Statements

The researchers also investigate investors' response to four explanations companies give on Form NT for late 10-Q or 10-K filings – accounting reasons (the ones most frequently offered); corporate events, such as mergers or CEO incapacity; multiple ...

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A stitch in time saves nine, goes the familiar adage, but how applicable is it to corporate financial reporting? Do investors punish companies for being late in filing required annual or quarterly financial statements?

Reasons can be offered both for why they should punish tardiness and for why they should not. On the one hand, lateness may signal costly underlying company problems, added to which late filers can be severely penalized by the U.S. Securities and Exchange Commission (SEC). On the other hand, companies that simply submit Form NT (for Non-Timely) to the commission within a day of a filing deadline are granted extensions as a matter of course (15 days for annual reports, five days for quarterlies), and, if the new deadline is met, the SEC classifies statements as timely and imposes no penalties.

Given this uncertainty, some new research – the most extensive to date on the

Ks), the professors find "a significantly larger negative reaction to NT filers that subsequently failed to file [statements] within the grace period when compared to firms that meet the [new] deadline. Critically, we find this result regardless of whether the NT filing includes management's declared intention to subsequently file within the grace period…[which] suggests that investors are able to see through management assertions that turn out to be false."

Negative though the immediate equity-market response may be to NT filings, the professors suggest that, in general, it should be even more negative. They find that "on average, abnormal returns for both NT 10-Q and NT 10-K filers continue to drift downward during the post-filing months…Return on assets is significantly negative for late 10-K and 10-Q filers during the NT filing period as well as during the following two quarters. Together these findings are consistent with…NT filings conveying information about deeper problems [than that of] missing an SEC filing deadline."

The study reveals that in the course of the five-day period surrounding their filing of Form NT, companies sustain a mean reduction in stock returns (adjusted for key market and risk variables) of 2.93% if the NT is for the 10-Q statement and 1.96% if it is for the 10-K. The market particularly punishes companies that indicate they will file their 10-Q within the grace period and then fail to do so, imposing five-day drops of 2.02% on firms that subsequently meet the extended deadline but more than twice that penalty, 4.12%, on firms that subsequently miss it.

Significant though these reductions are, the professors estimate that a further share-price decline averaging about 13% occurs over the succeeding three quarters, an amount approximately five times greater than the five-day drop. In sum, "investors do not fully incorporate the negative implications of the late filings around the filing date...One way to interpret this finding is that the initial NT release sugarcoats the

these but is statistically significant where accounting reasons, the largest group, are offered.

Why are 10-Q delays penalized more than 10-K delays? Noting that “accounting reasons for the delay drive the larger negative reaction to the NT 10-Q filings,” the professors surmise that the greater stock declines they evoke reflect the fact that “quarterly financial statements require less disclosure and are unaudited...[Being] much less onerous to produce than annual filings, late quarterly filings may signal more serious underlying problems.”

The paper’s findings are based on an analysis of 2,115 NT filings over a nine-year period.

Public companies are required to submit 10-K reports to the SEC within 60 days of the end of their fiscal years and 10-Q reports within 35 days of the end of quarters. NT filings must be submitted within one day of financial-statement deadlines, and, as indicated earlier, provide grace periods of five days for 10-Qs and 15 days for 10-Ks. As the study notes, “companies that fail to file within the allowed grace period are subject to a variety of costly penalties, including deregistration by the SEC, delisting by stock exchanges, the inability to raise capital through issuance of public securities, and potential debt covenant violation.” The authors add that two years after the late filing announcement, 16.2% of the sample firms stopped trading on their stock exchanges for reasons other than mergers, as opposed to only 6.9% among the general run of public companies.

Firms in the study sample averaged about $2.3 billion in assets, with about half being listed on the NASDAQ and about one fifth on the New York Stock Exchange. Eighty-seven percent of filers declared their intention to file their statements within the grace period, of which 36% failed to do so, a widespread failing that leads the professors to reiterate a warning to CFOs in their conclusion: “Investors are able to see through management's incorrect assertions…[as to]the expected filing date of

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