected k-gram in the document.
>
> 4. Compare file fingerprints to find similar files.

With every research approach comes trade-offs, and this study is no exception. Natural language processing has advanced significantly in recent years, but most of the natural language processing proxies used by researchers remain approximations of how humans interpret textual information. In theory, MOSS should capture the underlying construct, which is copied disclosure from the notes to the MD&A. However, the MOSS program was not designed

[5] Bash command is an sh-compatible command language interpreter that executes commands read from the standard input or from a file. If I cannot submit bash commands and have to use MOSS manually to perform each comparison I would need approximately five months just to decompose each MD&A into repetitive and non-repetitive disclosures. To illustrate, with a final sample of 43,449 firm-year observations and an approximately two minutes is required to use MOSS manually to decompose each given MD&A. I would need a total of 1,448.3 hours (41,256×2/60mins). Assuming a person works nine hours a day, these hours amount to approximately 161 days. If this person works every day, the person has to work for almost six months. This estimation is conservative because we know it is not feasible for a person to work nine hours straight without any breaks and that excessive human involvements are more likely to result in errors. In addition, this is just the first part of my data processing steps.

specifically for a financial disclosure setting, and as such there is always a risk that MOSS might not accurately detect repetitive and non-repetitive disclosures.

To gain additional assurance on the reasonability of MOSS' performance, I randomly select 50 MD&As to confirm that MOSS has reasonably detected repetitive and non-repetitive disclosures. To ensure minimum bias in the file selection process, the Python random file generator is used to select testing files. For each MD&A selected by Python, I match the selected MD&A with the corresponding note disclosures. I then manually compare the extracted repetitive and non-repetitive disclosures with the notes to examine MOSS' performance. For repetitive disclosures, I gain assurance that those disclosures are either repetitions and/or paraphrased versions of the disclosures in the notes. For non-repetitive disclosures, I gain assurance that those MD&A disclosures are not found in the note disclosures. In conclusion, MOSS has reasonably completed the separation of the MD&A into repetitive and non-repetitive disclosures. I describe next how I test each of my hypotheses from Section 2.

1.3.2. Factors Explaining the Variability of Repetitive Disclosures

I use the specification in Equation 1 to investigate the association between repetitive disclosures and proxies of managerial incentives:

$$\begin{aligned} Repetitive_{it} = {} & \beta_0 + \beta_1 |Discrepant\_Event|_{it} + \beta_2 Bad + \beta_3 \text{Power}_{it} \\ & + \beta_4 Uncertainty_{it} + \beta_5 Comp_{it} + \beta_6 Litig_{it} + \beta_7 Size_{it} + \eta_{it} \end{aligned} \quad (1)$$

|*Discrepant_Event*| proxies for firm-level discrepant events and is an indicator variable equal to 1 if a firm's year-to-year absolute change in earnings is greater than the sample median year-to-year absolute change in earnings, 0 otherwise. Firm-specific, year-to-year absolute change in earnings is scaled by total assets at year *t-1*. I use a firm's absolute change in earnings to proxy for a discrepant event because Graham, Harvey, and Rajgopal (2005) report that 85.1% of CFO

survey respondents considered earnings in the same quarter of the prior year to be the most important earnings benchmark. Given the importance of earnings from the same quarter of the prior year, the absolute difference between a firm's current earnings in year *t* and in year *t-1* should capture the degree of discrepant events experienced by the firm. Specifically, firms with a greater deviation likely experienced more discrepant events. The succession hypothesis and H1a predict a positive coefficient on β_1.

To examine the obfuscation hypothesis, I use the variable *Bad*, where *Bad* is an indicator variable equal to 1 if the firm has experienced negative discrepant events, 0 otherwise. The obfuscation hypothesis predicts a positive β_2 because managers have the incentive to obfuscate investors using repetitive disclosures when facing negative discrepant events (Bloomfield 2008). I use *Power* to proxy for CEO power, where *Power* is measured following Bebchuk, Cremers, and Peyer (2011). Specifically, Power is the percentage of pay of the top five earners allocated to the CEO of a firm (data from ExecuComp). The succession hypothesis and H1b predict a negative coefficient on β_3.

A main objective of financial disclosure is to reduce uncertainty in the investors' information environment (Beyer, Cohen, Lys and Walther 2010). Thus, I control for uncertainty to examine if managers' decision to include repetitive disclosures is impacted by uncertainty. In addition to financial disclosure reasoning to include uncertainty as a determinant factor of repetitive disclosures, psychological findings such as Lee (2001) suggests that uncertainty exists in new and developing relationships as well as in established, ongoing relationships. When people communicate in an environment with uncertainty, repetition allows a consistent communication because individuals prefer familiar information over new information. Following this argument, there is an ongoing communication relationship exists between managers and

investors and repetitive disclosures could be used as a communication tool in an environment with high uncertainty. I use the standard deviation of firm's monthly returns scaled by total asset at year *t* to proxy for *Uncertainty*.

My tests also control for a firm's competitive and legal environment. According to the SEC, the purpose of the MD&A is to give management an opportunity to provide meaningful disclosures about future operational performance. However, such information could potentially damage firms' competitive position (Healy and Palepu 2001). To prevent such an outcome, firms can choose to provide repetitive information from the notes instead of disclosing sensitive and detailed operational information that is incremental to that in the notes. Thus, firms' competitive position could be an explanatory factor for why managers choose to use repetitive disclosures. I use the Herfindahl index to proxy for firms' competitive environment (*Comp*). The Herfindahl index is a measure of the size of firms in relation to the industry and is an indicator of the amount of competition among them (Verrecchia and Weber 2006).

The "safe harbor" under the Private Securities Litigation Reform Act of 1995 was established to encourage managers to provide forward-looking information in the MD&A. However, Tarca, Street, and Aerts (2011) find that the legal environment is a major deterrent for managers who consider providing forward-looking information in the MD&A. In fact, some argue that the current legal environment incentivizes managers to write the MD&A in a more compliance-oriented and checklist-driven manner (Tarca, Street, and Aerts 2011). Providing audited information from the notes instead of unaudited information in the MD&A decreases managers' litigation-risk, because if a given disclosure is found to be inaccurate after the fact the managers can argue they are not intentionally misleading investors and in turn blame auditors for not detecting this unintentional mistake. Following Bova, Dou, and Hope (2013) among others, I

categorize firms with SIC codes 2833-2836, 3570-3577, 3600-3674, 5200-5961, 7370-7374, and 8731-8734 as firms facing high litigation-risk (*Litig*). I make no particular predictions on the control variables as there are no direct ex-ante theory based predictions on how they should relate to repetitive disclosures.

1.3.3. Repetitive Disclosures and Market Informativeness

To test *H2*, I examine the relation between absolute cumulative market-adjusted stock returns ($|CAR_{0,2}^{10K}|$), the dependent variable, and repetitive disclosures (*Repetitive*), the main variable of interest. My coefficient of interest is α_1, and *H2* predicts it to be unassociated with the dependent variable. Specifically, I use the following multivariate regression (Brown and Tucker 2011):

$$|CAR_{0,2}^{10K}|_{it} = \alpha_0 + \alpha_1 Repetitive_{it} + \alpha_2 Infor\_MD\&A_{it} + \alpha_3 NotesLength_{it} + \alpha_4 Filedate_{it} + \alpha_5 |CAR^{EA}|_{it} + \alpha_6 NumItems_{it} + \alpha_7 Size_{it} + \eta_{it} \quad (2)$$

$|CAR_{0,2}^{10K}|$ is measured over the three days beginning with the 10-K filing date and it is used to measure investors' reaction around the 10-K filing date (Griffin 2003).[6] *Repetitive* is the natural logarithm of 1 plus *Raw_Repetitive*, where *Raw_Repetitive* is the MOSS-generated plagiarism score that captures the percentage of textual content in the MD&A copied from the notes for firm *i* in year *t*.[7] Step 1 of Appendix B provides an illustration of how *Raw_Repetitive* is measured. *Infor_MD&A* measures how different the MD&A is from year *t* to *year t-1*. Using MOSS, I compare a firm's current year MD&A to that from the previous year. I obtain a plagiarism score ranging from 0 to 100 with a higher score indicating more similarity. The difference score is 100

[6] Griffin (2003) documents that the absolute value of excess return is reliably greater on the day of and on the one or two days immediately following the filing date.

[7] I take the natural logarithm of the scores generated by the MOSS program because it improves the normality assumption required when running an OLS regression. In untabulated results, I also re-run all main tests using the raw scores and inferences do not change.

minus the similarity score. *Infor_MD&A* is the natural logarithm of 1 plus the difference score. A higher *Infor_MD&A* implies that firm *i* has incorporated more new information into year *t*'s MD&A disclosure.

Given that a portion of the notes contains the same information as repetitive disclosures, I control for the information content of the notes using *NotesLength. NotesLength* is measured as the natural logarithm of 1 plus the number of words in the notes. I take the natural logarithm of the number of words in the notes rather than the raw number of words because of the skewness in the number of words across firms. *Filedate* is an indicator variable that equals 1 if the 10-K filing date is at least 90 days after the fiscal year end, 0 otherwise. *Filedate* controls for the potential market reactions in firms that have delayed their 10-K filings (Chodhary, Merkley, and Schloetzer 2013). $|CAR^{EA}|$ is the three-day absolute cumulative market-adjusted stock returns centered on the earnings announcement date and controls for the complementary or substitutive relation between the earnings announcement and the subsequent 10-K filing. *NumItems* is the natural logarithm of 1 plus the number of non-missing items on COMPUSTAT for firm *i* in year *t* and it controls for the new numerical information in the 10-K.[8] *Size* is the natural logarithm of total assets for firm *i* at year *t* and controls for market reactions when firms differ in size.

The succession hypothesis suggests reasons to believe that repetitive disclosures' informativeness on investors differ by investor type. To test this difference, I partition my sample based on whether the firm's institutional ownership is below or above the median for all sample firms. Firms with institutional ownership above the sample median are considered to have high institutional ownership (e.g., De Franco, Hope, Vyas, and Zhou 2013; Hillary and Hsu 2013; D'Souza, Ramesh, and Shen 2010). I obtain the data from Thomson-Reuters Institutional

[8] The underlying assumption with *NumItems* as a proxy for the numerical information in the 10-K is that firms with more information, on average, have to report more items in their financial statements.

Holdings (13F) and measure institutional ownership as firm *i*'s averaged institutional holdings during the fiscal year *t*. I re-estimate Equation 2 using these two subsamples.

1.3.4. Repetitive and Non-Repetitive Disclosures

H3 states that disclosures in the MD&A that repeat information from the notes decrease the informativeness of non-repetitive disclosures in the MD&A. To test this hypothesis, I examine the relation between absolute cumulative return ($|CAR_{0,2}^{10K}|$), the dependent variable, and the interaction between repetitive and non-repetitive disclosures (*High_Repetitive*× *Infor_NonRepetitive*), the main variable of interest. *H3* and the SEC's views suggest a negative β_1, as non-repetitive disclosures become less informative to users if repetitive disclosures are high. I estimate the following multivariate regression:

$$\begin{aligned} |CAR_{0,2}^{10K}|_{it} = {} & \beta_0 + \beta_1 High\_Repetitive_{it} \times Infor\_NonRepetitive_{it} + \beta_2 High\_Repetitive_{it} \\ & + \beta_3 Infor\_NonRepetitive_{it} + \beta_4 Infor\_Repetitive_{it} + \beta_5 NotesLength_{it} \\ & + \beta_6 Filedate_{it} + \beta_7 |CAR^{EA}|_{it} + \beta_8 NumItems_{it} + \beta_9 Size_{it} + \eta_{it} \end{aligned} \quad (3)$$

High_Repetitive is calculated as the difference between firm *i*'s repetitive disclosure score and the sample median score at year *t.* A high *High_Repetitive* implies that firm *i*'s repetitive disclosure level is higher than the majority of sample firms' repetitive disclosure level. *Infor_NonRepetitive* proxies for the informational content of non-repetitive disclosures. To obtain *Infor_NonRepetitive*, I decompose *Infor_MD&A* into *Infor_Repetitive* and *Infor_NonRepetitive*, and these two variables are measured in a similar manner as *Infor_MD&A*. Refer to Appendix B for an illustration of how *Infor_Repetitive* and *Infor_NonRepetitive* are calculated. All other control variables are as previously described.

1.4. SAMPLE

To conduct the empirical analyses, I obtain my sample in the following steps. First, I

obtain all available 10-Ks spanning 1995 to 2011, directly from SEC EDGAR. My sample starts with 1995 because I require the previous year's filings to be on EDGAR and 1994 is the first year for which companies started to file the 10-K electronically. I then follow Lehavy, Li, and Merkley (2011) and remove filings with fewer than 3,000 words or 100 lines to ensure that a complete filing is examined and that no errors were made in the filing transmission. Second, I separately extract the MD&A from Item 7 and the notes from Item 8 from each available 10-K.[9] I combine the Central Index Key (CIK) and the 10-K filing date as a unique identifier to match the extracted MD&As and notes sections. I remove all extractions for which I am unable to obtain a matching pair of MD&A and notes. Third, I merge the extracted EDGAR data with Compustat using the CIK and fiscal year end to arrive at 43,449 firm-year observations for my primary analyses.

For 43,449 firm-year observations I compare the MD&A and the notes and I extract repetitive disclosures and non-repetitive disclosures after the comparison. Appendix D presents several examples of repetitive disclosure extractions. Each extraction is associated with a unique pair of cik and filing date identifier used to match with the original MOSS output. The purpose of Appendix D is to illustrate on a firm-level the type of information managers include in repetitive disclosures. As observed, repetitive disclosures are repetitions from the notes with minor modifications and include topics varying from taxation to segment reporting. Appendix D shows that it is not feasible to provide a single answer to the question regarding what information is included in repetitive disclosures. If a piece of information exists in the notes then managers can include such information in the MD&A as repetitive disclosures. Later in Panel B of Table 1 I use existing disclosure policies to quantify the type of information managers are more likely to

[9] The details of the MD&A and the notes extraction process are available upon request. I use regular expression and the NLTK package from Python to complete the extraction process.

include in repetitive disclosures.

1.5. TEST RESULTS AND DISCUSSION

1.5.1. Descriptive Statistics and Correlations

Figure 1 illustrates the distribution of *Raw_Repetitive* across my sample period. As is evident from this graph, repetitive disclosures have been steadily increasing, especially after periods of major disclosure policy changes (such as after the enactment of Sarbanes–Oxley Act on July 30, 2002). Panel A of Table 1 provides the sample distribution for each fiscal year. This number of firms per year and $|CAR_{0,2}^{10K}|$ are comparable to the sample by year for 1997-2006 in Brown and Tucker (2011). The mean (median) of *NotesLength* is comparable to Li (2008) for 1993-2003 and *NotesLength* continues to expand during my sample period. Panel B of Table 1 presents the yearly mean (median) percentage of repetitive disclosures plagiarized from significant accounting policy note disclosures.[10] In 2001, the SEC started requiring firms to include a "critical accounting policies" section in the MD&A and Panel B clearly shows an increase in the percentage information repeated from significant accounting policy note disclosures on and post 2001. Overall, consistent with regulators' and standard setters' comments regarding the prevalence of repetitive disclosures, from 1995 to 2011, repetitive disclosures continue to increase.

In addition to showing that on average 40% of the content in repetitive disclosures comes from significant accounting policies, I also provide a tone analysis comparison between repetitive and non-repetitive disclosures. Understanding the tone difference between repetitive and non-repetitive disclosures provide additional insight into the information managers are

[10] The number of sample firms is lower because the difficulty in extracting a specific note disclosure. Firms often disclosure the significant accounting policy note in different formats and the computer cannot capture all different formats.

conveying in repetitive disclosures. For instance, using different methodologies prior studies have found that textual tone is associated with information content (Li 2010; Tetlock, Saar-Tsechansky, and Macskassy 2010). I choose to use the positive, negative, and litigious word lists from Loughran and McDonald (2011) because those lists are created for 10-K filings. Panel C of Table 1 shows the statistical mean difference between the percentage of positive, negative and litigious words contained in repetitive and non-repetitive disclosures. On average managers tend to use a higher percentage of positive, negative and litigious words in repetitive disclosures. For example, the percentage of positive words in repetitive disclosures is higher than the percentage of positive words in non-repetitive disclosures, the mean difference is positively significant (*t-value* 75.93, $p < 0.00$). Positive, negative, and litigious words are considered emotional words. Emotional words may appeal to certain emotions and are considered more persuasive. This finding supports the succession theory that repetitive disclosures are used by managers as a tool to persuade investors to pay attention to certain information. Using repetitive disclosures managers are making certain information more salient to investors.

Panel A of Table 2 presents descriptive statistics for the variables used in my empirical analyses. Here, I focus my discussion on the variables not present in Panel A of Table 1. The mean of the absolute difference between the mean analyst forecasts for year *t+1* before the 10-K filing and the mean forecasts issued after the filing is 3% of the firm's stock price at year *t* (|*Revision*|). The mean (median) for the year-to-year disclosure differences in the MD&A (*Infor_MD&A*) is 3.99 (4.04). The mean (median) for the disclosure differences in repetitive disclosures (*Infor_Repetitive*) is 3.98 (4.01). The mean (median) for the disclosure differences in non-repetitive disclosures (*Infor_NonRepetitive*) is 4.08 (4.09). These statistics imply that on

average the disclosure differences in the MD&A are mainly driven by the non-repetitive disclosure portion of the MD&A.

The mean *Filedate* indicates that 13% of the sample firms are late 10-K filers. The mean of the absolute cumulative stock return around the earnings announcement date is 7%. The descriptive statistics on *NumItems* suggest that firms have similar number of numerical information. The mean value for |*Discrepant_Event*| suggest that 44% of the sample deviate from year *t-1*'s earnings and the mean value for *Bad* suggest that for firms deviating from year *t-1*'s earnings 43% of such firms experienced negative deviation in earnings. The mean value on *Power* indicates that, a CEO's pay is approximately 30% of the total for the top five earners. The mean value for *Uncertainty* is 0.32, which represents the average standard deviation of monthly returns.

Panel B of Table 2 presents the correlations for the independent variables used to test *H1*. Several of the variables are significantly correlated with each other, although most correlation coefficients are not large in magnitude. Panel C of Table 2 shows the correlations among the independent variables used to test *H2*. The largest correlations are between *Repetitive* and *NotesLength* (0.37) and between *NotesLength* and *Size* (0.54). Panel D of Table 2 presents the correlations for the independent variables used to test *H3*. The largest correlations are between *Infor_Repetitive* and *Infor_NonRepetitive* (0.60) and between *NotesLength* and *Size* (0.54). The high correlation between *Infor_Repetitive* and *Infor_NonRepetitive* is expected as the two variables represent the decomposition of the overall informational content in the MD&A. However, unreported variance inflation factors do not indicate the presence of serious multicollinearity.

1.5.2. Determinants of Repetitive Disclosures

This section discusses the results of estimating Equation 1, which examines factors that explain variation in repetitive disclosure's levels. Column 1 of Table 3 summarizes the results of the multivariate regression for repetitive disclosures using the full sample. In columns (1) and (2), the estimated coefficients on |*Discrepant_Event*|, with and without the *Power* variable, respectively, are positive and significant ($p < 0.01$).[11] This finding indicates that managers facing a high year-to-year absolute change in earnings (my empirical proxy for discrepant events) use more repetitive disclosures, supporting the succession hypothesis. The positive coefficient on *Bad* is 0.02, ($p < 0.01$), indicating that managers incorporate more repetitive disclosures when facing negative year-to-year change in earnings, which supports the obfuscation hypothesis. Thus, the results suggest that although managers do attempt to obfuscate investors' ability to process disclosures when facing bad news, they also use repetitive disclosures to communicate positive news to investors.

Due to limited data availability on CEOs' salary, I re-run Equation 1 separately incorporating *Power*. The coefficient on *Power* is -0.10 ($p < 0.10$) suggesting that less powerful CEOs use more repetitive disclosures. This result is consistent with my prediction under H1b. With respect to the control variables, the coefficient estimate on *Uncertainty* is 0.74 ($p < 0.01$), suggesting that managers facing higher uncertainty are more likely to use repetitive disclosures. The coefficient estimate on *Litig* is inconsistent between column 1 and column 2; this is likely due to the significant difference in sample size.[12] *Size* is positive ($p < 0.01$) suggesting larger firms do have higher repetitive disclosures, consistent with the fact that larger firms have more disclosures. In sum, there is evidence to support the notion that firms with greater absolute

[11] All p-values here and after are based on two-tailed tests.
[12] I further examine the relation between litigation and repetitive disclosures using an alternative litigation proxy. See Table 11.

change in earnings, less powerful CEOs, and higher uncertainty utilize more repetitive disclosures.

Changes Analyses

A regression in which the variables are measured in changes is less prone to a correlated omitted variable problem, eliminates firm fixed effects, and provides a stronger test of an association than when the variables are measured in levels (O'Brien and Bhushan 1990). Thus, to provide additional insight on the relation between managerial incentives and repetitive disclosures, I investigate the relation between year-to-year changes in the level of repetitive disclosures and changes in managerial incentives. Specifically, I modify Equation 1 to obtain the following multivariate regression:[13]

$$\Delta Repetitive_{it} = \beta_0 + \beta_1 |Discrepant\_Event|_{it} + \beta_2 Bad + \beta_3 \Delta \text{Power}_{it} + \beta_4 \Delta Uncertainty_{it} + \beta_5 Comp_{it} + \beta_6 Litig_{it} + \beta_7 Size_{it} + \eta_{it} \quad (4)$$

$\Delta Power$ is the year-to-year change in firm's *Power* for firm *i* at year *t*. The succession hypothesis predicts a negative coefficient on β_3. I use year-to-year change in the standard deviation of firm's monthly returns scaled by total assets at year *t-1* to proxy for $\Delta Uncertainty$. All other variables are previously defined. Table 4 shows the regression results for Equation 4. The results suggest that changes in repetitive disclosures are positively associated with bad news and negatively associated with change in CEO's power. There is no evidence suggesting that increases in repetitive disclosures are associated with increases in firms' operational uncertainty. Overall, results in Table 4 are consistent with the results found under the levels analyses.

[13] Variables of interest are all measured in changes whereas the control variables remain at levels because they are not test variables. My inferences do not change if control variables are also measured in changes.

1.5.3. Repetitive Disclosures and Investors' Reactions

Panel A of Table 5 summarizes the results of *H2* using Equation 2 and ordinary least-squares (OLS). The coefficient on *Repetitive* in column 1, 0.03, is positive and statistically significant ($p < 0.01$). This indicates that repetitive disclosures are positively related to the absolute cumulative market-adjusted stock return over the three days beginning with the 10-K filing date. This result hence suggests that repetitive disclosures are informative to investors. As a robustness analysis, in Panel A of Table 5, column 2, I use the absolute cumulative market-adjusted stock return over the three days centered on the 10-K filing date to proxy for investors' reactions, $|CAR_{-1,1}^{10K}|$. I find the same conclusion for Repetitive (coefficient estimate 0.03, $p < 0.01$). To provide some perspective on the economic significance, on average, these results imply that a one-standard-deviation increase in *Repetitive* increases $|CAR_{0,2}^{10K}|$ by 4.7% of the $|CAR_{0,2}^{10K}|$'s sample median.[14]

In terms of control variables, the positive coefficient on *Infor_MD&A* in column 1, 0.04, ($p < 0.01$) provides evidence that disclosure changes in the MD&A are positively related to the absolute cumulative market-adjusted stock return over the three days beginning with the 10-K filing date. This finding indicates that the new information in the MD&A is informative to investors. *NotesLength* is positively associated with $|CAR_{0,2}^{10K}|$. I make no specific predictions on *NotesLength* as there is little guidance from prior literature on how *NotesLength* might relate to $|CAR_{0,2}^{10K}|$. *Filedate* and $|CAR^{EA}|$ are both positively related to $|CAR_{0,2}^{10K}|$, whereas *Size* and *NumItems* are negatively related to $|CAR_{0,2}^{10K}|$.

In Panel B of Table 5, I present the results of *H2* using a two-stage least squares (2SLS). In the first stage, I control for determinants of repetitive disclosures using variables such as new

[14] The coefficient estimate on *Repetitive* was scaled by 10 for easy interpretation; therefore the economic significance is also scaled by 10.

information content in the MD&A, stock price uncertainty, and litigation environment. In the second stage, controlling for additional firm characteristics, the coefficient on *Repetitive_predicted* in column 2, 0.21, is positive and statistically associated with three-day absolute cumulative return. This finding is consistent with the results presented in Panel A of Table 5. The OLS regression in Panel A is the main test for *H2*, because I examine a short-horizon relation that is unlikely to suffer from endogeneity problems.[15]

To control for potential omitted variables, in the main analyses, I also include additional firm characteristic controls: institutional ownership, earnings surprise, management forecast, the MD&A's readability (*FOG*), new information in the notes, and the MD&A's length. I also use abnormal trading volume as an alternative dependent variable to examine whether investors trade on repetitive disclosures. Results are presented in Table 10. I find that my overall conclusion that repetitive disclosures are informative is robust.

Overall, consistent with the predictions under the succession hypothesis, these results suggest that repetitive disclosures are informative and that such disclosures are an effective tool for providing information to investors.[16]

1.5.4. Repetitive Disclosures and Investor Type

Next, I present evidence on whether the effects of repetitive disclosures differ by investor type. I partition the sample into two sub-samples: firms with high institutional ownership and firms with low institutional ownership (i.e., "individual investors"). The sample size is smaller for this test (N = 32,549) as I require data on institutional ownership. Results are presented in

[15] Prior textual studies with short-horizon event studies do not include a 2SLS for the same reason (Griffin 2003; Brown and Tucker 2011).
[16] As an untabulated robustness test, I re-run Equation 2 excluding firms releasing earnings announcements post 10-K filing date (Brown and Tucker 2011). Inferences do not change.

Table 6. Consistent with the succession hypothesis, repetitive disclosures' informativeness vary by investor type. The coefficient on *Repetitive* in column 1 (high institutional ownership) is not significant, whereas in column 2 (low institutional ownership) *Repetitive* is 0.03 ($p < 0.05$). An untabulated F-test confirms that repetitive disclosures' informativeness does differ significantly depending on whether the firm has high or low institutional ownership. These results suggest that repetitive disclosures are only informative in firms with lower institutional ownership, a result which is consistent with survey results suggesting that individual investors are more likely to only review the MD&A than are institutional investors.

1.5.5. Repetitive and Non-Repetitive Disclosures

This section discusses the results of estimating Equation 3, which investigates whether repetitive disclosures decrease the informativeness of non-repetitive disclosures. The results for investors are presented in Table 7. The coefficient on *High_Repetitive* × *Infor_NonRepetitive* is 0.05 ($p < 0.10$), suggesting that repetitive disclosures increase the informativeness of non-repetitive disclosures. This result does not support *H3* (and the SEC's view) that high levels of repetitive disclosures decrease the informativeness of non-repetitive disclosures. The positive coefficient on *Infor_NonRepetitive* in column 1, 0.04, ($p < 0.05$), implies that the year-to-year disclosure differences in non-repetitive disclosures are informative to investors. *Infor_Repetitive* is positive and significant ($p < 0.05$), indicating that the year-to-year disclosure differences in repetitive disclosures are informative to investors. In additional analyses reported in columns 2 and 3, I partition the full sample into a high and low institutional ownership subsamples. For the high institutional ownership subsample, there is no evidence that high repetitive disclosures decrease non-repetitive disclosures' informativeness. However, for the low institutional ownership subsample, there is evidence supporting the idea that repetitive disclosures increase

the informativeness of non-repetitive disclosures.

Taken together, sections 5.3 to 5.5 provide evidence opposing *H2* and *H3* and support the notion that repetitive disclosures are informative to investors, particularly to individual investors.

1.5.6. Repetitive Disclosures and Financial Analysts

To further understand repetitive disclosures and provide additional evidence on *H2* and *H3*, in additional analyses I also examine the association between analysts' forecast revisions and repetitive disclosures because analysts are major information intermediaries who use and interpret accounting data (Schipper 1991). Furthermore, Lehavy, Li, and Merkley (2011) provide evidence that 10-K disclosures are an important informational source for financial analysts. I first examine whether analysts' forecast revisions are associated with repetitive disclosures after the 10-K release date, and then I examine whether analysts' forecast revisions are impacted by the interaction between repetitive and non-repetitive disclosures. The intuition is that, post 10-K release date, more informative repetitive disclosures will more likely lead to analysts issuing a larger revision in their earnings forecasts. To test this notion, I estimate Equation 2 and Equation 3 with |*Revision*| as the dependent variable. |*Revision*| is the absolute value of the difference between the mean analyst forecast for year *t+1,* issued in the 90-day window before the 10-K filing, and the mean forecasts issued in the 30-day window after the filing, scaled by the stock price at the end of year *t*.[17]

Column 1 of Table 8 summarizes the results for *H2*, estimating Equation 2 using |*Revision*| as the dependent variable. The positive coefficient on *Repetitive* in column 1 is 0.01 ($p < 0.01$) and provides evidence that repetitive disclosures are positively related to analyst forecast

[17] As an untabulated robustness test, I alternatively calculate *Revision* as the difference between the median analyst forecasts for year *t+1* issued in the 90-day window before the 10-K filing and the median forecasts issued in the 30-day window after the filing, scaled by the stock price at the end of year t. Inferences on *Repetitive* do not change.

revisions following the 10-K filing date, suggesting that repetitive disclosures are informative to analysts. The results are also economically meaningful. For example, a one-standard-deviation increase in *Repetitive* increases |*Revision*| by 0.0047, which amounts to 47% of |*Revision*|'s sample median.[18]

In terms of control variables, the positive coefficient on *Infor_MD&A* in column 1 is 0.09 ($p < 0.01$), indicating that disclosure changes in MD&A are positively related to the mean analyst forecast revisions following the 10-K filing date. This result suggests that the MD&A is informative to financial analysts when containing more new information. *NotesLength* and *NumItems* are both unassociated with |*Revision*|. *Filedate* and $|CAR^{EA}|$ are both positively related to |*Revision*|, whereas *Size* are negatively related to |*Revision*|.

The results for *H3* on financial analysts are presented in Table 9. I find no evidence to support or oppose *H3*. All control variables load in the expected directions. Overall, Table 8 and Table 9 suggest that repetitive disclosures seem informative to financial analysts and it is unclear whether the interaction between repetitive and non-repetitive disclosures influences financial analysts.[19]

1.6. ADDITIONAL ANALYSES

1.6.1. Firm Level Control Variables

To supplement the main analyses on the relation between managerial incentives and repetitive disclosures I use an alternative litigation proxy. Litigation research often relies on industry classification to differentiate firms between high and low litigation-risk (Francis,

[18] I also re-run the regression using the natural logarithm of |*Revision*| as the dependent variable because it improves the normality assumption required when running an OLS regression. In Table 8 and Table 9, my inferences do not change.

[19] Plenty of evidence exists to suggest that analysts, albeit relatively sophisticated, do not all process information perfectly (Kumar 2010; De Franco and Zhou 2009). Thus, evidence here is not inconsistent with my conclusion on the relation between investors and repetitive disclosures.

Philbrick, and Schipper 1994). Although the industry classification proxy is intuitive and easy to apply, this proxy is unlikely to fully capture a firm's litigation-risk. To better capture firm's litigation-risk, I follow Houston, Lev and Tucker (2010) and estimate a firm specific litigation-risk (*LitigationRisk*) using the methodology presented in Appendix E. I re-run Equation 1 using *LitigationRisk* from Appendix E. Table 11 presents the results for Equation 1 with *LitigationRisk* as the litigation proxy. The coefficient on *LitigationRisk* is 0.03 ($p < 0.10$) indicating that high litigation-risk is likely a reason for why managers include repetitive disclosures in the MD&A. Together with the conclusion from Table 3 this result indirectly show that any litigation-risk proxy remains a proxy with measurement error. Different litigation-risk proxy captures different aspect of a firm's litigation-risk. It is unlikely for one litigation-risk proxy to fully capture a firm's litigation environment.

In addition to using an alternative litigation-risk proxy I augment Equation 1 with additional financial disclosure characteristics to determine whether those characteristics can more fully explain variations in repetitive disclosures. First, the succession hypothesis suggests that repetition can reinforce people's understanding of information. Then managers may use repetitive disclosures to explain complex accounting policies to investors. To measure the complexity of a firm's accounting policy I use the natural logarithm of 1 plus the word count of firm *i*'s significant accounting policy disclosure from the notes in year *t* (*LengthSig*). The idea is that the longer the significant accounting policy disclosure the more complex a firm's accounting policy. Second, I include the notes' readability (*FogNotes*). Documents with low readability may require repetitive reading before comprehension. Then when the notes' readability is low the MD&A may contain more repetitive information from the notes. Last, I include an indicator variable to differentiate firms' audit firms. Although the MD&A is unaudited it is reviewed and

auditors can play a role in the MD&A disclosures. *AuditorSmall* is an indicator variable that equals 1 when firm *i* is audited by a small audit firm, 0 otherwise. Table 12 presents the results of Equation 1 with the additional financial reporting characteristics. The sample sizes are reduced from the main sample as it is difficult to extract significant accounting policy disclosure for all available firms. I find that all the main inferences hold controlling for these additional disclosure characteristics. The coefficient on *LengthSig* is 0.02, significant ($p < 0.01$). This result supports the argument that when firms have more complex accounting policies in place repetitive disclosures are higher. The coefficient on *FogNotes* is -0.01, significant ($p < 0.01$). This result supports the argument that when the notes' readability is low repetitive disclosures in the MD&A is higher. The coefficient on *AuditorSmall* is -0.02 ($p < 0.05$). The negative relation between *AuditorSmall* and repetitive disclosures suggests that when firm *i* is audited by a small audit firm repetitive disclosures' level is low.[20]

1.6.2. Falsification Test

The main purpose of this paper is to examine whether repetitive disclosures are informative to investors using a short three-day window market reaction test. The short window market reaction test is a strong empirical setting mitigating concerns that the positive significant relation between repetitive disclosures and absolute cumulative market-adjusted stock returns is not because repetitive disclosures are informative to investors. To increase the robustness of the main result I conduct a falsification test. More specifically, I examine the relation between repetitive disclosures and the absolute cumulative market-adjusted stock returns of a random three-day window. The purpose of the falsification test is to examine whether repetitive

[20] Above analysis were run without the *Power* variable due to the limitation *Power* has on the sample. In untabulated analysis, the inclusion of the *Power* variable does not change the inference of the conclusion reached.

disclosures' informativeness holds for a random three-day window. The benefit of a falsification test is that when we cannot conclusively affirm a hypothesis we may use a falsification test to show that the result from Table 5 is not a random occurrence. I randomly select a date from all available dates in a fiscal year and re-run Equation 2. I picked May 15 and the results are presented in Table 13. As observed, the relation between repetitive disclosures and market returns is not significant. This result strengthens Table 5 and supports the main conclusion that repetitive disclosures are informative to investors.

1.6.3. Critical accounting policies

On December 12, 2001, the SEC released No. 33-8040 encouraging firms to start including critical accounting policies in MD&As (SEC 2001). This action results from regulators and standard setters' effort to improve financial reporting quality after Enron and other well-publicized financial reporting failures. The SEC specified that this new section should not repeat the "accounting policies" section in the notes, but the unintended consequence was an increase in repetitive disclosures (See Panel B of Table 1). To address this potential shock increase in repetitive disclosures, I rerun Equation 2 by partitioning the sample between pre and post 2002 to examine whether repetitive disclosures are informative before SEC released No. 33-8040.[21] Table 14 shows the results. The coefficient on *Repetitive* in column 1 and column 2 are both positive and statistically associated with three-day absolute cumulative return. The finding in Table 14 suggests that repetitive disclosures are informative irrespective whether the SEC required the disclosure of critical accounting policies.

[21] The proposal was not formulized until 2002 therefore firms with fiscal year ending in 2002 were excluded. See http://www.sec.gov/rules/proposed/33-8098.htm#IIIA.

1.6.4. Investor Types

In my analysis of investor types I exclude observations where there is no 13-F (filing) as those firms are not available in the dataset. To ensure this drop in sample does not bias my results, I re-run Table 6 analysis including all those firms without institutional ownership information as low institutional holding firms. Results are presented in Table 15. I find repetitive disclosures to be informative for firms with low institutional holding. In table 15, I re-run Equation 2 including firms without institutional ownership data as low institutional ownership. Inferences do not change.

1.7. CONCLUSIONS

Using all available 10-K filings spanning 1995-2011, I investigate the determinants and consequences of repetitive disclosures in the MD&A. I first find that firms with greater absolute change in earnings, less powerful CEOs, and higher uncertainty are associated with more repetitive disclosures. These findings suggest that not all managers use repetitive disclosures to obfuscate bad news. Rather, some managers use repetitive disclosures to emphasize uncertain events. In my primary analyses, I examine whether repetitive disclosures are informative and whether repetitive disclosures decrease the informativeness of non-repetitive disclosures. In contrast to the SEC's views, I find that repetitive disclosures are informative to investors and financial analysts. I further find that the relation between non-repetitive disclosures and absolute stock return is larger, the higher the repetitive disclosures (i.e., the interaction term between repetitive and non-repetitive disclosures is significantly positive). This result only holds in firms with low institutional holding.

This study is the first to empirically examine contemporaneous repetitive disclosures in the same financial reports. I use a *within-firm* design to isolate the effect of repetitive disclosures

from other disclosure factors that might create cross-sectional and time-series differences. I provide evidence that suggests repetitive disclosures are informative to investors. As information is relevant only if it is used, I offer my study as an important step toward understanding the implications of repetitive disclosures' existence within financial reports. My study can help regulators and standard setters to better comprehend how users process repetitive disclosures in the financial reporting setting and form more constructive future disclosure policies.

CHAPTER 2 – DO FIRMS PROVIDE COMPLEMENTARY LITIGATION DISCLOSURES?

2.1. INTRODUCTION

A firm has two suggested locations in the 10-K to disclose litigation information: (1) Item 103, legal proceedings and (2) contingency-note disclosures. Item 103 is unaudited and appears at the beginning of the 10-K, was issued under Regulation S-K and is regulated by the SEC. Audited contingency-note disclosures are governed by the FASB's Standards Codification Topic (ASC) 450 and typically appear near the end of the 10-K. The Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) maintain that managers should provide investors with *complementary* litigation information by having different litigation information under Item 103 and contingency-note disclosures (SEC 2010). For instance, Item 103 emphasizes *qualitative* disclosures whereas contingency-note disclosures emphasize *quantitative* disclosures. In practice, however, managers often fail to provide complementary disclosures, instead reporting the same information under Item 103 and contingency-note disclosures (AICPA 2011). The SEC and the FASB's concerns are not without merit. For example, in my textual analysis I find that, on average, for an Item 103 with an approximate length of 100 words, 40% is repetitive from contingency-note disclosures.

The quality of litigation disclosures has received a significant amount of attention from researchers (e.g., Banks and Kinney 1982; Frost 1991; Francis, Philbrick, and Schipper 1994; Rogers, Van Buskirk, and Zechman 2011). However, there has been no research addressing the SEC and the FASB's concern over whether managers are providing complementary litigation disclosures and whether such disclosures are informative. A 2012 Litigation Trends survey finds that 92% of firms expect the number of legal disputes they will face to rise (Fulbright 2013).

Supporting the rise in legal disputes, the known dollar losses of accounting and non-accounting cases increased 7% from 2012 to 2013 totaling to 104 billion (Cornerstone Research 2013). Considering the high litigation cost and the importance for investors to understand complex litigation information, the SEC and the FASB are particularly concerned with the existence of non-complementary litigation disclosures in the 10-K. This study fills the research void and is the first to analyze the complementary relation between Item 103 and contingency-note disclosures using a large sample of 31,457 firm-year observations (1995-2013), although the specific number of observations in each test depends upon the availability of the variables.

Further expressing concerns regarding non-complementary (i.e., repetitive) litigation disclosures, the FASB canceled the exposure draft on contingency-note disclosures in 2012 after four years of deliberation, citing the fact that many qualitative disclosure items required in the exposure draft are repetitive to disclosure requirements already under Item 103. The FASB cites ongoing improvements in contingency-note disclosures and argues that by requiring similar information in Item 103 would lead to more disclosure redundancy (i.e., repetition) in the 10-K. The FASB has no intention to burden investors with lengthier 10-Ks if there are no clear observable benefits. This recent FASB decision seems to suggest that although there is a concern of non-complementary litigation disclosures, firms are likely providing a certain degree of informative complementary litigation disclosures. Therefore, if this study finds evidence of informative complementary litigation disclosures that would support the FASB's recent decision to retract disclosure modifications to contingency-note disclosures.

Motivated by the above factors, I construct litigation-disclosure modification scores and non-complementary litigation disclosure scores to analyze whether Item 103 and contingency-note disclosures are complementary informative. Litigation disclosures are considered

complementary informative when both Item 103 and contingency-note disclosures are simultaneously providing useful information to investors. Disclosure modification scores measure either new disclosures in Item 103 or new disclosures in contingency-note disclosures, where new disclosures are information provided in year *t* but were not disclosed in year *t-1*. Non-complementary litigation-disclosure scores capture the repetitive information between the new disclosures in Item 103 and the new disclosures in contingency-note disclosures. Using disclosure modification scores and non-complementary disclosure scores, I address the question of whether firms are providing informative complementary disclosures with the presence of non-complementary disclosures. Specifically, I examine investors' reactions to disclosure-modification scores for Item 103 and contingency-note disclosures, controlling for the degree of non-complementary litigation disclosures around 10-K filing dates to determine whether litigation disclosures are complementary informative to investors.

I first empirically confirm that the SEC and the FASB's complaints that firms repeat a large quantity of information between Item 103 and contingency-note disclosures. Next, I find that Item 103's modification scores and contingency-note disclosures' modification scores both are positively associated with the magnitude of stock price responses to 10-K filings. These results hold when controlling for the degree of non-complementary litigation disclosures. My results suggest that although firms repeat information between Item 103 and contingency-note disclosures, litigation disclosures are sufficiently complementary so that each litigation section provides useful information to investors. Results in this paper support the FASB's 2012 decision to not proceed with litigation-disclosure policy changes.

Further to addressing the FASB and the SEC's concerns surrounding non-complementary litigation disclosures, I also examine investors' reactions around the litigation settlement dates to

"old" disclosure modification scores for Item 103 and contingency-note disclosures, controlling for the degree of non-complementary litigation disclosures. The purpose of this test is to determine whether stale litigation disclosures are informative to investors when litigation cases are settled. I find that the stale disclosures in Item 103 and contingency-note disclosures are uninformative, but it is interesting to observe that stale non-complementary disclosures are informative to investors. This result suggests that the new litigation disclosures are already processed by investors when the 10-Ks were released, but litigation disclosures that are repeated are important enough that investors will use such disclosures again when needing to understand recently settled litigation case.

I make several contributions to the litigation disclosure literature. First, this is the first large-sample study empirically distinguishing between Item 103 and contingency-note disclosures to examine whether the two litigation sections are complementary informative to investors around 10-K filing dates. My findings contribute to the large literature that has focused on the amount of disclosure (i.e., disclosure overload) in providing support for the FASB's recent decision to not augment contingency-note disclosures with more disclosure requirements. Not expanding the current disclosure requirements the FASB limits the possibility of further disclosure overload in the 10-K.

Second, this paper provides a new litigation-disclosure quality measure that can be employed in a large-sample. Firms' reluctance to update litigation disclosures from the prior period continues to be a major concern of the SEC and the FASB (AICPA 2011). Despite the fact that litigation typically evolves over time, Item 103 and contingency-note disclosures are rarely modified after the initial disclosure. The SEC and the FASB believe that litigation disclosures should evolve over time and be updated as matters progress. Thus, in addition to

analyzing the complementary relation between Item 103 and contingency-note disclosures, this article contributes by being the first large-sample analysis to formulate a disclosure proxy for firm-specific year-to-year litigation-disclosure modifications. Litigation-modification scores are validated using prior litigation models to deepen our understanding about when firms are likely to modify litigation disclosures. The new litigation-modification scores are not only valuable to this study; these scores can also be used in alternative empirical settings to examine litigation disclosures. Finally, I simultaneously examine investors' reactions to unaudited Item 103 and audited contingency-note disclosures within the same filing. This unique setting allows me to use the firm as its own control, thereby avoiding problems associated with cross-sectional differences and differences through time in firms' disclosure policies.

The following section presents background information, reviews relevant literature, and develops testable hypotheses. Section 2.3 describes the research design and variable measurement. Section 2.4 describes the sample formation. Section 2.5 presents the empirical results. Section 2.6 concludes.

2.2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.2.1. Background

Item 103, which is unaudited and appears at the beginning of the 10-K, was issued under Regulation S-K and is regulated by the SEC. Item 103 requires all public companies to disclose any material lawsuits.[22] There are three general guidelines for when lawsuits are considered material: (1) if the plaintiff is seeking damages greater than 10% of the firm's total assets; (2)

[22] See "Top 10 Issues to Consider When You Are Sued: Issue #7: Disclosure of Legal Proceedings Pursuant to Federal Securities Law," http://www.perkinscoie.com/top-10-issues-to-consider-when-you-are-sued-issue-7-disclosures-of-legal-proceedings-pursuant-to-federal-securities-law-02-08-2007/The legal proceedings articles from the law firm (accessed February 1, 2012)

when a firm is involved in a lawsuit based on federal, state, or local law relating to environmental protection; (3) any lawsuit in which a director, officer, or affiliate of the firm has an interest that conflicts with that of the firm. Item 103 should include a discussion of the name of the court or agency in which the lawsuit is pending, the date the suit was filed, the important parties to the suit, a description of the facts behind the claims, and what types of damages or nonmonetary relief is being sought by the plaintiffs. More precisely, the SEC mandates Item 103 to provide narrative litigation facts investors want but cannot find in contingency-note disclosures.[23]

Audited contingency-note disclosures are governed by the FASB's Standards Codification Topic (ASC) 450 and typically appear near the end of the 10-K. ASC 450 requires a company to: (1) record an accrual of loss-contingency amounts along with related disclosures; (2) when an accrual is not required but a loss is "reasonably possible," disclosures must provide an estimate of the possible loss, or an estimate of the range of possible loss; or a statement that such an estimate cannot be made. Therefore, audited contingency-note disclosures are meant to provide the recognition and disclosure of loss contingencies and to include an evaluation of the likelihood a loss contingency will result in an unfavorable future outcome (Desir, Fanning, and Pfeiffer 2010).

Although the disclosure requirements in the two litigation sections overlap, there are also important differences in the requirements that suggest that the two may differ in their ability to capture the litigation environment. Item 103 emphasizes *qualitative* disclosures whereas contingency-note disclosures emphasize *quantitative* disclosures. Another key difference is that Item 103 sets forth disclosure requirements outside of the financial statements which are related

[23] Financial Accounting Standards Board (FASB), 2009. Disclosure of Certain Loss Contingencies. Board Meeting Minutes, Norwalk, CT.

to legal proceedings; whereas contingency-note disclosures are to explain accrual of loss-contingency amounts and/or explain what is not accrued for which it is reasonably possible that there is a loss so as not to make the financial statements potentially misleading. Overall, the SEC and the FASB emphasize that the two litigation sections should complement each other.

2.2.2. Hypotheses Development

To the best of my knowledge no prior research distinguishes between Item 103 and contingency-note disclosures. Prior studies often focus solely on contingency-note disclosures or do not distinguish the two litigation sections. Without distinguishing the two litigation sections it is not possible to investigate the complementary relation between Item 103 and contingency-note disclosures. Further to empirically distinguishing Item 103 and contingency-notes disclosures, I explain in the following sections two important litigation-disclosure qualities addressed by the SEC and the FASB: litigation-disclosures modifications and complementary litigation disclosures; and what is currently in the literature regarding the informativeness of complementary litigation disclosures.

Litigation-Disclosure Modifications

Determining the right amount of new litigation information to include in a public disclosure such as the 10-K is difficult.[24] Regulators want investors to get the best possible information that financial reports can convey. In particular, they believe that when firms update litigation disclosures investors receive better litigation information.[25] If firms follow the spirit of regulators' and standard setters' guidance, firms facing higher litigation risk should have more

[24] A firm's willingness to update litigation disclosures is driven by two issues. One, the firm's need to have new litigation information. Two, a firm's willingness to disclose the new litigation information.

[25] See "Speech by SEC Chairman: Remarks Before the Women in Finance Symposium," http://www.sec.gov/news/speech/2011/spch071211mls.htm.

new litigation information and modify litigation disclosures more in comparison to firms with low litigation risk. For instance, larger firms often experience more changes in their litigation environment (Kim and Skinner 2012), which suggests that larger firms should have more modifications in litigation disclosures.

In practice, however, firms are generally reluctant to provide litigation information and especially reluctant to update litigation disclosures after the initial disclosure (Chen, Hou, Richardson, and Ye 2014). High litigation-risk firms may not want to disclose more litigation information because the firm can damage itself if it is too transparent. For instance, providing an estimated contingency loss in the contingency-note disclosures reduces managers' disclosure flexibility and jeopardizes a firm's lawsuits if the opposing party can strategically use the disclosed information to hurt the firm (Hennes 2012). Consistent with the arguments above, Fesler and Hagler's (1989) study indicates that firms are reluctant to provide contingent loss amounts or sometimes even disclosures under the existing disclosure spirit of the FASB. Chen, Hou, Richardson, and Ye (2014) examine a comprehensive sample of legal cases reported on Audit Analytics and observe a lack of timely litigation disclosures and firms' refusal to provide an estimate for contingency losses for lawsuits that were later revealed as material.

Tension does not only exist on whether high litigation-risk firms are more likely to modify litigation disclosures, a cheap-talk model shows that how much information can be conveyed to investors depends on whether competitors receive the information as well (Gigler 1994). Both litigation-disclosure sections are in the 10-K and as a result such disclosures are available to competitors. Following this argument, proprietary costs may be a factor influencing how timely managers modify litigation disclosures.[26] Theory tells us that when managers make

[26] Although providing litigation disclosures in the 10-K is a mandatory requirement, the extent to which managers update litigation disclosures from the prior year for new information is relatively voluntary.

disclosure decisions sensitive to proprietary costs there are no conflicts of interest between managers and shareholders, resulting in credible disclosures. This is important because if proprietary costs are positively associated with litigation-disclosures modifications then litigation disclosures may be considered credible.

Complementary Litigation Disclosures

Item 103 was issued by the SEC with the intention to complement ASC 450. The SEC views the disclosure requirements under ASC 450 and Item 103 to be different and the two litigation sections should provide different litigation information to investors.[27] Managers may repeat litigation information between the two sections because of a reluctance to provide complementary litigation disclosures and as an attempt to limit the usefulness of litigation information. Although no prior literature has systematically examined whether litigation disclosures are complementary, there is prior evidence that Item 103 may play a complementary role to contingency-note disclosures. Using 10-Qs and 10-Ks from the first half of 2007, Desir, Fanning, and Pfeiffer (2010) provide evidence that most firms do not provide estimates of expected losses in contingency-note disclosures; however some firms are already providing some qualitative disclosures called for under the FASB exposure draft. Hennes (2012) uses a sample of employment-discrimination cases to show that although there is a lack of quantitative information in contingency-note disclosures, the qualitative litigation disclosures are useful to investors. With limited quantitative disclosures available and managers' reluctance to provide quantitative estimates, the question remains whether Item 103 and contingency-note disclosures are providing complementary qualitative disclosures.

[27] See "Financial Reporting Alert 11-1, SEC's Focus on Compliance With Loss Contingency Disclosures," https://www.deloitte.com/view/en_us/us/d0cf789ac2ded210VgnVCM2000001b56f00aRCRD.htm (accessed May 7, 2013).

Litigation Disclosures and Informativeness

Surprisingly, given the importance of litigation disclosures to regulators and investors, there is little large-sample empirical evidence on these disclosures' informativeness. Banks and Kinney (1982), one of the pioneering studies on contingency-note disclosures, use a small sample of data from Accounting Trends and Techniques and conclude that the financial markets, on average, react negatively to new contingency-note disclosures even when there are prior public disclosures. However, for 103 firms with publicly announced hazardous waste lawsuits, Little, Muoghalu, and Robinson (1995) find no systematic relation between market reactions and contingency-note disclosures. In a recent study, Chen et al. (2014) find that prior litigation-loss contingency disclosures mitigate the market reaction to material loss announcements. Thus, the evidence from extant research is mixed and inconclusive. It is important to bear in mind, however, that the sample sizes of the previous studies are small (e.g., industry-specific firms).

In addition to prior mixed evidence on litigation-disclosures' informativeness, there is even less empirical evidence available to make a prediction on the informativeness of complementary litigation disclosures. Thus, I attempt to understand the informativeness of complementary litigation disclosures using a theoretical framework. Gigler and Hemmer (1998) emphasize the "confirmatory role" of mandatory financial reporting. Confirmatory theory states that the role of mandatory disclosures is to lend credibility to management's voluntary disclosures. Also, when the mandatory report is a noisy version of the manager's private information, the voluntary disclosure can be incrementally value relevant over the mandatorily reported verifiable information, making the voluntary disclosure useful to investors even in the presence of the mandatory report (Gigler and Hemmer 1998). Using the arguments from the confirmation theory, contingency-note disclosures are part of the audited mandatory financial

reports and can serve to discipline managers to make more truthful and informative voluntary disclosures under Item 103. Complementary Item 103 together with contingency-note disclosures may enhance the informativeness of litigation disclosures. Following this argument, I propose my first hypothesis (in alternative form):

H1: Complementary Item 103 and contingency-note disclosures are informative to investors around 10-K filing date.

The litigation environment is constantly changing and legal cases are often settled after 10-K filings have become publicly available. Litigation disclosures in the 10-Ks are old by the time legal cases are settled. A natural follow-up question is thus whether those old disclosures may be informative to investors trying to understand settled legal cases. Although this question also addresses the main objective of this study on whether complementary litigation disclosures are informative, it has an emphasis on historical disclosures. Providing initial evidence on this question is important because a key objective of the SEC and the FASB is to require litigation disclosures to help investors understand and predict the consequences of litigation cases. I use a unique setting where the exact timing of litigation settlement date is observable to examine if stale (i.e., old) litigation information is valuable to investors interpreting the consequences of legal cases. There is limited research on the informativeness of stale financial information, but studies have shown that historical information is predictive of future returns (e.g., Abarbanell and Bushee 1998; Piotroski 2000). Preliminary evidence from Drake, Roulstone, and Thornock (2012) suggests that stale financial disclosures are useful beyond their initial release date. However, it is worth noting that here I focus solely on litigation disclosures; thus it remains an empirical question on whether stale litigation disclosures are informative to investors when legal cases are settled. For consistency, I state *H2* in the same direction as *H1*:

H2: Complementary Item 103 and contingency-note disclosures are informative to investors around litigation settlement date.

2.3. RESEARCH DESIGN

This section describes the empirical analyses. First, I describe the model explaining modifications in litigation disclosures as a function of litigation risks and proprietary cost. The purpose of this regression is to provide validation on the litigation-disclosure modification scores used to examine the main hypothesis. Second, I provide an analysis of whether litigation disclosures are complementary by examining the level of repetition between Item 103 and contingency-note disclosures. Last and most important, I use an empirical model to examine whether complementary litigation disclosures are informative to investors around 10-K filing dates and litigation-settlement dates. Specifically, I control for non-complementary (i.e., repetitive) litigation disclosures and test the association between market reactions and proxies measuring new information content in Item 103 and in contingency-note disclosures.

2.3.1. Factors Explaining Litigation Disclosure Modifications

To understand why some firms provide more litigation disclosures in comparison to other firms and also to validate litigation-disclosure modification scores, I model litigation-disclosure modifications (*New103* or *NewContingency*) on firms' proprietary cost (*PC*) and litigation risks. Litigation research often relies on industry classification to differentiate firms between high and low litigation risk (Francis, Philbrick, and Schipper 1994). Although the industry classification proxy is intuitive and easy to apply, this proxy is unlikely to fully capture a firm's litigation risk. Kim and Skinner (2012) find that supplementing the industry membership variable with measures of firm characteristics such as size, growth, and stock volatility considerably improves

the predictive ability of their model. Thus, I use the following multivariate regression to model litigation-disclosure modifications as a function of proprietary costs and firm litigation characteristics. My model is:

$$\begin{aligned} New103_{it}(NewContingency_{it}) = {} & \beta_0 + \beta_1 PC_{it} + \beta_2 NYSE_{it} + \beta_3 Size_{it} + \beta_4 WorkingCapital_{it} \\ & + \beta_5 ROA_{it} + \beta_6 SalesGrowth_{it} + \beta_7 R\&D_{it} + \beta_8 Goodwill_{it} \\ & + \beta_9 PPE_{it} + \beta_{10} AltmanZ_{it} + \beta_{11} MB_{it} + \beta_{12} Return_{it} \\ & + \beta_{13} ReturnSkewness_{it} + \beta_{14} ReturnStdDev_{it} + \beta_{15} TurnOver_{it} \\ & + \beta_{16} USIncorp_{it} + \beta_{17} EquityProceeds_{it} + \beta_{18} DebtProceeds_{it} \\ & + \beta_{19} IndustryRisk_{it} + \eta_{it} \end{aligned} \quad (1)$$

New103 measures how different Item 103 is from year *t* to year *t-1*. Using MOSS, I compare a firm's current year Item 103 to that from the previous year. I obtain a "plagiarism score" ranging from 0% to 100% with a higher score indicating more similarity. The modification score is 100% minus the similarity score. *New103* is the natural logarithm of 1 plus the modification score. A higher *New103* implies that firm *i* has incorporated more new information into year *t*'s Item 103. *NewContingency* is calculated using the same method as *New103*. Appendix B provides an illustration of how *New103* and *NewContingency* are measured and a detailed explanation of the MOSS plagiarism program.

I use the fact that managers have redacted disclosures as a proxy for high proprietary cost.[28] *PC* is an indicator variable that equals 1 for firm has filed redacted disclosure in year *t*, 0 otherwise; *IndustryRisk* captures industry membership, it is set to 1 for biotech firms (SIC codes 2833–2836 and 8731–8734), computer firms (3570–3577 and 7370–7374), electronics firms (3600–3674), and retail firms (5200–5961), and 0 otherwise. *NYSE* is an indicator variable that equals 1 if the firm is a NYSE listing, 0 otherwise. I also include firm size (log of total assets), sales growth (the change in sales deflated by total assets), as well as several stock-return based

[28] Rule 24b-2 of the Securities Exchange Act of 1934 provides SEC registrants with the opportunity to request confidential treatment on information considered both proprietary and immaterial to investors. Information covered under confidential treatments is not disclosed to external investors and is defined as redacted disclosures.

measures—abnormal returns, return volatility, return skewness, and stock turnover—designed to capture potential litigation risk associated with share performance (Kim and Skinner 2012). Please refer to Appendix A for detailed variable definitions.

2.3.2. Complementary Litigation Disclosures

To address regulators' concerns regarding lack of complementary litigation disclosures I conduct the following analyses. I measure the statistical distribution of the percentage of non-complementary litigation disclosures contained in Item 103 and contingency-note disclosures. To quantify non-complementary disclosures I follow the regulators' comments and define non-complementary disclosures as when firms repeat disclosures between Item 103 and contingency-note disclosures. This analysis provides a statistical measure and an initial understanding on the extent that firms are not providing complementary litigation. *Repetitive* measures the level of non-complementary litigation disclosure contained in Item 103 and in contingency-note disclosures. *Repetitive103Contingency* measures the level of repetition contained in Item 103 from contingency-note disclosures. *RepetitiveContingency103* measures the level of repetition contained in contingency-note disclosures from Item 103. *Repetitive103Contingency* and *RepetitiveContingency103* are different because the lengths of Item 103 and contingency-note disclosures are different. For example, if Item 103 contains 100 words and contingency-note disclosures contain 200 words and all 100 words in Item 103 are repeated from contingency-note disclosures, *Repetitive103Contingency* would have a score of 100% and *RepetitiveContingency103* would have a score of 50%. I provide a statistical analysis of the level of repetitive disclosure contained in Item 103 from contingency-note disclosures.[29]

[29] For completeness, I also examine the level of repetitive disclosure contained in contingency-note disclosures from Item 103.

2.3.3. Complementary Litigation Disclosures and Market Consequences

To address whether complementary litigation disclosures are informative with the presence of non-complementary disclosures I use the new disclosures in Item 103 (*New103*) and the new disclosures in contingency-note disclosures (*NewContingency*) to capture the new information content in either Item 103 or contingency-note disclosures. The idea is that the new disclosures in Item 103 and contingency-note disclosures should be informative to investors. If *New103* and *NewContingency* are both informative to investors in the same regression, then Item 103 and contingency-note disclosures are complementary informative. More specifically, I examine the relation between absolute cumulative market-adjusted stock returns ($|CAR_{0,2}^{10K}|$), the dependent variable, and *New103* and *NewContingency*, the main variables of interest. My coefficients of interest are α_1 and α_2, and *H1* predicts a positive association with the dependent variable. I use the following multivariate regression:

$$|CAR_{0,2}^{10K}|_{it} = \alpha_0 + \alpha_1 New103_{it} + \alpha_2 NewContingency_{it} + \alpha_3 \text{New}Repetitive_{it} + \alpha_4 Filedate_{it} + \alpha_5 |CAR^{EA}|_{it} + \alpha_6 NumItems_{it} + \alpha_7 Size_{it} + \eta_{it} \quad (2)$$

$|CAR_{0,2}^{10K}|$ is measured over the three days beginning with the 10-K filing date and it is used to measure investors' reaction around the 10-K filing date (Griffin 2003).[30] The dependent variable and main variables of interest are both measured in changes; to be consistent I also measure non-complementary disclosures using a change proxy. *NewRepetitive* measures the repetitive information between the new disclosures in Item 103 and in contingency-note disclosures scaled by the average length of the new disclosures in Item 103 and contingency-note disclosures.[31] The *Filedate* is an indicator variable that equals 1 if the 10-K filing date is at least 90 days after the

[30] Griffin (2003) documents that the absolute value of excess returns is reliably greater on the day of and on the one or two days immediately following the filing date.

[31] To facilitate comparisons across observations, *NewRepetitive* is scaled by the average length of two litigation sections to standardize for the fact length differs between the two litigation sections.

fiscal year end, 0 otherwise. *Filedate* controls for the potential market reactions in firms that have delayed their 10-K filings (Chodhary, Merkley, and Schloetzer 2013). $|CAR^{EA}|$ is the three-day absolute cumulative market-adjusted stock returns centered on the earnings announcement date and controls for the complementary or substitutive relation between the earnings announcement and the subsequent 10-K filing. *NumItems* is the natural logarithm of 1 plus the number of non-missing items on COMPUSTAT for firm *i* in year *t* and it controls for the new numerical information in the 10-K.[32] *Size* is the natural logarithm of total assets for firm *i* at year *t* and controls for market reactions when firms differ in size.

To examine whether stale litigation disclosures are informative to investors trying to understand settled legal cases, I use a similar empirical method as Equation 2 but the dependent variable and the variables of interest are no longer contemporaneous variables. Specifically, I examine the relation between three-day absolute cumulative market-adjusted stock returns around the litigation settlement date ($|CAR_{-1,1}^{settle}|$), the dependent variable, and disclosure modifications in Item 103 (*New103*) and disclosure modifications in contingency-note disclosures (*NewContingency*), the main variables of interest. $|CAR_{0,2}^{settle}|$ is measured over the three days centered on the litigation settlement date and used to measure investors' reaction around the litigation settlement date. *New103* and *NewContingency* are considered stale litigation disclosures because those disclosures were released on 10-K filing dates, and 10-K filing dates are before the litigation settlement date. All other control variables are consistent with Equation 2. The time around the litigation settlement date is when investors are most likely to demand litigation information. Results from this test will not only shed light on whether stale litigation

[32] The underlying assumption with *NumItems* as a proxy for the numerical information in the 10-K is that firms with more information, on average, have to report more items in their financial statements.

information is informative; they also provide insights into whether investors go to public disclosures such as the 10-K to understand litigation outcomes.

2.4. SAMPLE

To conduct the empirical analyses, I obtain my sample in the following steps. First, I obtain all available 10-Ks spanning 1995 to 2013, directly from SEC EDGAR. I then follow Lehavy, Li, and Merkley (2011) and remove filings with fewer than 3,000 words or 100 lines to ensure that a complete filing is examined and that no errors were made in the filing transmission. Second, I separately extract Item 103 and contingency-note disclosures from each available 10-K. I combine the Central Index Key (CIK) and the 10-K filing date as a unique identifier to match the extracted Item 103 and contingency-note disclosures. I remove all extractions for which I am unable to obtain a matching pair of Item 103 and contingency-note disclosures. Third, I merge the extracted EDGAR data with Compustat using the CIK and fiscal year end to arrive at 31,457 firm-year observations for my primary analyses.

2.5. TEST RESULTS AND DISCUSSION

2.5.1. Descriptive Statistics and Correlations

Panel A of Table 1 reports the descriptive statistics for the variables used in my tests. The mean (median) for the new information in the Item 103 (*New103*) is 3.13 (3.37). The mean (median) for the new information in contingency-note disclosures (*NewContingency*) is 3.61 (3.78). These statistics imply that on average there is more new information in contingency-note disclosures than in Item 103. The mean (median) for the repetition level in contingency-note disclosures (*RepetitiveContingency103*) is 2.56 (2.71). The mean (median) for the repetition level in Item 103 (*Repetitive103Contingency*) is 3.86 (4.14). These statistics imply that on average the

repetition level in Item 103 is higher than the repetition level in contingency-note disclosures. This finding is consistent with the fact that Item 103 is generally shorter than contingency-note disclosures and to satisfy the disclosure requirements under Item 103 managers often repeat disclosures from contingency-note disclosures. The mean (median) for the repetition level between the new disclosures in Item 103 and the new disclosures in contingency-note disclosures (*NewRepetitive*) is 3.41 (3.50). All other variables' descriptive statistics are similar to the descriptive statistics present in prior studies (e.g., Brown and Tucker 2011; Kim and Skinner 2012).

Panel B of Table 1 presents the correlations for the independent variables used to validate litigation disclosure modification scores. Panel C of Table 1 shows the correlations among the independent variables used to test *H1*.[33] While several of the variables are significantly correlated with each other, most correlation coefficients are not large in magnitude and thus multicollinearity should not be an issue.

2.5.2. Determinants of Litigation-disclosure Modifications

This section discusses the results of estimating Equation 1, which examines factors that explain why some firms have higher litigation-disclosure modifications in comparison to other firms. The results are presented in Table 2. First, the *PC* variable is positive and significant ($p < 0.01$), suggesting that firms with higher proprietary costs are more likely to modify litigation information. Next, the litigation-risk variables load consistently in the same direction in column1 and column 2. These results suggest that Item 103 and contingency-note disclosures are modified concurrently when a firm has new litigation issues to disclose. The results also imply that firms

[33] Note, the correlation table for *H2* is not shown for brevity because those sample firms are a sub-sample of firms already included under *H1*.

with high litigation risks do modify their litigation disclosures more and the results also validate that litigation-disclosure modification scores are capturing new litigation information.

2.5.3. Complementary Litigation Disclosures

To provide information regarding how often firms include repetitive information in Item 103 and contingency-note disclosures I provide the by-year repetitive statistics distribution. The results are presented in Table 3. I find that, on average, approximately 40% of Item 103 contains repetitive information from contingency-note disclosures, and approximately 20% of contingency-note disclosures contain repetitive information from Item 103. These findings confirm the SEC and the FASB's concern that firms are repeating a large quantity of information between the two litigation sections.

2.5.4. Litigation Disclosures and Investors' Reactions

In Table 4 I provide an empirical analysis of whether complementary litigation disclosures are informative to investors around 10-K filing dates. In column 1, the coefficient on *New103*, 1.37, is positive and statistically significant ($p < 0.01$), and in column 2, the coefficient on *NewContingency*, 1.87, is positive and statistically significant ($p < 0.01$). These results indicate that around the 10-K filing date, both Item 103 and contingency-note disclosures are informative. In column 3, when both *New103* and *NewContingency* are in the same regression the two variables of interest continue to be positive and significant ($p < 0.01$). Combining column 1 to column 3, this is evidence that *New103* and *NewContingency* are informative complementary disclosures. In column 4, *NewRepetitive* is included to control for the presence of repetitive litigation disclosures between the new disclosures of *Item 103* and new disclosures of contingency-note disclosures. Combining column 1 to column 4, these results indicate that

around the 10-K filing date both Item 103 and contingency-note disclosures are informative to investors when controlling for the presence of repetitive litigation disclosures. These findings are consistent with *H1* and suggest that around the 10-K filing date litigation information is complementary enough to be informative to investors.

In Table 5, I provide an empirical analysis of whether complementary litigation disclosures are informative to investors around the litigation settlement date. There is a drop in the number of observations as the number of firms with settled cases is relatively small.[34] I find that the new disclosures in Item 103 and contingency-note disclosures are uninformative, but it is interesting to observe that non-complementary (i.e., repetitive) disclosures are informative to investors. This finding is consistent with the results in Table 4 and support the fact that the new litigation disclosures are already processed by investors when 10-Ks were released. However, *NewRepetitive* is positive and statistically significant ($p < 0.1$), suggesting that the repetition portion of the new litigation disclosures is relatively more important such that investors will use those disclosures again when trying to understand recently settled litigation case.

2.6. CONCLUSIONS

Using a large sample of Item 103 and contingency-note disclosures extracted from 10-Ks over the period 1995-2013, I first examine how often firms include repetitive information in Item 103 and contingency-note disclosures. I find that, on average, approximately 40% of Item 103 contains repetitive information from contingency-note disclosures, and approximately 20% of contingency-note disclosures contain repetitive information from Item 103. This finding

[34] I restrict my sample to firms with litigation settlement date post 10-K filing dates because I need the litigation disclosures in the 10-K filings to be stale when legal cases are settled. For example, if the 10-K filing date is on March 1, 2000, then the settlement date needs to occur between March 1, 2000 and December 31, 2000 in order to be in the sample.

confirms the SEC and the FASB's concern that firms are repeating a large quantity of information between the two litigation sections.

The SEC and the FASB are also concerned with the informativeness of complementary litigation disclosures with the presence of non-complementary litigation disclosures. To address this concern, I examine investors' reactions to Item 103 and contingency-note disclosures around 10-K filing dates and litigation settlement dates to determine whether complementary litigation disclosures are informative to investors. I find that controlling for the repetitive litigation disclosures between the new disclosures in Item 103 and the new disclosures in contingency-note disclosures complementary litigation disclosures are informative to investors around 10-K filing dates.

Around the litigation settlement date, I find that the new disclosures in Item 103 and contingency-note disclosures are uninformative, but it is interesting to observe that non-complementary disclosures are informative to investors. This result suggests that the new litigation disclosures are already processed by investors when 10-Ks were released, but litigation disclosures that are repeated in both the new disclosures of Item 103 and the new disclosures of contingency-note disclosures are important enough that investors will use such disclosures again when needing to understand recent settled litigation case.

Overall, my results suggest that although firms repeat information between the two litigation sections, litigation disclosures are complementary enough to provide information to investors. In addition, those non-complementary litigation disclosures are likely useful to investors when trying to understand legal cases settled post 10-K filing dates. The findings in this study support the FASB's recent decision to not precede with disclosure policy changes in contingency-note disclosures. This paper also provides a new litigation-disclosure quality

measure that can be employed in a large-sample to further understand litigation disclosures in alternative empirical settings.

References

Abarbanell, B., and B. Bushee. 1998. Abnormal returns to a fundamental analysis strategy. *The Accounting Review* 73 (1): 19-45.

Arnold, V., J. C. Bedard, J. Phillips, and S. Sutton. 2010. Where Do Investors Prefer to Find Nonfinancial Information? *Journal of Accountancy*.

Banks, D., and W. R. Kinney. 1982. Loss contingency reports and stock prices: An empirical study. *Journal of Accounting Research* 20 (1): 240-254.

Beatty, A., L. Cheng, and H. Zhang. 2013. Do differences in risk disclosure requirements reflect underlying financial constraints? Working paper, The Ohio State University.

Beaver, W. 1998. *Financial Reporting: an accounting revolution*. Upper Saddle River, NJ: Prentice Hall.

Beaver, W. 1968. The information content of annual earnings announcements. *Empirical Research in Accounting, Journal of Accounting Research* (Supplement) 6: 67-92.

Bebchuk, L. A., M. Cremers, and U. Peyer. 2011. The CEO pay slice. *Journal of Financial Economics* 102 (1): 199-221.

Belanger, F., and M. B. Watson-Manheim. 2007. Communication media repertoires: Dealing with the multiplicity of media choices. *MIS Quarterly* 31 (2): 267-293.

Beyer, A., D. Cohen, T. Lys, and B. Walther. 2010. The financial reporting environment: Review of the recent literature. *Journal of Accounting and Economics* 50 (2): 296-343.

Bloomfield, R. 2002. The "incomplete revelation hypothesis" and financial reporting. *Accounting Horizons* 16 (3): 233-243.

Bloomfield, R. 2008. Discussion of "Annual report readability, current earnings, and earnings persistence". *Journal of Accounting and Economics* 45 (2): 248-252.

Bova, F, Y. Dou, and O.-K. Hope. 2013. Employee ownership and firm disclosure. Forthcoming, *Contemporary Accounting Research*.

Bowyer, K. W., and L. Hall. 1999. Experience using 'MOSS' to detect cheating on programming assignments. *Frontiers of Education Conference* 18-22.

Brown, S., and J. Tucker. 2011. Large-sample evidence on firms' year-over-year MD&A modifications. *Journal of Accounting Research* 49 (2): 309-346.

Burgoon, J. K., M. Burgoon, G. Miller, and M. Sunnafrank. 1981. Learning theory approaches to persuasion. *Human Communication Research* 7 (2): 161-179.

Bushee B., and T. Goodman. 2007. Managerial and investor responses to disclosure regulation: The case of Reg FD and conference calls. *The Accounting Review* 79 (3): 617-643.

Carlson, J. R., and R. W. Zmud. 1999. Channel expansion theory and the experiential nature of media richness perceptions. *Academy of Management Journal* 42 (2): 153–170.

Chen, C., Y. Hou, G. Richardson, and M. Ye. 2014. Auditor quality and litigation loss contingency disclosures. Working Paper, University of Toronto.

Choudhary, P., K. J. Merkley, and J. Schloetzer. 2013. Does Filing Form 10-K Early Matter? Working paper, Georgetown University.

Clarkson, P., J. L. Kao, and G. Richardson. 1994. The voluntary inclusion of forecasts in the MD&A section of annual reports. *Contemporary Accounting Research* 11 (11): 423-450.

Cohen, J.R., L.M. Gaynor, L.L. Holder-Webb, and N. Montague. 2008. Management's Discussion and Analysis: Implications for Audit Practice and Research. *Current Issues in Auditing* 2(2): A26-A35.

Cornerstone Research. 2014. Accounting class action filings and settlements: 2013 review and analysis. www.cornerstone.com.

Dahle, T. L. 1954. An objective and comparative study of five methods of transmitting information to business and industrial employees. *Speech Monographs* 21 (1): 21–28.
De Franco, G., O.-K. Hope, D. Vyas, and Y. Zhou. 2013. Analyst report readability. Forthcoming, *Contemporary Accounting Research*.
De Franco, G., F. Wong, and Y. Zhou. 2011. Accounting Adjustments and the Valuation of Financial Statement Note Information in 10-K Filings. *The Accounting Review* 86 (5): 1577-1604.
De Franco, G., and Y. Zhou. 2009. The Performance of Analysts with a CFA Designation: The Role of Human-Capital and Signal Theories. *The Accounting Review* 84 (2): 383-404.
Deloitte. 2011. Highlights of the 2011 AICPA national conference on current SEC and PCAOB developments.
https://www.deloitte.com/view/en_us/us/c3b60e67d2e34310VgnVCM2000001b56f00aRCRD.htm.
Desir, R., K. Fanning, and R. J. Pfeiffer. 2010. Are revisions to SFAS No. 5 needed? *Accounting Horizons* 24 (4): 525-545.
Drake, M., D. Roulstone, and J. Thornock. 2012. The Informativeness of Stale Financial Disclosures. Working Paper, Brigham Young University.
D'Souza, J., K. Ramesh, and M. Shen. 2010. The interdependence between institutional ownership and information dissemination by data aggregators. *The Accounting Review* 26 (2): 229-254.
Fama, E. 1970. Efficient capital markets: A review of theory and empirical work. *Journal of Finance* 25 (2): 383-417.
Fesler, R. D., and J. L. Hagler. 1989. Litigation disclosures under SFAS No. 5: A study of actual cases. *Accounting Horizons* 3 (1): 10-20.
Francis, J., D. Philbrick, and K. Schipper. 1994. Shareholder litigation and corporate disclosures. *Journal of Accounting Research* 32 (2): 137-164.
Frost, C. 1991. Loss contingency Reports and stock prices: A replication and extension of Banks and Kinney. *Journal of Accounting Research* 29 (1): 157-169.
Fulbright. 2013. 9th Annual litigation trends report.
http://www.nortonrosefulbright.com/news/93066/fulbrights-9th-annual-litigation-trends-survey-litigation-bounces-back-regulation-hits-high-us-release.
Fulk, J., J. Schmitz, and C. W. Steinfield. 1990. A social influence model of technology use. *Organizations and communication technology* (pp. 117–140). Newbury Park, CA: Sage.
Gigler, F., and T. Hemmer, 1998, On the frequency, quality, and informational role of mandatory financial reports. *Journal of Accounting Research (*Supplement*) 36*: 117-147.
Griffin, P. 2003. Got information? Investor response to Form 10-K and Form 10-Q EDGAR filings. *Review of Accounting Studies* 8 (4): 433-460.
Hage, J., P. Rademaker, and N. van Vugt. 2011. Plagiarism detection for Java: a tool comparison. *Computer Science Education Research Conference*: 33-46.
Harrison, A. A. 1968. Response competition, frequency, exploratory behavior, and liking. *Journal of Personality and Social Psychology* 9 (4): 363-368.
Healy, P. M., and K. Palepu. 2001. Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics* 31 (1): 405-440.
Hennes, K. M. 2012. The reporting of contingent legal liabilities. Working Paper, Pennsylvania State University.

Herrington, J. D., A. Mohanty, N. S. Koven, J. E. Fisher, J. L. Stewart, M. T. Banich, A. G. Webb, G. A. Miller, and W. Heller. 2005. Emotion-modulated performance and activity in left dorsolateral prefrontal cortex. *Emotion* 5 (2): 200-207.
Hillary, G., and C. Hsu. 2013. Analyst forecast consistency. *The Journal of Finance* 68 (1): 271-297.
Hirshleifer, D., and S. H. Teoh. 2003. Limited attention, information disclosure, and financial reporting. *Journal of Accounting and Economics* 36 (1): 337-386.
Hodge, F. 2001. Hyperlinking unaudited information to audited financial statements: Effects on investor judgments. *The Accounting Review* 76 (4): 675-691.
Houston, J. F., B. Lev, and J. Tucker. 2010. To Guide or Not to Guide? Causes and Consequences of Stopping Quarterly Earnings Guidance. *Contemporary Accounting Research* 27 (1): 143-185.
Investors Technical Advisory Committee (ITAC). December 11, 2007. http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175818751796&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs.
International Accounting Standards Board (IASB). 2013. Discussion Forum. http://www.ifrs.org/Meetings/Pages/IASB-Disclosure-Forum-January-2013.aspx.
Johnson, R. C., C. W. Thomson, and G. Frincke. 1960. Word values, word frequency and visual duration thresholds. *Psychological Review* 67 (5): 332-342.
Kim, I., and D. J. Skinner. 2012. Measuring securities litigation risk. *Journal of Accounting and Economics* 53 (1/2): 290-310.
King, R. C., and W. Xia. 1999. *Media appropriateness: Effects of experience on communication media choice. In K. E. Kendall (Ed.), Emerging information technologies: Improving decision, cooperation, and infrastructure*. Thousand Oaks, CA: Sage.
KPMG. 2011. Disclosure overload and complexity: hidden in plain sight. http://www.kpmg.com/US/en/IssuesAndInsights/ArticlesPublications/Documents/disclosure-overload-complexity.pdf.
Kumar, A. 2010. Self-Selection and the Forecasting Abilities of Female Equity Analysts. *Journal of Accounting Research* 48 (2): 393-435.
Lang, M., and R. Lundholm 1996. Corporate Disclosure Policy and Analyst Behavior. *The Accounting Review* 71 (4): 467 - 492.
Lawrence, A. 2013. Individual investors and financial disclosure. Forthcoming, *Journal of Accounting and Economics*.
Lee, A. 2001. The mere exposure effect: An uncertainty reduction explanation revisited. *Personality and Social Psychology Bulletin* 27 (10): 1255-1266.
Lehavy, R., F. Li, and K. Merkley. 2011. The effect of annual report readability on analyst following and the properties of their earnings forecasts. *The Accounting Review* 86 (3): 1087-1115.
Leonardi, P. M. 2007. Activating the informational capabilities of information technology for organizational change. *Organization Science* 18 (5): 813–831.
Leonardi, P. M., T. Neeley, and E. Gerber. 2012. How managers use multiple media: Discrepant events, power, and timing in redundant communication. *Organization Science* 23 (1): 98-117.
Li, F. 2008. Annual report readability, current earnings, and earnings persistence. *Journal of Accounting and Economics* 45 (2): 221-247.
Li, F. 2010. The information content of forward-looking statements in corporate filings—A naïve Bayesian machine learning approach. *Journal of Accounting Research* 48 (5): 1049-1102.

Little, P., M. I. Muoghalu, and H. D. Robison. 1995. Hazardous waste lawsuits, financial disclosure, and investors' interests. *Journal of Accounting, Auditing and Finance* 10 (2): 383-400.
Loughran, T., and B. McDonald. 2011. When Is a Liability Not a Liability? Textual Analysis, Dictionaries, and 10-Ks. *The Journal of Finance* 66 (1): 35-65.
Magee, J. C., and A. D. Galinsky. 2008. Social hierarchy: The self-reinforcing nature of power and status. *The Academy of Management Annals* 2 (1): 351-398.
Maines, L., and L. McDaniel. 2000. Effects of comprehensive-income characteristics on nonprofessional investors' judgments: The role of financial-statement presentation format. *The Accounting Review* 75 (2): 179-207.
Matlin, M. W. 1970. Response competition as a mediating factor in the frequency-affect relationship. *Journal of Personality and Social Psychology* 16 (3): 536-552.
McMullin, J. 2012. Can I borrow your footnotes? Footnote similarity and accounting comparability. Working paper. University of Southern California.
Miller, B. 2010. The effects of reporting complexity on small and large investor trading. *The Accounting Review* 85 (6): 2107-2143.
O'Brien, P., and R. Bhushan. 1990. Analyst Following and Institutional Ownership. *Journal of Accounting Research* 28: 55-76.
Piotroski, J. 2000. Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers. *Journal of Accounting Research* 38 (1): 1-41.
Richardson-Klavehn, A., and R. Bjork. 1988. Measures of memory. *Annual Review of Psychology* 39 (1): 475-543.
Roediger, III, H. 2008. Relativity of remembering: Why the laws of memory vanished. *Annual Review Psychology* 59 (1): 225 - 254.
Rogers, J. L., A. Van Buskirk, and S. Zechman. 2011. Disclosure tone and shareholder litigation. *The Accounting Review* 86 (6): 2155-2183.
Roulstone, D. T., 2011. Discussion of large-sample evidence on firms' year-over-year MD&A modifications. *Journal of Accounting Research* 49 (2): 347-357.
Securities and Exchange Commission (SEC). April 17, 1987. Release No. 33-6711: "Concept Release on Management's Discussion and Analysis of Financial Condition and Operations".
Securities and Exchange Commission (SEC). May 18, 1989. Release No. 33-6835: "Management's Discussion and Analysis of Financial Condition and Results of Operations; Certain Investment Company Disclosures".
Securities and Exchange Commission (SEC). August, 1998. A Plain English Handbook: How to Create Clear SEC Disclosure Documents.
Securities and Exchange Commission (SEC). December 12, 2001. Release Nos. 33-8040: "Cautionary advice regarding disclosure about critical accounting policies".
Securities and Exchange Commission (SEC). December 29, 2003. Release No. 33-8350: "Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations".
Securities and Exchange Commission (SEC). September, 2010. CAQ SEC Regulations committee-Joint meeting with SEC staff SEC offices.
Securities and Exchange Commission (SEC). October 27, 2011. Release No. 33-8350: "Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations".

Schacter, D. 1987. Implicit memory: History and current status. *Journal of Experimental Psychology* 13 (3): 501-518.
Schipper, K. 1991. Commentary on analysts' forecasts. *Accounting Horizons* 5 (4): 105-121.
Schipper, K. 2007. Required disclosure in financial reports. *The Accounting Review* 76 (4): 675-691.
Schleimer, S., D. S. Wilkerson, and A. Aiken. 2003. Winnowing: Local algorithms for document fingerprinting. *SIGMOD 2003 Electronic Proceedings*: 76-85.
Shannon, C. E., and W, Weaver. 1949. *The mathematical theory of communication*. Urbana: University of Illinois Press.
Stephan, W. G., C. Stephan, and W. Gudykunst. 1999. Anxiety in intergroup relations: A comparison of anxiety/uncertainty management theory and integrated threat theory. *International Journal of Intercultural Relations* 23 (4): 613–628.
Stephens, K. 2007. The successive use of information and communication technologies at work. *Communication Theory* 17 (4): 486-507.
Stephens, K., A. Barrett, and M. Mahometa. 2013. Organizational communication in emergencies: Using multiple channels and sources to combat noise and capture attention. *Human Communication Research*: 1-22.
Stephens K., and S. Rains. 2011. Information and communication technology sequences and message repetition in interpersonal interaction. *Communication Research* 38 (1): 101-122.
Tarca, A., D. L. Street, and W. Aerts. 2011. Factors affecting MD&A disclosures by SEC registrants: Views of practitioners. *Journal of International Accounting, Auditing and Taxation* 20 (1): 45-59.
Tetlock, P., M. Saar-Tsechansky, and S. Macskassy. 2008. More than Words: Quantifying Language to Measure Firms' Fundamentals. *Journal of Finance* 63 (3): 1437-1467.
Tsai, C., J. Klayman, and R. Hastie. 2008. Effects of amount of information on judgment accuracy and confidence. *Organizational Behavior and Human Decision Processes* 107 (2): 97-105.
Upreti N., and R. Kumar. 2012. "CodeAliker"- Plagiarism detection on the cloud. *Advanced Computing: An International Journal* 3 (4): 21-26.
Verrecchia, R E., and J. Weber. 2006. Redacted Disclosure. *Journal of Accounting Research* 44 (4): 791-814.
Zajonc, R. B. 1968. Attitudinal effects of mere exposures. *Journal of Personality and Social Psychology*. 9 (2): 1-27.

Appendix A

Moss Results

Sat Nov 10 06:23:06 PST 2012

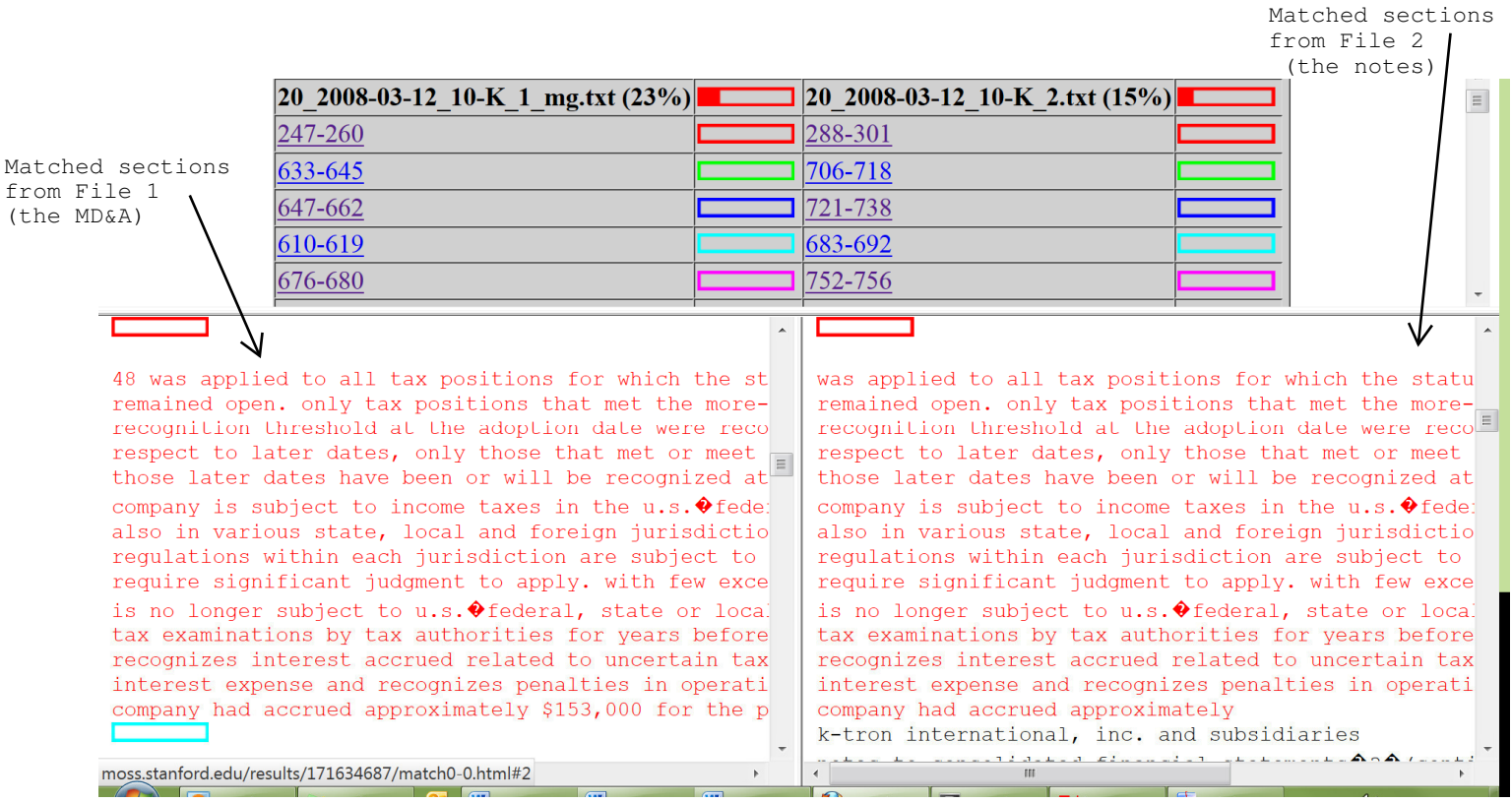
Options -l c -m 10

[How to Read the Results | Tips | FAQ | Contact | Submission Scripts | Credits]

File 1 File 2 Lines Matched

20_2008-03-12_10-K_1_mg.txt (23%) 20_2008-03-12_10-K_2.txt (15%) 246

Any errors encountered during this query are listed below.

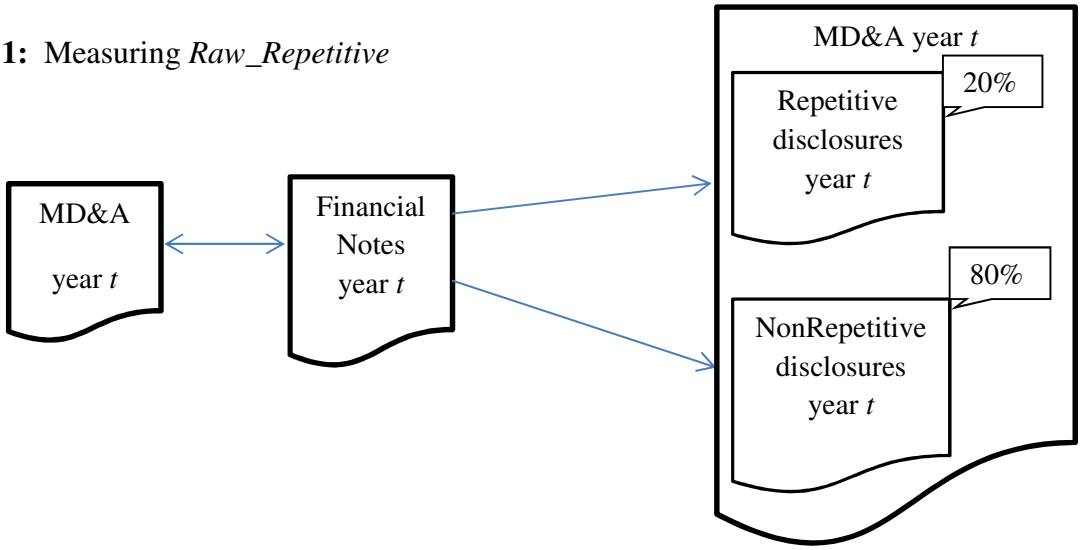


This is a sample screen shot of MOSS' output. A firm's MD&A (on the left) is compared with the notes (on the right). MOSS generates a plagiarism score for the MD&A, 23%, which is the *Raw_Repetitive* variable. The textual content illustrates the plagiarized sections from the MD&A and the notes.

APPENDIX B − Chapter 1
Illustration of Repetitive and Non-Repetitive Disclosures

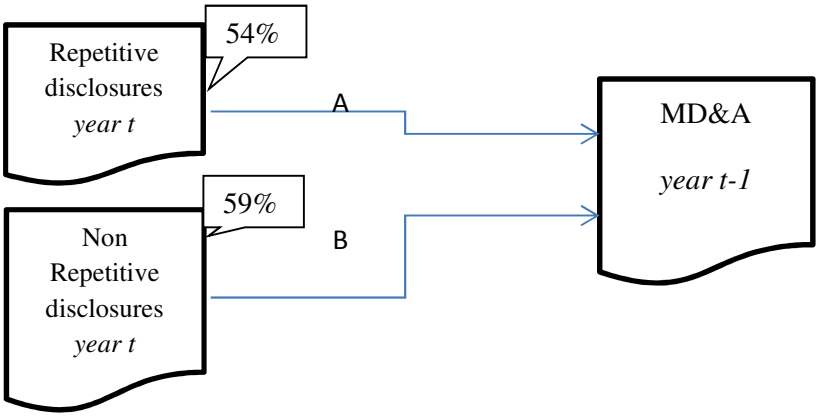
The following two steps provide an illustration how *Raw_Repetitive*, *Infor_Repetitive*, and *Infor_NonRepetitive* are measured.

Step 1: Measuring *Raw_Repetitive*



MOSS compares the MD&A with the notes. The MD&A is then decomposed into repetitive and non-repetitive disclosures.
In this illustration, 20% represents *Raw_Repetitive* at year *t*, which is the percentage of textual content in the MD&A repeated from the notes.

Step 2: Measuring *Infor_Repetitive* and *Infor_NonRepetitive*



For a sample firm:
I compare repetitive disclosures at year *t* with the MD&A at year *t-1* to obtain a similarity score. I subtract the similarity score from 100 to obtain **54%**. *Infor_Repetitive* is measured as natural logarithm of 1 plus **54%**.
I compare non-repetitive disclosures at year *t* with the MD&A at year *t-1* to obtain a similarity score. I subtract the similarity score from 100 to obtain **59%**. *Infor_NonRepetitive* is measured as natural logarithm of 1 plus **59%**.

APPENDIX C − Chapter 1
Variable Definitions

Variable		Definitions
Market Reactions		
$\lvert CAR_{0,2}^{10K} \rvert$	=	Absolute cumulative market decile-adjusted stock returns over the three days beginning with the 10-K filing date, obtained from CRSP;
$\lvert CAR_{-1,1}^{10K} \rvert$	=	Absolute cumulative market decile-adjusted stock returns centered on the 10-K filing date, obtained from CRSP;
$Vol_{0,2}^{10K}$	=	The excess trading volume, defined as the logarithm of the cumulative trading volume over the three-day report window (days 0 to +2 relative the 10-K filing date) minus the logarithm of the firm-specific median trading volume for contiguous three-day periods over the 365 days prior to the report window;
|*Revision*|	=	The absolute difference between the mean analyst forecasts for year *t+1* issued in the 90-day window before the 10-K filing and the mean forecasts issued in the 30-day window after the filing, scaled by the stock price at the end of year *t*;
*lg_*|*Revision*|	=	Natural logarithm of 1 plus |Revision|;
Measures of Repetitive Disclosures		
Raw_Repetitive	=	MOSS-generated plagiarism score that captures the percentage of textual content in the MD&A repeated from the notes for firm *i* in year *t*;
Repetitive	=	The natural logarithm of 1 plus the *Raw_Repetitive* for firm *i* in year *t*;
Δ*Repetitive*	=	The difference between *Raw_Repetitive* for year *t* and year *t-1* scaled by *Raw_Repetitive* for firm *i* in year *t-1*;
High_Repetitive	=	Difference between firm *i*'s *Repetitive* from the sample median Repetitive at year *t*;
Infor_Repetitive	=	Natural logarithm of 1 plus the MOSS-generated disclosure difference score for repetitive disclosures in year *t*, refer to Appendix B for more details;
Infor_NonRepetitive	=	Natural logarithm of 1 plus the MOSS-generated disclosure difference score for non-repetitive disclosures in year *t*, refer to Appendix B for more details;
MeanSignificantPolicy	=	The mean percentage of textual content from significant note disclosures repeated in repetitive disclosures in year *t,* generated by MOSS;
MedianSignificantPolicy	=	The median percentage of textual content from significant note disclosures repeated in repetitive disclosures in year *t*, generated by MOSS;

Other Relevant Variables

Infor_MD&A	=	Natural logarithm of 1 plus the MOSS-generated disclosure difference score by comparing the MD&A at year *t* with the MD&A at year *t-1*;
NumItems	=	The natural logarithm of 1 plus the number of non-missing items on COMPUSTAT for firm *i* in year *t*;
|*Discrepant_Event*|	=	An indicator variable that equals 1 when firm *i*'s absolute difference from the prior period earnings is greater than the sample median absolute difference from the prior period earnings, 0 otherwise; Absolute difference from the prior period earnings is measured as the absolute difference between earnings at year *t* and earnings at year *t-1* scaled by total assets at year *t*;
Bad	=	An indicator variable that equals 1 when firm *i*'s discrepant event is negative at year *t*, 0 otherwise;
Power	=	Percentage of pay of the top five earners allocated to the CEO for firm *i* at year *t*;
Δ*Power*	=	Year-to-year change in firm's *Power* for firm *i* at year *t*;
Uncertainty	=	The standard deviation of firm's monthly returns during the year *t* scaled by total assets at year *t*;
Δ*Uncertainty*	=	Year-to-year change in firm's *Uncertainty* for firm *i* at year *t;*
$\lvert CAR^{EA} \rvert$	=	Absolute cumulative market-adjusted stock return over the three days centered with firm *i*'s earnings announcement date;
Vol^{EA}	=	The excess trading volume, defined as the logarithm of the cumulative trading volume over the three-day report window (days 0 to +2 relative the earnings announcement date) minus the logarithm of the firm-specific median trading volume for contiguous three-day periods over the 365 days prior to the report window;
NotesLength	=	Natural logarithm of the 1 plus word count of firm *i*'s 10-K notes disclosures in year *t*;
Filedate	=	An indicator variable that equals to 1 when the 10-K filing date is at least 90 days after the year end, 0 otherwise;
Size	=	Natural logarithm of total assets at the end of the year *t*;
Comp	=	Herfindahl index at year *t*. The Herfindahl index is calculated as the sum of the squared market share of each publicly traded company in a particular two-digit SIC code. Market share is calculated as the sales of a particular company divided by the total sales of the SIC code;
Litig	=	An indicator variable that equals 1 when firm *i* is within SIC codes 2833-2836, 3570-3577, 3600-3674, 5200-5961, 7370-7374, and 8731-8734, 0 otherwise;

Additional Control Variables

Fog	=	-1 × The Gunning-Fog Index for the MD&A, calculated as: (words per sentence + percent of complex words) × 0.4
MDALength	=	Natural logarithm of the 1 plus word count of firm *i*'s MD&A in year *t*;
Infor_Notes	=	Natural logarithm of 1 plus the MOSS-generated disclosure difference score by comparing the notes at year *t* with the notes at year *t-1*;
EarningsSurprise	=	Analysts' earnings surprise per share calculated based on analysts' latest EPS forecast for year t;
Management_forecast	=	An indicator variable that equals to 1 when the management has issued a management forecast, 0 otherwise;

APPENDIX D − Chapter 1
Repetitive Disclosures Examples

MD&A	The notes
CIK: 20	
YEAR: 2008-03-12	
Only tax positions that met the more-likely-than-not recognition threshold at the adoption date were recognized and, with respect to later dates, only those that met or meet the threshold on those later dates have been or will be recognized at those dates. The company is subject to income taxes in the u.s. federal jurisdiction and also in various state, local and foreign jurisdictions. Tax laws and regulations within each jurisdiction are subject to interpretation and require significant judgment to apply. with few exceptions, the company is no longer subject to u.s. federal, state or local or non-u.s. income tax examinations by tax authorities for years before 2004. the company recognizes interest accrued related to uncertain tax liabilities in interest expense and recognizes penalties in operating expenses. The company had accrued approximately $153,000 for the payment of interest.	Only tax positions that met the more-likely-than-not recognition threshold at the adoption date were recognized and, with respect to later dates, only those that met or meet the threshold on those later dates have been or will be recognized at those dates. The company is subject to income taxes in the u.s. federal jurisdiction and also in various state, local and foreign jurisdictions. tax laws and regulations within each jurisdiction are subject to interpretation and require significant judgment to apply. with few exceptions, the company is no longer subject to u.s. federal, state or local or non-u.s. income tax examinations by tax authorities for years before 2004. the company recognizes interest accrued related to uncertain tax liabilities in interest expense and recognizes penalties in operating expenses. The company had accrued approximately $153,000 for the payment of interest.
The citizens loan agreement contains financial and other covenants, including a minimum fixed charge coverage ratio, a minimum net worth and a maximum debt ratio, and includes limitations on, among other things, liens, acquisitions, consolidations, sales of assets, incurrences of debt and capital expenditures. as of december 29, 2007, the borrowers were in compliance with these covenants and limitations. If an event of default, such as non-payment or failure to comply with a covenant, were to occur under the citizens loan agreement, and subject to any applicable grace period, the lenders would be entitled to declare all amounts outstanding under the facility immediately due and payable. as of december 29, 2007, the total borrowing under the revolving credit facility was $33,750,000,	The citizens loan agreement contains financial and other covenants, including a minimum fixed charge coverage ratio, a minimum net worth and a maximum debt ratio, and includes limitations on, among other things, liens, acquisitions, consolidations, sales of assets, incurrences of debt and capital expenditures. as of december 29, 2007, the company was in compliance with these covenants and limitations. if an event of default, such as non-payment or failure to comply with a covenant, were to occur under the citizens loan agreement, and subject to any applicable grace period, the lenders would be entitled to declare all amounts outstanding under the facility immediately due and payable. as of december 29, 2007, the total borrowing under the revolving credit facility was $33,750,000,
1750_2008-07-11_10-K_1_mg_r.txt (62%)	
General Overview We report our activities in four business segments: Aviation Supply Chain; Maintenance, Repair and Overhaul; Structures and Systems; and Aircraft Sales and Leasing. Sales in the Aviation Supply Chain segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and defense markets, as well as the repair and overhaul of a wide range of commercial	Segment Reporting We report our activities in four business segments: Aviation Supply Chain; Maintenance, Repair and Overhaul; Structures and Systems; and Aircraft Sales and Leasing. Sales in the Aviation Supply Chain segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and defense markets, as well as the repair and

and military aircraft parts and components. We also offer customized programs for inventory supply and management and performance-based logistics. Sales also include the sale and lease of commercial jet engines. Cost of sales consists principally of the cost of product (primarily aircraft and engine parts), direct labor and overhead (primarily indirect labor, facility cost and insurance). Sales in the Maintenance, Repair and Overhaul segment are principally derived from aircraft maintenance and storage and the repair and overhaul of landing gear. Cost of sales consists principally of the cost of product (primarily replacement aircraft parts), direct labor and overhead. Sales in the Structures and Systems segment are derived from the engineering, design and manufacture of containers, pallets and shelters used to support the U.S. military's tactical deployment requirements, complex machined and fabricated parts, components and sub-systems for various aerospace and defense programs and other applications, in-plane cargo loading and handling systems for commercial and military applications and composite products for aviation and industrial use. Cost of sales consists principally of the cost of product, direct labor and overhead.	overhaul of a wide range of commercial and military aircraft parts and components. We also offer customized programs for inventory supply and management and performance-based logistics. Sales also include the sale and lease of commercial jet engines. Cost of sales consists principally of the cost of product (primarily aircraft and engine parts), direct labor and overhead (primarily indirect labor, facility cost and insurance). Sales in the Maintenance, Repair and Overhaul segment are principally derived from aircraft maintenance and storage and the repair and overhaul of landing gear. Cost of sales consists principally of the cost of product (primarily replacement aircraft parts), direct labor and overhead. Sales in the Structures and Systems segment are derived from the engineering, design and manufacture of containers, pallets and shelters used to support the U.S. military's tactical deployment requirements, complex machined and fabricated parts, components and sub-systems for various aerospace and defense programs and other applications, in-plane cargo loading and handling systems for commercial and military applications and composite products for aviation and industrial use. Cost of sales consists principally of the cost of product, direct labor and overhead.
1800_2008-02-19_10-K_1_mg_r.txt (91%)	
the valuation method used to fair value the projects was the multi-period excess earnings method (income approach) and the risk-adjusted discount rates used ranged from 16 percent to 25 percent. in developing assumptions for the valuation model, comparable abbott products or products marketed by competitors were used to estimate pricing, margins and expense levels. as of December 31, 2007, the research efforts were primarily on schedule. the estimated projected costs to complete totaled approximately $390 million as of december 31, 2007, with anticipated product launch dates from 2008 through 2013. there have been no significant changes in the development plans for the acquired incomplete projects. significant net cash inflows will commence within one to two years after product launch. in order to facilitate boston scientific's acquisition of guidant, abbott also acquired 64.6 million shares of boston scientific common stock directly from boston scientific and loaned $900 million to a wholly-owned subsidiary of boston scientific. the common stock was valued at $1.3 billion and the note receivable was valued at $829 million at the acquisition date. in connection with the acquisition of the shares, boston scientific is entitled to certain after-tax gains upon	the valuation method used to fair value the projects was the multi-period excess earnings method (income approach) and the risk-adjusted discount rates used ranged from 16 percent to 25 percent. in developing assumptions for the valuation model, comparable abbott products or products marketed by competitors were used to estimate pricing, margins and expense levels. As of december 31, 2007, the research efforts were primarily on schedule. the estimated projected costs to complete totaled approximately $390 million as of december 31, 2007, with anticipated product launch dates from 2008 through 2013. there have been no significant changes in the development plans for the acquired incomplete projects. significant net cash inflows will commence within one to two years after product launch. in order to facilitate boston scientific's acquisition of guidant, abbott also acquired 64.6 million shares of boston scientific common stock directly from boston scientific and loaned $900 million to a wholly-owned subsidiary of boston scientific. the common stock was valued at $1.3 billion and the note receivable was valued at $829 million at the acquisition date. in connection with the acquisition of the shares, boston scientific is entitled to certain after-

abbott's sale of the shares. in addition, boston scientific agreed to reimburse abbott for certain borrowing costs on debt incurred to acquire the boston scientific shares. abbott recorded a net derivative financial instruments liability of $59 million for the gain-sharing derivative financial instrument liability and the interest derivative financial instrument asset. the effect of recording the shares, the loan to boston scientific and the derivative financial instruments at fair value on the date of acquisition resulted in the recording of additional goodwill of approximately $204 million. changes in the fair value of the derivative financial instruments, net are recorded in other (income) expense, net. in 2005, abbott acquired the remaining interest in a small medical products company and a less than 50 percent equity interest in a small medical products company for $25 million.	tax gains upon abbott's sale of the shares. in addition, boston scientific agreed to reimburse abbott for certain borrowing costs on debt incurred to acquire the boston scientific shares. abbott recorded a net derivative financial instruments liability of $59 million for the gain-sharing derivative financial instrument liability and the interest derivative financial instrument asset. the effect of recording the shares, the loan to boston scientific and the derivative financial instruments at fair value on the date of acquisition resulted in the recording of additional goodwill of approximately $204 million. changes in the fair value of the derivative financial instruments, net are recorded in other (income) expense, net. in 2005, abbott acquired the remaining interest in a small medical products company and a less than 50 percent equity interest in a small medical products company for $25 million.
1923_2008-07-30_10-K_1_mg_r.txt (82%)	
The Company leases space in its income-producing properties to tenants and recognizes minimum base rentals as revenue on a straight-line basis over the lease term. The lease term usually begins when the tenant takes possession of, or controls the physical use of, the leased asset. Generally, this occurs as of the lease commencement date. In determining what constitutes the leased asset, the Company evaluates whether the Company or the tenant is the owner of the improvements. If the Company is the owner of the improvements, then the leased asset is the finished tenant space. In such instances, revenue recognition begins when the tenant takes possession of the finished space, typically when the improvements are substantially complete. If the Company determines that the improvements belong to the tenant, then the leased asset is the unimproved tenant space, and any improvement allowances funded by the Company under the lease are treated as lease incentives that reduce the revenue recognized over the term of the lease. In these circumstances, the Company begins revenue recognition when the tenant takes possession of the unimproved space. The Company considers a number of different factors in order to determine whether the Company or the tenant owns the improvements. These factors include: (1) whether the lease stipulates the terms and conditions of how an improvement allowance may be spent; (2) whether the tenant or the Company retains legal title to the improvements; (3) the uniqueness of the improvements; (4) the expected economic life of the improvements relative to the length of the lease; and (5) who constructs or directs the construction of the improvements. The determination of	The Company leases space in its income-producing properties to tenants and recognizes minimum base rentals as revenue on a straight-line basis over the lease term. The lease term usually begins when the tenant takes possession of, or controls the physical use of, the leased asset. Generally, this occurs as of the lease commencement date. In determining what constitutes the leased asset, the Company evaluates whether the Company or the tenant is the owner of the improvements. If the Company is the owner of the improvements, then the leased asset is the finished tenant space. In such instances, revenue recognition begins when the tenant takes possession of the finished space, typically when the improvements are substantially complete. If the Company determines that the improvements belong to the tenant, then the leased asset is the unimproved tenant space, and any improvement allowances funded by the Company under the lease are treated as lease incentives that reduce the revenue recognized over the term of the lease. In these circumstances, the Company begins revenue recognition when the tenant takes possession of the unimproved space. The Company considers a number of different factors in order to determine whether the Company or the tenant owns the improvements. These factors include: (1) whether the lease stipulates the terms and conditions of how an improvement allowance may be spent; (2) whether the tenant or the Company retains legal title to the improvements; (3) the uniqueness of the improvements; (4) the expected economic life of the improvements relative to the length of the lease; and (5) who constructs or directs the construction of the

who owns the improvements is subject to significant judgment. In making this determination, the Company considers all of the above factors; however, no one factor is determinative in reaching a conclusion. Certain leases may also require tenants to pay additional rental amounts as partial reimbursements for their share of property operating and common area expenses, real estate taxes, and insurance, which reimbursements are recognized as revenues when earned. In addition, certain leases require retail tenants to pay incremental rental amounts, which are contingent upon their individual store s sales.	improvements. The determination of who owns the improvements is subject to significant judgment. In making this determination, the Company considers all of the above factors; however, no one factor is determinative in reaching a conclusion. Certain leases may also require tenants to pay additional rental amounts as partial reimbursements for their share of property operating and common area expenses, real estate taxes, and insurance, which reimbursements are recognized as revenues when earned. In addition, certain leases require retail tenants to pay incremental rental amounts, which are contingent upon their individual store s sales.
2034_2008-09-05_10-K_1_mg_r.txt (79%)	
contaminated property in tennessee called the pulvair site. the prp group has alleged that aceto shipped hazardous substances to the site which were released into the environment. the state had begun administrative proceedings against the members of the prp group and aceto with respect to the cleanup of the pulvair site and the group has begun to undertake cleanup. the prp group is seeking a settlement of approximately $2,100 from the company for its share to remediate the site contamination. although the company acknowledges that it shipped materials to the site for formulation over twenty years ago, the company believes that the evidence does not show that the hazardous materials sent by aceto to the site have significantly contributed to the contamination of the environment. accordingly, the company believes that the settlement offer is unreasonable. alternatively, counsel to the prp group has proposed that aceto join it as a participating member and pay 3.16% of the prp group's cost. the company believes that this percentage is high because it is based on the total volume of materials that aceto sent to the site, most of which were non-hazardous substances and as such, believes that, at most, it is a de minimus contributor to the site contamination. The impact of the resolution of this matter on the company's results of operations in a particular reporting period is not known.	to remediate a contaminated property in tennessee called the pulvair site. the prp group has alleged that aceto shipped hazardous substances to the site which were released into the environment. the state had begun administrative proceedings against the members of the prp group and aceto with respect to the cleanup of the pulvair site and the group has begun to undertake cleanup. the prp group is seeking a settlement of approximately $2,100 from the company for its share to remediate the site contamination. although the company acknowledges that it shipped materials to the site for formulation over twenty years ago, the company believes that the evidence does not show that the hazardous materials sent by aceto to the site have significantly contributed to the contamination of the environment. accordingly, the company believes that the settlement offer is unreasonable. alternatively, counsel to the prp group has proposed that aceto join it as a participating member and pay 3.16% of the prp group's cost. the company believes that this percentage is high because it is based on the total volume of materials that aceto sent to the site, most of which were non-hazardous substances and as such, believes that, at most, it is a de minimus contributor to the site contamination. The impact of the resolution of this matter on the company's results of operations in a particular reporting period is not known.

Make a note that all capital letters are removed due the running the textual content through the plagiarism program. Some letters were capitalized due me trying to remove the empty spaces in textual to make it more presentable. There might be one word or two in front of the picked up sections, those are removed;

APPENDIX E − Chapter 1
Litigation Risk Estimation

The litigation-risk probit model below follows Houston, Lev and Tucker (2010). The model estimation uses the class-action filings during January 1996 and December 2011, downloaded from the Standford Securities Class Action Clearinghouse website.

$$\Pr(Lawsuit_i = 1) = \Phi\,(\alpha_0 + \alpha_1 LogMVE_i + \alpha_2 Turnover_i + \alpha_3 Beta_i + \alpha_4 CumRet_i + \alpha_5 StdRet_i + \alpha_6 MinRet_i + \alpha_7 BioTech_i + \alpha_8 CompHard_i + \alpha_9 CompSoft_i + \alpha_{10} Electronics_i + \alpha_{11} Retail_i + \varepsilon_i)$$

Variable	Coefficient	*p*-value
Constant	-6.06***	<0.001
LogMVE	0.16***	<0.001
Turnover	1.93***	<0.001
Beta	0.16	0.230
CumRet	-0.17***	<0.001
StdRet	1.62***	<0.001
MinRet	-3.09***	<0.001
BioTech	0.04	0.360
CompHard	0.35***	<0.001
CompSoft	0.33***	<0.001
Electronics	0.21***	<0.001
Retail	0.06	0.270
McFadden Pseudo R^2		16%
1,476 litigated and 96,844 non-litigated firm-year observations		

Variable Definitions: The dependent variable *Lawsuit* is 1 for a firm-year if the firm is the defendant in a class-action lawsuit filed in that year and 0 otherwise. For a litigated firm-year, the independent variables are measured in the 1-year period before the filing date; for a non-litigated firm-year they are measured over the calendar year. *LogMVE* is the log transformation of average daily market value of equity (in millions of dollars). *Turnover* is the average daily trading volume deflated by the number of shares outstanding. *Beta* is the coefficient on market returns in the market model. *CumRet* is the sum of daily returns. *StdRet* is the standard deviation of daily returns. *MinRet* is the minimum daily return. *BioTech*, *CompHard*, *CompSoft*, *Electronics*, and *Retail* are the dummy variables for the bio-tech (SIC 2833–2836), computer hardware (SIC 3570–3577), computer software (SIC 7371–7379), electronics (SIC 3600-3674), and retail (SIC 5200–5961) industries, respectively.

APPENDIX A − Chapter 2
Variable Definitions

Variable		Definitions
Market Reactions		
$\lvert CAR_{0,2}^{10K} \rvert$	=	Absolute cumulative market decile-adjusted stock returns over the three days beginning with the 10-K filing date, obtained from CRSP;
$\lvert CAR_{-1,1}^{settle} \rvert$	=	Absolute cumulative market decile-adjusted stock returns centered on the litigation settlement date, obtained from CRSP;
Measures of Litigation Disclosures		
NewProxy	=	*New103* or *NewContingency* at year *t*;
New103	=	Natural logarithm of 1 plus the MOSS-generated disclosure difference score by comparing Item 103 at year *t* with Item 103 at year *t-1*;
NewContingency	=	Natural logarithm of 1 plus the MOSS-generated disclosure difference score by comparing contingency note disclosures at year *t* with contingency note disclosures at year *t-1*;
Repetitive	=	*Repetitive103Contingency* or *RepetitiveContingency103* at year *t*;
Repetitive103Contingency	=	The natural logarithm of 1 plus the MOSS-generated plagiarism score that captures the percentage of textual content in Item 103 repeated from contingency note disclosures for firm *i* in year *t*;
RepetitiveContingency103	=	The natural logarithm of 1 plus the MOSS-generated plagiarism score that captures the percentage of textual content in contingency note disclosures repeated from Item 103 for firm *i* in year *t*;
NewRepetitive	=	The natural logarithm of 1 plus the MOSS-generated plagiarism score that captures the percentage of repetitive content between the new disclosures in Item 103 and in contingency note disclosures for firm *i* in year *t*;
MeanContingency103	=	The mean percentage of textual content in contingency note disclosures repeated from Item 103 in year *t,* generated by MOSS;
MedianContingency103	=	The mean percentage of textual content in Item 103 repeated from contingency note disclosures in year *t,* generated by MOSS;
Mean103Contingency	=	The mean percentage of textual content in Item 103 repeated from contingency note disclosures in year *t,* generated by MOSS;
Median103Contingency	=	The median percentage of textual content in Item 103 repeated from contingency note disclosures in year *t*,

generated by MOSS;

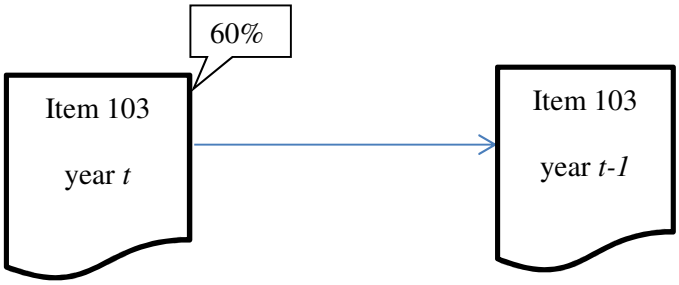
Independent Variables

PC	=	An indicator variable that equals 1 for firm has filed under redacted disclosure in year *t*, and 0 otherwise;
IndustryRisk	=	An indicator variable that equals 1 for biotech firms (SIC codes 2833–2836 and 8731–8734), computer firms (3570–3577 and 7370–7374), electronics firms (3600–3674), and retail firms (5200–5961), and 0 otherwise;
NYSE	=	An indicator variable that equals 1 when the firm is listed on the New York Stock Exchange, and 0 otherwise;
Size	=	Natural logarithm of total assets at the end of the year *t*;
WorkingCapital	=	Calculated as (current assets-current liabilities) at the end of year *t* scaled by beginning of year *t-1* total assets for firm *i;*
ROA	=	Return on assets, defined as year *t* net income scaled by year *t-1* total assets for firm *i*;
SalesGrowth	=	Calculated as year *t* sales less year *t-1* sales scaled by beginning of year *t* total assets for firm *i*;
R&D	=	Research and development expenses in year *t* scaled by beginning of year *t* total assets for firm *i*;
Goodwill	=	Calculated as goodwill at year *t* scaled by beginning of year *t* total assets for firm *i* at year *t*;
PPE	=	Property, plant and equipment at the end of year *t* scaled by beginning of year *t* total assets for firm *i* at year *t*;
AltmanZ	=	Altman (1968) Z score for firm *i* at year *t*;
MB	=	Market value of equity scaled by book value of equity for firm *i* at year *t*;
Return	=	Market-adjusted 12-month stock return for firm *i* at year *t*;
ReturnSkewness	=	Skewness of the firm's 12-month return for firm *i* at year *t*;
ReturnStdDev	=	Standard deviation of the firm's 12-month returns for firm *i* at year *t*;
TurnOver	=	Year-to-year change in firm's *%Pay* for firm *i* at year *t*;
USIncorp	=	Year-to-year change in firm's *%Pay* for firm *i* at year *t*;
EquityProceeds	=	Year-to-year change in firm's *%Pay* for firm *i* at year *t*;
DebtProceeds	=	Year-to-year change in firm's *%Pay* for firm *i* at year *t*;
$\lvert CAR^{EA} \rvert$	=	Absolute cumulative market-adjusted stock return over the three days centered with firm *i*'s earnings announcement date;
NumItems	=	The natural logarithm of 1 plus the number of non-missing items on COMPUSTAT for firm *i* in year *t*;
Filedate	=	An indicator variable that equals to 1 when the 10-K filing date is at least 90 days after the year end, 0 otherwise;

APPENDIX B − Chapter 2
Illustration of New103 and NewContingency

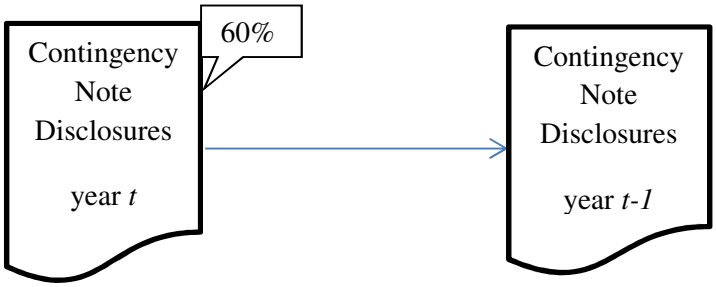
The following provides an illustration how *New103* and *NewContingency* are measured.

Measuring *New103:*



MOSS compares Item 103 at year *t-1* with Item 103 at year *t*. In this illustration, 60% represents the plagiarism score at year *t*, which is the percentage of textual content in Item 103 at year *t* considered plagiarized from Item 103 at year *t-1*. I subtract the plagiarized score from 100 to obtain 40%. *New103* is measured as natural logarithm of 1 plus 40%.

Measuring *NewContingency:*

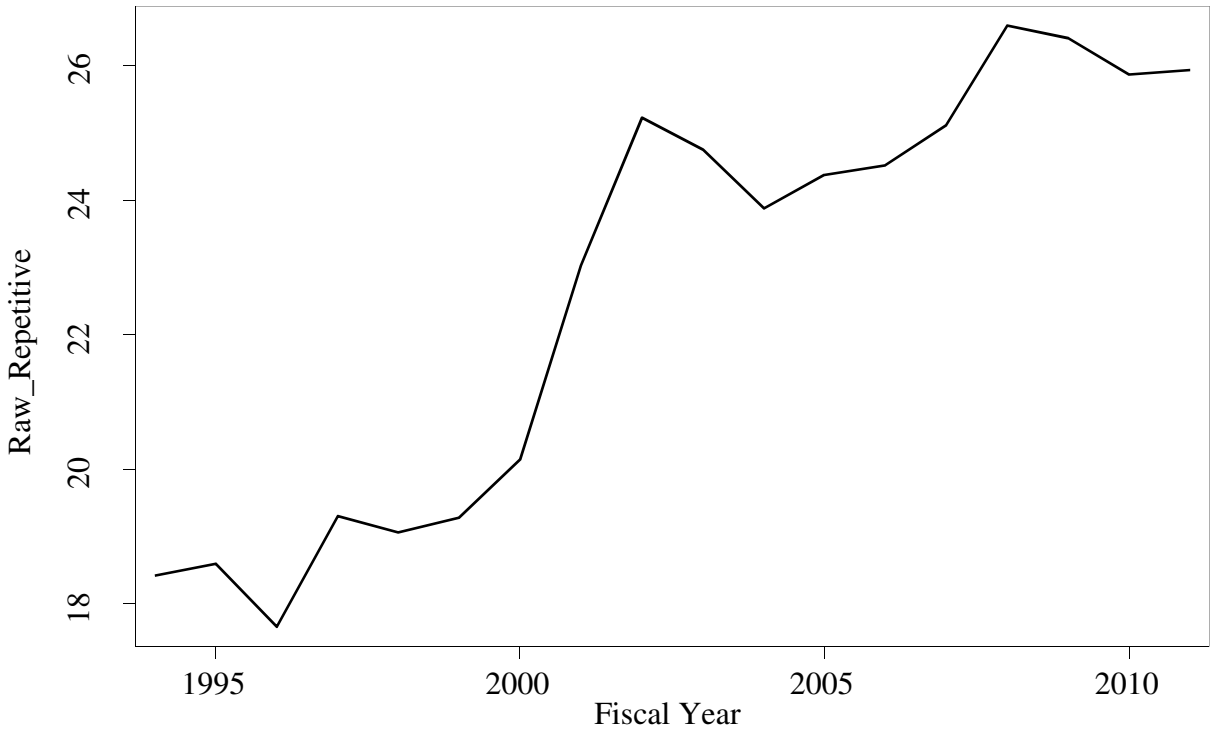


MOSS compares contingency note disclosures at year *t-1* with contingency note disclosures 103 at year *t*. In this illustration, 60% represents the plagiarism score at year *t*, which is the percentage of textual content in contingency note disclosures at year *t* considered plagiarized from contingency note disclosures at year *t-1*. I subtract the plagiarized score from 100 to obtain 40%. *NewContingency* is measured as natural logarithm of 1 plus 40%.

The Measure of Software Similarity (MOSS) plagiarism-detecting program was developed in 1994 by Professor Alex Aiken, currently at Stanford University. According to discussions with Professor Aiken, MOSS has around 145,000 users. Professor Aiken estimates there are approximately 10,000 active users at any point of time. The MOSS submission script works for Unix/Linux platforms and also works under Windows with Cygwin. MOSS has been shown in various computer science publications as a top plagiarism-detection performer and it is widely used by professors and university teaching assistants (Bowyer and Hall 1999; Hage, Rademaker, and Vugt 2011). MOSS is also used in practice by companies to help with intellectual property lawsuits. Although MOSS is mainly used in the field of computer science to detect plagiarized code, it is also capable of detecting plagiarism in plain text because it is much easier to detect plagiarism in plain text than to detect plagiarism in computer science languages (Upreti and Kumar 2012). MOSS has thousands of users who use the program to detect plagiarism in various documents; the program should thus be capable of identifying repetitive litigation disclosures in my study with reasonable accuracy.

Figure 1

Repetitive Disclosure Trend



Distribution of *Raw_Repetitive*. *Raw_Repetitive* measures the percentage of textual content in the MD&A is repeated from the notes. A higher score indicates more repetition from the notes. Sample means are used for each year.

Table 1 – Chapter 1

Panel A: Sample Means (Medians) by Year

	Obs.	*Raw_Repetitive*	*Repetitive*	$\lvert CAR_{0,2}^{10K} \rvert$	*NotesLength*
1995	375	18.76	2.85	0.03	8.88
		(17.00)	(2.89)	(0.02)	(8.84)
1996	758	18.38	2.83	0.04	8.73
		(17.00)	(2.89)	(0.02)	(8.68)
1997	1,128	18.35	2.83	0.04	8.78
		(17.00)	(2.89)	(0.03)	(8.74)
1998	1,975	18.72	2.85	0.05	8.83
		(17.00)	(2.89)	(0.03)	(8.79)
1999	2,292	19.21	2.90	0.06	8.89
		(18.00)	(2.94)	(0.04)	(8.86)
2000	2,366	19.97	2.93	0.07	8.93
		(18.50)	(2.97)	(0.05)	(8.90)
2001	2,561	20.73	2.97	0.07	8.99
		(19.00)	(3.00)	(0.04)	(8.98)
2002	2,714	24.18	3.14	0.05	9.11
		(23.00)	(3.18)	(0.03)	(9.10)
2003	2,935	26.11	3.21	0.04	9.25
		(25.00)	(3.26)	(0.03)	(9.24)
2004	3,036	24.47	3.16	0.03	9.30
		(24.00)	(3.22)	(0.02)	(9.29)
2005	3,240	24.47	3.16	0.03	9.36
		(24.00)	(3.22)	(0.02)	(9.36)
2006	3,370	24.95	3.18	0.03	9.41
		(24.00)	(3.22)	(0.02)	(9.40)
2007	3,338	24.87	3.18	0.03	9.47
		(24.00)	(3.22)	(0.02)	(9.46)
2008	3,326	25.63	3.21	0.05	9.51
		(25.00)	(3.26)	(0.03)	(9.51)
2009	3,472	27.29	3.27	0.08	9.57
		(27.00)	(3.33)	(0.05)	(9.58)
2010	3,393	26.53	3.25	0.04	9.59
		(26.00)	(3.30)	(0.02)	(9.61)
2011	3,170	26.12	3.23	0.04	9.60
		(25.00)	(3.26)	(0.02)	(9.63)
Total	**43,449**	**23.91**	**3.12**	**0.05**	**9.28**
		(23.00)	**(3.18)**	**(0.03)**	**(9.30)**

See variables definition in Appendix C.

Panel B: Repetitive Disclosures in Significant Accounting Policy

This table presents descriptive statistics of the percentage of textual content in repetitive disclosures belong to the significant accounting policy notes.

	Obs.	*Mean SignificantPolicy*	*Median SignificantPolicy*
1995	183	24.50	16
1996	360	28.79	22
1997	575	28.47	21
1998	1,041	27.83	21
1999	1,165	27.89	21
2000	1,186	28.32	21
2001	1,334	31.05	25
2002	1,642	35.60	30
2003	2,269	37.20	34
2004	2,377	36.11	32
2005	2,520	37.69	34
2006	2,626	39.85	37
2007	2,662	40.89	37
2008	2,599	41.59	38
2009	2,716	40.83	38
2010	2,649	40.80	37
2011	2,469	39.50	36
Total	**30,373**		

See variables definition in Appendix C.

Panel C: Repetitive versus Non-repetitive Disclosures
This table presents the comparison of descriptive statistics of the percentage of positive, negative and litigious words contained in repetitive disclosures and non-repetitive disclosures.

Percentage of Positive Words

	Mean	Std. Deviation
Repetitive Disclosures	0.0200	0.007
Non-repetitive Disclosures	0.0172	0.009
Difference in Mean	*t-value* (75.93)	*p-value* (0.00)

Percentage of Negative Words

	Mean	Std. Deviation
Repetitive Disclosures	0.0465	0.0166
Non-repetitive Disclosures	0.0438	0.0176
Difference in Mean	*t-value* (20.72)	*p-value* (0.00)

Percentage of Litigious Words

	Mean	Std. Deviation
Repetitive Disclosures	0.0167	0.0107
Non-repetitive Disclosures	0.0140	0.0090
Difference in Mean	*t-value* (59.13)	*p-value* (0.00)

Table 2 – Chapter 1

Panel A: Descriptive Statistics

This table presents descriptive statistics of the variables used in my tests. Variables are defined in Appendix C.

	Mean	St. Dev.	25th	Median	75th
Raw_Repetitive	23.91	10.16	17.00	23.00	30.00
Repetitive	3.12	0.47	2.89	3.18	3.43
$\lvert CAR_{0,2}^{10K} \rvert$	0.05	0.07	0.01	0.03	0.06
$\lvert CAR_{-1,1}^{10K} \rvert$	0.05	0.08	0.01	0.03	0.06
|*Revision*|	0.03	0.23	0.00	0.01	0.02
*lg_*|*Revision*|	0.02	0.08	0.00	0.01	0.02
Infor_Repetitive	3.98	0.31	3.83	4.01	4.17
Infor_NonRepetitive	4.08	0.26	3.91	4.09	4.28
Infor_MD&A	3.99	0.39	3.83	4.04	4.23
NotesLength	9.28	0.57	8.92	9.30	9.64
Filedate	0.13	0.34	0.00	0.00	0.00
$\lvert CAR^{EA} \rvert$	0.07	0.08	0.02	0.04	0.09
NumItems	5.00	0.16	4.92	5.02	5.12
Size	6.03	1.96	4.59	5.98	7.33
|*Discrepant_Event*|	0.43	0.50	0.00	0.00	1.00
Bad	0.44	0.50	0.00	0.00	1.00
Power	0.30	0.08	0.25	0.30	0.34
Uncertainty	0.32	1.49	0.01	0.04	0.19
Comp	0.06	0.07	0.03	0.04	0.07
Litig	0.30	0.46	0.00	0.00	1.00

Panel B: Pearson Correlations – Managerial Incentive Sample

This table reports (Pearson) correlations between the independent variables used in the empirical tests for *H1*. Variables are defined in Appendix C.

	|*Discrepant_event*|	*Bad*	*Power*	*Uncertainty*	*Comp*	*Litig*
Size	-0.11***	-0.01	-0.05***	-0.32***	-0.03***	-0.23***
Litig	-0.01	-0.03***	-0.09***	0.11***	-0.06***	
Comp	-0.00	-0.02*	0.04***	-0.03***		
Uncertainty	0.08***	0.02***	0.02**			
Power	0.00	-0.04***				
Bad	-0.08***					

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Panel C: Pearson Correlations – Market Reaction Sample

This table reports (Pearson) correlations between the independent variables used in the empirical test for *H2*. Variables are defined in Appendix C.

	Repetitive	*Infor_MD&A*	*NotesLength*	*Filedate*	$\lvert CAR^{EA} \rvert$	*NumItems*
Size	0.14***	-0.05***	0.54***	-0.16***	-0.16***	0.24***
NumItems	0.23***	0.06***	0.29***	0.01	0.05***	
$\lvert CAR^{EA} \rvert$	0.03***	0.04***	-0.04***	0.08***		
Filedate	-0.01*	0.05***	-0.09***			
NotesLength	0.37***	-0.00				
Infor_MD&A	-0.11***					

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Panel D: Pearson Correlations – High versus Low Repetitive Disclosures Sample

This table reports (Pearson) correlations between the independent variables used in the empirical test for *H3*. Variables are defined in Appendix C.

	High_ Repetitive	*Infor_ Repetitive*	*Infor_ NonRepetitive*	*Notes Length*	*Filedate*	$\lvert CAR^{EA} \rvert$	*NumItems*
Size	0.08***	-0.02***	0.03***	0.54***	-0.16***	-0.17***	0.24***
NumItems	0.18***	0.05***	0.10***	0.30***	0.01	0.05***	1.00
$\lvert CAR^{EA} \rvert$	0.03***	0.03***	0.02***	-0.04***	0.08***		
Filedate	0.03***	0.07***	0.03***	-0.09***			
NotesLength	0.26***	0.01	0.05***				
Infor_ NonRepetitive	0.08***	0.60***					
Infor_Repetitive	0.18***						

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 3 – Chapter 1
Test of Repetitive Disclosures and Managerial Incentives

This table reports an analysis of a model that explains variations in repetitive disclosures. It summarizes the results of regressing repetitive disclosures on firm characteristics (Column 1). Column 2 includes the proxy for CEO power. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) *Repetitive*	(2) *Repetitive*
|*Discrepant_Event*|	+	0.03***	0.03***
		(7.06)	(3.59)
Bad	+	0.02***	0.02***
		(5.65)	(3.30)
Power	-		-0.10*
			(-1.74)
Uncertainty	+	0.74***	10.50***
		(4.35)	(4.06)
Comp	?	0.12	0.17
		(1.62)	(1.57)
Litig	?	0.53***	-0.10***
		(4.53)	(-3.11)
Size	+	0.05***	0.04***
		(21.21)	(9.44)
Constant	?	2.75***	3.40***
		(63.48)	(56.99)
Observations		61,875	20,690
Adjusted R^2		0.17	0.17
Industry FE		YES	YES
Year FE		YES	YES

Table 4 – Chapter 1
Test of Changes in Repetitive Disclosures and Managerial Incentives

This table reports an analysis of a model that explains variations in repetitive disclosures. It summarizes the results of regressing year-to-year change in repetitive disclosures on firm characteristics (Column 1). Column 2 includes the CEO power proxy. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) Δ*Repetitive*	(2) Δ*Repetitive*
|*Discrepant_Event*|	+	0.01	-0.01
		(0.48)	(-0.50)
Bad	+	0.05***	0.06**
		(3.19)	(2.17)
Δ*Power*	-		-0.02***
			(-3.30)
Δ*Uncertainty*	+	-0.11	18.51
		(-0.31)	(1.36)
Comp	?	0.17	0.32
		(0.57)	(0.54)
Litig	?	-0.02	-0.06
		(0.00)	(-0.00)
Size	+	0.00	0.01
		(0.64)	(1.31)
Constant	?	0.29	-0.04
		(0.00)	(-0.00)
Observations		52,115	17,868
Adjusted R^2		0.01	0.01
Industry FE		YES	YES
Year FE		YES	YES

Table 5 – Chapter 1
Test of Repetitive Disclosures and Market Informativeness

Panel A:
This table reports an analysis of the relation between market returns and repetitive disclosures. It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date on repetitive disclosures, controlling for other 10-K filing and firm characteristics. Column 2 presents the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days centered on the 10-K filing date on repetitive disclosures. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) $\lvert CAR_{0,2}^{10K}\rvert$	(2) $\lvert CAR_{-1,1}^{10K}\rvert$
Repetitive	**+/-**	**0.03*** **	**0.03*** **
		(3.99)	**(3.29)**
Infor_MD&A	+	0.04***	0.03**
		(5.15)	(2.50)
NotesLength	?	0.01***	0.01***
		(9.53)	(7.77)
Filedate	+	0.02***	0.01***
		(11.08)	(9.70)
$\lvert CAR^{EA}\rvert$	+	0.26***	0.32***
		(14.83)	(14.08)
NumItems	+	-0.01*	-0.01
		(-1.84)	(-1.43)
Size	-	-0.01***	-0.01***
		(-20.27)	(-16.80)
Constant	?	0.33***	0.14***
		(19.37)	(8.00)
Observations		43,449	43,449
Adjusted R^2		0.20	0.17
Industry FE		YES	YES
Year FE		YES	YES

Panel B:

This table reports an analysis of the relation between market returns and repetitive disclosures using 2SLS. Column 1 presents the first stage regressing repetitive disclosures on firm characteristics. Column 2 summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date on predicted repetitive disclosures from stage 1, controlling for other 10-K filing and firm characteristics. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) Repetitive	(2) $\lvert CAR_{0,2}^{10K} \rvert$
Repetitive_predicted	**+/-**		**0.21*** (11.36)**
Infor_MD&A	+/-	-1.24*** (-11.84)	0.30*** (11.80)
|*Discrepant_Event*|	+	0.02*** (3.04)	
Bad	+	0.02*** (4.77)	
Uncertainty	+	2.06*** (3.89)	
Management_forecast	?	-0.01 (-1.03)	
Institutional_ Ownership	?	-0.03*** (-3.59)	
Comp	?	-0.03 (-0.34)	
Litig	+	0.07 (0.00)	
NotesLength	?		0.01*** (8.70)
Filedate	+		0.01*** (7.85)
$\lvert CAR^{EA} \rvert$	+		0.23*** (10.98)
NumItems	+		-0.01* (-1.78)
Size	+/-	0.05*** (16.86)	-0.01*** (-15.74)
Constant	?	2.89 (0.01)	-0.62 (0.00)
Observations		33,047	33,047
Adjusted R^2		0.19	0.19
Industry FE		YES	YES
Year FE		YES	YES

Table 6 – Chapter 1
Test of Repetitive Disclosures and Investor Type

This table reports an analysis of the relation between market returns and repetitive disclosures partitioned by high and low institutional ownership (i.e., institutional and non-institutional investors). It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date on repetitive disclosures, controlling for other 10-K filing and firm characteristics. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

		High Instit. Own	Low Instit. Own
	Pred.	(1)	(2)
VARIABLES	Sign	$\lvert CAR_{0,2}^{10K}\rvert$	$\lvert CAR_{0,2}^{10K}\rvert$
Repetitive	**+/-**	**0.01**	**0.03****
		(0.79)	**(2.23)**
Infor_MD&A	+	0.04***	0.05***
		(3.38)	(3.06)
NotesLength	?	0.01***	0.01***
		(6.83)	(5.74)
Filedate	+	0.01***	0.02***
		(4.52)	(8.19)
$\lvert CAR^{EA}\rvert$	+	0.20***	0.30***
		(7.16)	(11.76)
NumItems	+	-0.01*	-0.00
		(-1.79)	(-0.30)
Size	-	-0.00***	-0.01***
		(-9.89)	(-9.69)
Constant	?	-0.08***	-0.06***
		(-7.94)	(-4.24)
Observations		16,406	16,143
Adjusted R^2		0.17	0.24
Industry FE		YES	YES
Year FE		YES	YES

Table 7 – Chapter 1
Test of Repetitive and Non-repetitive Disclosures and Investors

This table reports an analysis of the relation between repetitive and non-repetitive disclosures. It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date on the interaction between repetitive and non-repetitive disclosures, controlling for other 10-K filing and firm characteristics. Columns 2 and 3 present the same regression partition by high and low institutional ownership (i.e., institutional and non-institutional investors). Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

			High Instit. Own	Low Instit. Own
	Pred.	(1)	(2)	(3)
VARIABLES	Sign	$\lvert CAR_{0,2}^{10K}\rvert$	$\lvert CAR_{0,2}^{10K}\rvert$	$\lvert CAR_{0,2}^{10K}\rvert$
***High_Repetitive* ×**	**+/-**	**0.05***	**-0.02**	**0.10***
Infor_NonRepetitive		**(1.71)**	**(-0.51)**	**(1.82)**
High_Repetitive	+	-0.02	0.01	-0.04*
		(-1.50)	(0.55)	(-1.68)
Infor_NonRepetitive	+	0.04**	0.06**	0.03
		(2.35)	(2.41)	(1.06)
Infor_Repetitive	+	0.03**	0.01	0.07***
		(2.54)	(0.58)	(3.57)
NotesLength	?	0.01***	0.01***	0.01***
		(9.52)	(6.88)	(5.91)
Filedate	+	0.02***	0.01***	0.02***
		(10.63)	(4.41)	(8.06)
$\lvert CAR^{EA}\rvert$	+	0.27***	0.21***	0.30***
		(15.15)	(7.25)	(11.90)
NumItems	+	-0.01**	-0.01*	-0.00
		(-2.22)	(-1.74)	(-0.46)
Size	-	-0.01***	-0.00***	-0.01***
		(-19.31)	(-10.15)	(-9.71)
Constant	?	0.33***	0.02	-0.07***
		(18.34)	(0.73)	(-2.65)
Observations		41,256	16,435	16,178
Adjusted R^2		0.20	0.17	0.24
Industry FE		YES	YES	YES
Year FE		YES	YES	YES

Table 8 – Chapter 1
Test of Repetitive Disclosures and Analyst Earnings Forecast Revisions

This table reports an analysis of the relation between analyst earnings forecast revisions and repetitive disclosures. It summarizes the results of regressing the absolute difference between the mean analyst forecasts for year t+1 issued before the 10-K filing and the mean forecasts issued after the filing on repetitive disclosures, controlling for other 10-K filing and firm characteristics. Columns 2 presents the results of regressing natural logarithm of 1 plus the absolute difference between the mean analyst forecasts for year t+1 issued before the 10-K filing and the mean forecasts issued after the filing on repetitive disclosures. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) |*Revision*|	(2) *lg_*|*Revision*|
Repetitive	**+/-**	**0.01*** **	**0.01*** **
		(3.25)	**(4.27)**
Infor_MD&A	+	0.09***	0.07***
		(2.74)	(4.97)
NotesLength	?	0.01	0.01***
		(1.03)	(3.45)
Filedate	+	0.02*	0.01***
		(1.89)	(2.98)
$\|CAR^{EA}\|$	+	0.15**	0.07***
		(2.05)	(4.79)
NumItems	+	0.00	0.01
		(0.27)	(1.14)
Size	-	-0.01***	-0.01***
		(-6.73)	(-11.12)
Constant	?	-0.05	-0.11***
		(-0.50)	(-2.73)
Observations		23,850	23,850
Adjusted R^2		0.01	0.06
Industry FE		YES	YES
Year FE		YES	YES

Table 9 – Chapter 1
Test of Repetitive and Non-repetitive Disclosures and Financial Analysts

This table reports an analysis of the relation between repetitive and non-repetitive disclosures. It summarizes the results of regressing the absolute difference between the mean analyst forecasts for year t+1 issued before the 10-K filing and the mean forecasts issued after the filing on the interaction between repetitive and non-repetitive disclosures, controlling for other 10-K filing and firm characteristics. Columns 2 presents the results of regressing natural logarithm of 1 plus the absolute difference between the mean analyst forecasts for year t+1 issued before the 10-K filing and the mean forecasts issued after the filing on the interaction between repetitive and non-repetitive disclosures. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) |*Revision*|	(2) *lg_*|*Revision*|
***High_Repetitive* ×**	**+/-**	**0.00**	**0.01**
Infor_NonRepetitive		**(0.33)**	**(1.43)**
High_Repetitive	+/-	-0.00	-0.01
		(-0.06)	(-1.03)
Infor_NonRepetitive	+	0.01	0.01***
		(1.62)	(3.22)
Infor_Repetitive	+	0.01	0.00**
		(1.47)	(2.15)
NotesLength	?	0.01	0.01***
		(1.03)	(3.48)
Filedate	+	0.02*	0.01***
		(1.87)	(2.97)
$\|CAR^{EA}\|$	+	0.15**	0.07***
		(2.05)	(4.78)
NumItems	+	0.00	0.01
		(0.25)	(1.10)
Size	-	-0.01***	-0.01***
		(-6.72)	(-11.17)
Constant	?	-0.03	-0.10**
		(-0.31)	(-2.51)
Observations		23,850	23,850
Adjusted R^2		0.01	0.06
Industry FE		YES	YES
Year FE		YES	YES

Table 10 – Chapter 1

Test of Repetitive Disclosures and Market Informativeness: Additional Controls

This table reports an analysis of the relation between market returns and repetitive disclosures. It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date on repetitive disclosures, controlling for other 10-K filing and firm characteristics and additional controls. Column 4 presents the results using abnormal trading volume as the dependent variable. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) $\lvert CAR_{0,2}^{10K}\rvert$	(2) $\lvert CAR_{0,2}^{10K}\rvert$	(3) $\lvert CAR_{0,2}^{10K}\rvert$	(4) $VOL_{0,2}^{10K}$
Repetitive	**+/-**	**0.04*** **	**0.03*** **	**0.03*** **	**0.02***
		(4.33)	**(3.55)**	**(3.19)**	**(1.73)**
Infor_MD&A	+	0.02*	-0.00	0.00	0.19
		(1.73)	(-0.13)	(0.14)	(1.22)
NotesLength	?	0.01***	0.01***	0.01***	0.52***
		(7.52)	(5.88)	(6.03)	(4.33)
Filedate	+	0.01***	0.01***	0.01***	-0.00
		(9.76)	(7.86)	(7.60)	(-0.02)
$\lvert CAR^{EA}\rvert$	+	0.26***	0.22***	0.23***	
		(14.31)	(11.69)	(10.71)	
NumItems	+	-0.01*	-0.01***	-0.01**	
		(-1.89)	(-3.23)	(-2.32)	
Fog	?	-0.00***	-0.00***	-0.00***	
		(-2.68)	(-3.14)	(-3.89)	
MDALength	?	0.00***	0.00***	0.00***	
		(4.99)	(5.74)	(5.31)	
Infor_Notes	+	0.05***	0.08***	0.07***	
		(3.61)	(5.59)	(5.05)	
Institutional_ Ownership	?	-0.00*** (-5.37)			
EarningsSurprise	?		0.00 (0.10)		
Management_forecast	?			-0.00*** (-5.67)	
Vol^{EA}	+				0.44*** (31.61)
Size	-	-0.01***	-0.01***	-0.01***	-0.02***
		(-17.91)	(-15.53)	(-13.96)	(-5.20)
Constant	?	-0.02	0.02	-0.01	-1.35
		(-0.00)	(0.79)	(-0.33)	(-0.00)
Observations		42,215	33,809	32,866	41,740
Adjusted R^2		0.20	0.18	0.19	0.21
Industry FE		YES	YES	YES	YES
Year FE		YES	YES	YES	YES

Table 11 – Chapter 1

Test of Repetitive Disclosures and Managerial Incentives: Alternative Litigation Measure

This table reports an analysis of a model that explains variations in repetitive disclosures. It summarizes the results of regressing repetitive disclosures on firm characteristics using an alternative litigation proxy measured in Appendix E. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	Pred. Sign	(1) *Repetitive*
|*Discrepant_Event*|	+	0.03***
		(6.63)
Bad	+	0.02***
		(5.14)
Uncertainty	+	0.79***
		(4.34)
Comp	?	0.13*
		(1.77)
LitigationRisk	?	0.03*
		(1.72)
Size	+	0.05***
		(20.73)
Constant	?	2.85***
		(85.94)
Observations		61,137
Adjusted R^2		0.17
Industry FE		YES
Year FE		YES

Table 12 – Chapter 1

Test of Repetitive Disclosures and Managerial Incentives: Additional Firm-Level Disclosure Controls

This table reports an analysis of a model that explains variations in repetitive disclosures. It summarizes the results of regressing repetitive disclosures on firm characteristics controlling for the following additional firm-level disclosure attributes: *LengthSig* and *FogNotes*. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	(1) *Repetitive*	(2) *Repetitive*	(4) *Repetitive*
|*Discrepant_Event*|	0.03***	0.03***	0.03***
	(5.63)	(6.13)	(6.11)
Bad	0.02***	0.02***	0.02***
	(5.37)	(4.98)	(5.01)
Uncertainty	0.80***	0.91***	0.92***
	(3.88)	(3.75)	(3.76)
Comp	0.10	0.05	0.05
	(1.29)	(0.64)	(0.63)
Litig	0.52***	0.17*	0.12***
	(34.62)	(1.95)	(6.82)
LengthSig	0.02***	0.02***	0.02***
	(8.82)	(7.41)	(7.45)
FogNotes		-0.01***	-0.01***
		(-3.50)	(-3.47)
AuditorSmall			-0.02**
			(-1.97)
Size	0.04***	0.04***	0.04***
	(18.80)	(17.82)	(16.40)
Constant	2.18***	2.40***	2.41***
	(71.44)	(54.03)	(54.10)
Observations	48,430	41,706	41,706
Adjusted R-squared	0.18	0.19	0.19
Industry FE	YES	YES	YES
Year FE	YES	YES	YES

Table 13 – Chapter 1
Pseudo Market Informativeness and Repetitive Disclosures

This table reports an analysis of the relation between market returns and repetitive disclosures. It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days centered on May 15th on repetitive disclosures, controlling for other 10-K filing and firm characteristics and additional controls. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	(1) $\lvert CAR_{0,2}^{random} \rvert$
Repetitive	**0.00**
	(0.55)
Infor_MD&A	0.02***
	(3.78)
NotesLength	0.01***
	(9.49)
Filedate	0.01***
	(6.49)
$\lvert CAR^{EA} \rvert$	0.03***
	(8.87)
NumItems	0.00
	(1.20)
Size	-0.01***
	(-27.51)
Constant	-0.04***
	(-3.22)
Observations	43,061
Adjusted R-squared	0.12
Industry FE	YES
Year FE	YES

Table 14 – Chapter 1
Critical Accounting Policies and Repetitive Disclosures

This table reports an analysis of the relation between repetitive and non-repetitive disclosures. It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date by partition the sample pre and post 2001, the year the SEC start requiring firms to include critical accounting policies in the MD&A, controlling for other 10-K filing and firm characteristics and additional controls. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

VARIABLES	(1) Year <=2001 $\lvert CAR_{0,2}^{10K} \rvert$	(2) Year > 2002 $\lvert CAR_{0,2}^{10K} \rvert$
Repetitive	**0.03***	**0.04****
	(1.89)	**(3.96)**
Infor_MD&A	0.06***	0.03***
	(3.66)	(3.42)
NotesLength	0.01***	0.01***
	(6.32)	(7.40)
Filedate	0.02***	0.01***
	(9.40)	(4.77)
$\lvert CAR^{EA} \rvert$	0.19***	0.30***
	(10.54)	(11.20)
NumItems	-0.02***	-0.01**
	(-2.85)	(-1.98)
Size	-0.01***	-0.01***
	(-9.53)	(-15.65)
Constant	0.09**	0.04
	(2.51)	(1.62)
Observations	13,553	26,988
Adjusted R-squared	0.15	0.24
Industry FE	YES	YES
Year FE	YES	YES

Table 15 – Chapter 1
Test of Repetitive Disclosures and Investor Type: No Sample Restrictions

This table reports an analysis of the relation between market returns and repetitive disclosures partitioned by high and low institutional ownership (i.e., institutional and non-institutional investors). It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date on repetitive disclosures, controlling for other 10-K filing and firm characteristics. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix C.

		High Instit. Own	Low Instit. Own
	Pred.	(1)	(2)
VARIABLES	Sign	$\lvert CAR_{0,2}^{10K}\rvert$	$\lvert CAR_{0,2}^{10K}\rvert$
Repetitive	**+/-**	**0.01**	**0.04*** **
		(0.68)	**(4.31)**
Infor_MD&A	+	0.04***	0.04***
		(3.41)	(4.13)
NotesLength	?	0.01***	0.01***
		(7.02)	(6.83)
Filedate	+	0.01***	0.02***
		(4.28)	(9.85)
$\lvert CAR^{EA}\rvert$	+	0.20***	0.28***
		(7.18)	(13.55)
NumItems	+	-0.01*	-0.00
		(-1.84)	(-0.82)
Size	-	-0.00***	-0.01***
		(-9.95)	(-15.05)
Constant	?	-0.03	-0.08***
		(-1.00)	(-3.62)
Observations		16,406	27,246
Adjusted R^2		0.17	0.21
Industry FE		YES	YES
Year FE		YES	YES

Table 1 – Chapter 2

Panel A: Descriptive Statistics

This table presents descriptive statistics of the variables used in my tests. Variables are defined in Appendix A.

	Mean	St. Dev.	25th	Median	75th
New103	3.13	1.04	2.30	3.37	4.03
NewContingency	3.61	0.76	3.26	3.78	4.14
RepetitiveContingency103	2.56	1.34	1.61	2.71	3.74
Repetitive103Contingency	3.86	0.79	3.53	4.14	4.45
NewRepetitive	3.41	0.90	2.85	3.50	4.21
PC	0.18	0.38	0.00	0.00	0.00
IndustryRisk	0.26	0.44	0.00	0.00	1.00
NYSE	0.38	0.48	0.00	0.00	1.00
Size	6.34	1.98	4.93	6.32	7.61
WorkingCapital	0.27	0.40	0.06	0.22	0.42
ROA	-0.00	0.98	-0.01	0.02	0.07
SalesGrowth	0.09	0.93	-0.01	0.03	0.16
R&D	0.04	0.13	0.00	0.00	0.03
Goodwill	0.11	0.29	0.00	0.02	0.15
PPE	0.55	0.60	0.19	0.42	0.80
AltmanZ	3.89	11.37	1.47	2.95	5.10
MB	1.36	7.82	0.33	0.76	1.48
Return	0.02	0.59	-0.25	0.01	0.26
ReturnSkewness	0.13	0.10	0.07	0.10	0.16
ReturnStdDev	0.29	0.86	-0.26	0.24	0.80
TurnOver	0.15	0.21	0.04	0.09	0.18
USIncorp	0.98	0.15	1.00	1.00	1.00
EquityProceeds	0.21	1.10	0.02	0.06	0.15
DebtProceeds	0.03	0.29	-0.01	0.00	0.03
Filedate	0.13	0.33	0.00	0.00	0.00
$\lvert CAR^{EA} \rvert$	0.07	0.08	0.02	0.04	0.09
NumItems	5.02	0.16	4.93	5.04	5.13

Panel B: Pearson Correlations – Litigation Modification Sample

This table reports (Pearson) correlations between the independent variables used to examine litigation risk modification scores. Variables are defined in Appendix A.

	PC	*Industry Risk*	*NYSE*	*Size*	*Working Capital*	*ROA*	*Sales Growth*	*R&D*	*Goodwill*	*PPE*	*AltmanZ*	*MB*	*Return*	*Return StdDev*	*Return Skewness*	*Turn Over*	*US Incorp*	*Equity Proceeds*
Industry Risk	0.18***																	
NYSE	-0.13***	-0.24***																
Size	-0.07***	-0.16***	0.57***															
WorkingCapital	0.12***	0.17***	-0.18***	-0.19***														
ROA	-0.16***	-0.14***	0.18***	0.30***	-0.02**													
SalesGrowth	0.01	-0.00	0.00	0.02**	0.09***	-0.03***												
R&D	0.26***	0.33***	-0.21***	-0.27***	0.36***	-0.49***	0.01											
Goodwill	-0.03***	-0.02***	0.06***	0.13***	-0.04***	-0.06***	0.66***	-0.04***										
PPE	-0.12***	-0.21***	0.18***	0.14***	-0.22***	0.05***	0.24***	-0.16***	0.05***									
AltmanZ	-0.02***	0.02**	-0.01*	0.03***	0.32***	0.23***	0.03***	-0.03***	-0.01	-0.06***								
MB	0.12***	0.20***	-0.11***	-0.18***	0.27***	-0.14***	0.04***	0.36***	-0.04***	-0.13***	0.34***							
Return	0.00	0.01*	0.04***	0.02***	0.13***	0.10***	0.03***	0.03***	-0.00	0.03***	0.13***	0.23***						
ReturnStdDev	0.10***	0.12***	-0.25***	-0.37***	0.04***	-0.29***	-0.02**	0.18***	-0.06***	-0.05***	-0.10***	0.07***	0.33***					
ReturnSkewness	0.04***	0.06***	-0.12***	-0.18***	0.02***	-0.13***	-0.00	0.09***	-0.03***	-0.01	-0.04***	0.05***	0.25***	0.42***				
TurnOver	0.12***	0.13***	0.01	0.18***	0.12***	-0.05***	0.02**	0.10***	0.00	-0.03***	0.04***	0.10***	-0.01*	0.09***	-0.00			
USIncorp	0.01	0.02***	-0.03***	-0.07***	0.03***	-0.01*	0.00	0.02**	-0.00	-0.03***	0.00	-0.01	-0.01	0.01	0.01	-0.02**		
EquityProceeds	0.07***	0.09***	-0.12***	-0.24***	0.11***	-0.44***	0.07***	0.33***	0.21***	-0.00	-0.06***	0.27***	0.04***	0.17***	0.09***	0.02***	0.00	
DebtProceeds	0.01*	-0.02***	0.02**	0.05***	0.12***	-0.10***	0.64***	0.01*	0.60***	0.28***	-0.01*	-0.01	-0.00	-0.03***	-0.02**	0.01	-0.01	0.15***

$^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$

Panel C: Pearson Correlations – Market Reaction Sample

This table reports (Pearson) correlations between the independent variables used in the empirical tests for *H1* and *H2*. Variables are defined in Appendix A.

	New103	*New Contingency*	*New Repetitive*	*Filedate*	$\lvert CAR^{EA} \rvert$	*NumItems*
NewContingency	0.33***					
NewRepetitive	-0.14***	-0.28***				
Filedate	0.03***	0.02***	-0.03***			
$\lvert CAR^{EA} \rvert$	0.03***	0.04***	-0.00	0.09***		
NumItems	0.14***	0.08***	-0.02***	0.01*	0.04***	
Size	0.05***	0.00	-0.03***	-0.16***	-0.17***	0.21***

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 2 – Chapter 2

Test of Litigation Disclosure Modifications and Litigation Risk

This table reports an analysis of a model that explains variations in litigation disclosure modifications. It summarizes the results of regressing litigation disclosure modifications in Item 103 on proprietary costs and firm litigation characteristics (Column 1). Column 2 uses litigation disclosure modifications in contingency note disclosures as the dependent variable. Year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient *t*-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix A.

VARIABLES	(1) *New103*	(2) *NewContingency*
PC	0.13***	0.11***
	(6.21)	(8.21)
NYSE	-0.07***	-0.02
	(-2.78)	(-1.22)
Size	0.07***	0.03***
	(11.32)	(6.68)
WorkingCapital	-0.09***	-0.03**
	(-3.95)	(-1.99)
ROA	-0.07**	-0.08***
	(-2.17)	(-3.98)
SalesGrowth	-0.00	-0.01**
	(-0.57)	(-2.10)
R&D	-0.05	0.05
	(-0.69)	(1.10)
Goodwill	0.02	0.01
	(0.51)	(0.22)
PPE	-0.07***	-0.06***
	(-2.93)	(-4.05)
AltmanZ	-0.00**	-0.00
	(-2.22)	(-1.51)
MB	0.02***	0.01**
	(2.99)	(2.36)
Return	-0.08***	-0.05***
	(-6.77)	(-5.90)
ReturnStdDev	1.14***	0.71***
	(11.88)	(11.39)
ReturnSkewness	-0.01*	-0.01**
	(-1.88)	(-2.36)

TurnOver	0.15***	0.10***
	(4.02)	(4.19)
USIncorp	-0.12**	-0.07*
	(-2.23)	(-1.86)
EquityProceeds	0.00	-0.00
	(0.10)	(-0.31)
DebtProceeds	0.08**	0.15***
	(2.46)	(6.65)
IndustryRisk	0.00	-0.00
	(0.11)	(-0.03)
Constant	2.41***	3.13***
	(27.96)	(50.55)
Observations	28,576	28,576
Adjusted R-squared	0.05	0.05
Year FE	YES	YES

Table 3 – Chapter 2
Non-complementary Litigation Disclosures

This table presents descriptive statistics of the percentage of repetitive textual content in Item 103 and contingency note disclosures.

	Obs.	*MeanContingency 103*	*MedianContingency 103*	*Mean103 Contingency*	*Median103 Contingency*
1995	597	10.49	0	21.69	4
1996	978	9.35	0	20.52	0
1997	1467	9.03	0	21.07	0
1998	2369	9.23	0	22.88	0
1999	2806	9.73	0	24.07	0
2000	2749	10.22	0	25.06	0
2001	2803	10.63	0	25.12	0
2002	2756	13.35	0	30.67	8
2003	2840	21.02	9	45.36	46.5
2004	2775	21.19	9	46.60	47
2005	2859	21.13	9	46.96	49
2006	3008	20.47	9	47.72	50
2007	3057	20.08	8	46.39	47
2008	3006	19.60	7	45.98	47
2009	2992	19.59	7	47.08	49
2010	2968	18.11	6	44.15	44
2011	2927	17.78	6	43.33	42
2012	2740	17.88	6	44.19	43
2013	2864	16.36	5	42.22	40
Total	48,561				

See variables definition in Appendix A.

Table 4 – Chapter 2

Test of Litigation Disclosure Modifications and Market Reactions

This table reports an analysis of the relation between market returns and litigation disclosure modifications. It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days beginning with the 10-K filing date on new disclosures in Item 103 and on new disclosures in contingency note disclosures, controlling for new repetitive litigation disclosures and other 10-K filing characteristics. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix A.

VARIABLES	(1) $\lvert CAR_{0,2}^{10K} \rvert$	(2) $\lvert CAR_{0,2}^{10K} \rvert$	(3) $\lvert CAR_{0,2}^{10K} \rvert$	(4) $\lvert CAR_{0,2}^{10K} \rvert$
New103	**1.37*** **		**1.06*** **	**1.08*** **
	(3.94)		**(3.00)**	**(3.01)**
NewContingency		**1.87*** **	**1.44*** **	**1.51*** **
		(4.27)	**(3.24)**	**(3.35)**
NewRepetitive				**0.22**
				(0.60)
Filedate	0.01***	0.01***	0.01***	0.01***
	(9.37)	(9.43)	(9.35)	(9.35)
$\lvert CAR^{EA} \rvert$	0.19***	0.19***	0.19***	0.19***
	(11.49)	(11.48)	(11.47)	(11.47)
NumItems	0.00	0.00	0.00	0.00
	(1.25)	(1.30)	(1.18)	(1.19)
Size	-0.01***	-0.01***	-0.01***	-0.01***
	(-18.07)	(-17.99)	(-18.13)	(-18.12)
Constant	0.02	0.02	0.02	0.02
	(1.17)	(1.04)	(1.00)	(0.93)
Observations	31,457	31,457	31,457	31,457
Adjusted R-squared	0.17	0.17	0.17	0.17
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Table 5 – Chapter 2

Test of Litigation Disclosure Modifications and Litigation Settlement

This table reports an analysis of the relation between market returns and litigation disclosure modifications. It summarizes the results of regressing absolute abnormal cumulative market-adjusted stock return over the three days centered with litigation settlement date on new disclosures in Item 103 and contingency note disclosures, controlling for repetitive litigation disclosures and other 10-K filing characteristics. Industry and year fixed effects are included for each model but not tabulated. I cluster the standard errors at the firm level. Coefficient t-statistics are in parentheses. ***, **, and * denote significant at the 1%, 5%, and 10% (two-sided) levels, respectively. Variables are defined in Appendix A.

VARIABLES	(1) $\lvert CAR_{0,2}^{settle} \rvert$	(2) $\lvert CAR_{0,2}^{settle} \rvert$	(3) $\lvert CAR_{0,2}^{settle} \rvert$	(4) $\lvert CAR_{0,2}^{settle} \rvert$
New103	-0.06		0.29	**0.27**
	(-0.05)		(0.22)	**(0.21)**
NewContingency		-0.18	-0.20	**-0.11**
		(-0.84)	(-0.89)	**(-0.50)**
NewRepetitive				**0.22***
				(1.75)
Filedate	-0.03	-0.04	-0.04	-0.03
	(-1.49)	(-1.55)	(-1.54)	(-1.47)
$\lvert CAR^{EA} \rvert$	0.05	0.05	0.04	0.04
	(0.32)	(0.32)	(0.31)	(0.29)
NumItems	0.11	0.11	0.11	0.13
	(0.79)	(0.89)	(0.79)	(1.02)
Size	-0.01	-0.01	-0.01	-0.01
	(-1.48)	(-1.50)	(-1.47)	(-1.53)
Constant	-0.40	-0.35	-0.33	-0.56
	(-0.65)	(-0.62)	(-0.56)	(-0.96)
Observations	331	331	331	331
Adjusted R-squared	-0.09	-0.08	-0.08	-0.06
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES