

The Impact of the Accelerated Filing Deadline on Timeliness of 10-K Filings

Lisa Bryant-Kutcher^{a,*}, Emma Yan Peng^b, Kristina Zvinakis^c

^a *University of Oregon, Lundquist College of Business, 1208 University of Oregon, Eugene, OR 97403*

^b *Fordham University, 441 East Fordham Road, Bronx, NY 10458*

^c *University of Texas at Austin, McCombs School of Business, 1 University Station, Austin, TX 78712*

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* Corresponding author. Tel.: 541.346.3252; e-mail: lbryant@uoregon.edu

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ABSTRACT

We examine the determinants of late filings of the Form 10-K and assess the impact the accelerated filing deadline had on the ability of firms to timely file their 10-K. In response to provisions in the Sarbanes-Oxley Act, the SEC shortened the filing deadline for the Form 10-K from 90 to 75 days after year end. We compare 103 late-filing firms to a sample of 82 timely-filing firms. On a univariate comparison, we find that late filers are more highly leveraged, less liquid, and less profitable than timely filers. In addition, late filers have weaker systems of internal control and longer audit completion times. However, the results of a logistic analysis reveal that audit completion time drives the probability of a late filing. Our analysis of the accelerated filing deadline reveals that the accelerated deadline did not cause firms to be late, *per se*. However, firms with weak internal control systems had problems meeting the shortened deadline.

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INTRODUCTION

As a result of the Sarbanes-Oxley Act (SOX), the Securities and Exchange Commission (SEC) has amended a number of reporting requirements for publicly-traded entities. This paper focuses on the amendment that shortens the 90-day Form 10-K filing deadline. Where equity and listing requirements are met, a firm whose fiscal year ends on or after December 15, 2003, is required to file its Form 10-K 75 days after year end. We seek to examine the effect of the accelerated filing deadline on firms' ability to timely file their 10-K. In order to do this, we first develop a model of the determinants of late filing of the Form 10-K.

The provisions of SOX, and the resulting changes promulgated by the SEC, were intended to improve both corporate governance and financial disclosure. In the SEC's view, accelerating the Form 10-K filing deadline would provide investors with more timely, and thus more useful, information. While comments received by the SEC were generally supportive of a shortened deadline, many believed that the SEC's proposal was too aggressive. Accounting firms, law firms, and academics expressed concern that the shortened deadline would be burdensome (SEC 2002c). Despite these concerns, the SEC's proposal was implemented and became effective as of December 15, 2002.¹

In this paper, we address two research questions. First, related to previous research in this area, we seek to understand the causes of late filings. In any given year, some firms will file their Form 10-Ks after the required deadline. We conduct a multivariate analysis to further understand the determinants of late filings. In addition, we are able to examine additional determinants of late filings that were previously unavailable, such as whether a firm has a weak system of internal controls. This allows us to undertake a comprehensive analysis of the

¹ The filing deadline was shortened to 75 days beginning with fiscal years ending on or after December 15, 2003.

determinants of late filings. Second, we seek to understand whether the accelerated filing deadline caused firms to file late. This allows us to understand and partially quantify the impact of this change in regulation on the financial reporting process.

While it is likely that the accelerated filing deadline would cause some firms to file late, it is unlikely that the shortened deadline was the primary determinant of firms filing late. First, the accelerated filing deadline was not a surprise; firms had over a year to implement the change. Second, some have argued that firms attribute the delay in filing to the shortened deadline, however missing the deadline was the result of a larger problem. Specifically, the shortened deadline revealed a weakness in internal controls for some firms (Glass, Lewis and Co. 2004). Whether the late filings were due to the accelerated filing deadline, a weakness in internal control, or for some other reason is an empirical issue.

We identify 103 late filings of the 10-K based on the filing of Form 12b-25² during 2002 and 2003.³ Our descriptive evidence shows that late filers are less profitable and financially viable than timely filers, which is consistent with prior research (Alford et al. 1994). Specifically we find that late filers have higher leverage, a lower current ratio, a lower return on assets, and a higher percentage of loss years than timely filers. We also find that late filers have a weaker system of internal controls, have longer audit completion times, have increases in audit completion times, and are more likely to have filed late in the past five years. However, when we estimate a logistic regression including all variables, we find that only audit completion time and size are determinants of late filings. Specifically, there is a positive relation between audit

² The Form 12b-25 (coded as NT 10-K by the SEC) is used to notify the SEC of the inability to timely file the Form 10-K. Firms receive an automatic 15-calendar day extension to file their Form 10-K with the filing of the form.

³ We identify late firms as those that filed an NT 10-K. Griffin (2003) shows that identifying a late filing based on either the NT 10-K filing or a filing that is two or more days after a filing deadline results in qualitatively similar samples. Alford et al. (1994) find a larger disparity between the alternative definitions of late filings. However, Griffin notes that this difference seems to be due to the use of the EDGAR filing system. Given the difficulty in identifying the late filers who did not file an NT 10-K, we chose to focus on the subset of late filers who did file an NT 10-K.

completion time and the probability of a late filing and there is a negative relation between firm size and the probability of a late filing.

In our analysis of the accelerated filing deadline, we do not find evidence that the accelerated filing deadline caused firms to file late. However, we do find that firms with a weak system of internal controls were more likely to be late filers when the accelerated filing deadline became effective. This result suggests that our sample of late filers simply may not have had a process in place that would allow them to comply with the shortened filing deadline, suggesting the delay in filing was an indirect consequence of the deadline change. Overall, these results suggest that while some of these late filings would have taken place regardless of the change, the change in filing deadline resulted in current period late filings for firms with weak internal controls.

The results of this research speak to both the intended benefits and unintended consequences of disclosure regulation. The shortened filing deadline may cause firms to further strengthen their systems of internal control, which should result in the provision of timelier and better quality financial information. Alternatively, if the shortened filing deadline is used as an “excuse” for untimely filings (Hadi 2005), managers may start to think more strategically about the timing of required disclosures. Clearly, one potential result of such game playing would be the provision of timely information that was found to be unreliable at some point in the future and at a potentially significant cost, if past experience is any indication. Our results may also be instructive in thinking about the 60-day reporting deadline scheduled to go into effect in December 2006 (SEC 2005).

The remainder of the paper is organized as follows: Section II explains the filing deadline change and Section III develops our model and expectations. Section IV discusses the

sample selection procedure. Section V presents the results of our analyses and Section VI concludes.

BACKGROUND ON THE ACCELERATED FILING DEADLINE

Section 409 of the Sarbanes-Oxley Act authorizes the SEC to compel reporting firms to disclose to the public “on a rapid and current basis” information concerning material changes in the financial condition or operations of the firm (U.S. Congress 2002). In response to Section 409, the SEC accelerated the filing deadline of the Form 10-K (SEC 2002a).^{4,5} Beginning December 15, 2003, the filing deadline has been shortened from 90 to 75 days after a firm’s year end for “accelerated” filers. Accelerated filers are defined as those firms that: (1) have a common equity public float of \$75 million or more as of the firm’s most recently completed second fiscal quarter, (2) have been subject to the Securities Exchange Act of 1934 reporting requirements for at least 12 calendar months, (3) have previously filed an annual report and (4) are not a “small business” as defined in Rule 12b-2 (Reg. Sec. 240.12b-2) of the 1934 Act. Additionally, though the change was effective as of December 15, 2002, the filing deadline remained 90 days in the first year under the new rule. Beginning December 15, 2004, the filing deadline was to be shortened to 60 days. However, in August 2004, the SEC delayed the implementation of the 60-day filing deadline until December 15, 2005 (SEC 2004).

On December 21, 2005, the SEC amended the filing deadlines and the definition of an accelerated filer. The SEC created a new category of filers, “large accelerated filers” who have \$700 million or more of public float (and meet the other three conditions that apply to late filers).

⁴ The SEC’s Final Rule also shortens the filing deadline for quarterly reports (Form 10-Q) and requires a firm to provide access to 10-K and 10-Q filings on its website as soon as practicable after electronic filing (SEC 2002a).

⁵ As part of a 1998 proposal relating to the regulatory structure of securities offerings, the SEC proposed to accelerate the Form 10-K filing deadline to 60 days after year end for all registrants. This proposal was not a part of the final rule (SEC 1998).

Large accelerated filers are required to file their Form 10-K within 60-days beginning with fiscal years ending on or after December 15, 2006. Accelerated filers are those companies who have between \$75 million and \$700 million of public float. These filers would maintain the existing 75-day accelerated filing deadline (SEC 2005).

In implementing the shortened filing deadline, the SEC's focus was on "...improving the usefulness of periodic reports to investors (SEC 2002a, p. 2)." The SEC noted that while the filing deadline of annual reports had not been changed in 30 years, over that same time period, technology had advanced to allow firms to collect and disseminate information nearly instantaneously, should they so choose. While critics of the proposed change argued that such advances in technology were largely offset by increases in accounting and disclosure requirements, as well as business complexity, the SEC was not dissuaded (SEC 2002c). As with many of the other Sarbanes-related changes, this attempt at improved usefulness was intended to rebuild investor confidence in the marketplace.

EXPLANATIONS FOR LATE FILING BEHAVIOR

The annual filing of the Form 10-K is a significant event for firms. While pre-EDGAR research on the information content of the 10-K found little, if any, evidence of an investor response at the filing of the 10-K (e.g., Easton and Zmijewski 1993), Griffin (2003) documents a positive and significant market response to the filing of the 10-K in the post-EDGAR time period. Furthermore, the 10-K provides audited financial information. Prior research shows that the real value of audited financial information may be that it disciplines other firm-reported information (Liang 2000). In addition, firms incur significant costs if they do not file their 10-K within the statutory time period (see discussion of costs of being a late filer in the "Empirical

Analyses” section). Therefore, it is important to understand the factors that are associated with the timeliness of the filing of the 10-K.

There has been little research conducted to date that has examined the determinants of late filing behavior. We use this research to develop a model of the probability of a late filing. We then use this model as a basis to examine the effect of the accelerated filing deadline on late filings.

Determinants of Late Filings

Alford et al. (1994) provide descriptive information regarding firms that file their 10-K late. They find that 31% of their sample firms indicated some type of financial distress as the explanation for their late filing. Additionally, they find⁶ that the late-filing firms performed worse financially relative to timely filing firms. Therefore, we expect that financial distress and profitability are determinants of late filings.

The proxies for financial distress are *Leverage* and the current ratio (*CR*). Previous research in this area, as well as anecdotal evidence,⁶ shows that firms experiencing financial distress are often late filers. The fact that financially distressed firms are often late in filing their Form 10-K seems commonly accepted (Lawrence 1983). While not well explained, we suspect this phenomenon is related to the bankruptcy process. Firms filing for bankruptcy are regularly delisted from their stock exchanges and likely feel less pressure to be timely in SEC filings unrelated to reorganization proceedings. We expect that the greater the debt burden and the lower the liquidity, the more likely the firm is financially distressed and will not meet its filing requirements in a timely manner. Thus, we expect *Leverage* to be positively related to the probability of a late filing, as higher leverage reflects a firm’s debt burden. We expect *CR* to be

⁶ Spiegel Inc. delayed filing its Form 10-K for 14 months, as its founder believed that the revelation that the auditor had issued a going concern opinion would have “jeopardized the firm” (Landler 2004).

negatively related to the probability of a late filing, as a smaller current ratio reflects liquidity concerns.

The proxies for profitability are return on assets (*ROA*) and the percentage of loss years in the previous five years (*Perc Loss*). Based on the discussion in the previous paragraph, if less profitable firms are on the path to bankruptcy, low profitability would also increase the probability of an untimely filing (Byron 2004). In addition, firms with constrained resources may have difficulty meeting filing deadlines. Therefore, we expect *ROA* to be negatively related to the probability of a late filing, as lower *ROA* means the firm is less economically viable. We expect *Perc Loss* to be positively related to the probability of a late filing, as a higher percentage of loss observations indicates lower economic viability. However we are not as confident in the significance of these relationships. Low profitability firms might be more concerned about timeliness than financially distressed firms. Firms that are economically distressed have a vested interest in maintaining their exchange listing and avoiding debt covenant violations. Both of these conditions are, in part, avoidable with timely SEC filings. Thus, profitability might not significantly influence the probability of filing late.

While not addressed in the previous late filing literature, we examine whether the strength of the systems of internal control over financial reporting is a determinant of late filings. Doyle, Ge, and McVay (2005) examine the determinants of material weaknesses in internal control. They find that material weaknesses in internal control are more likely for firms that are smaller, younger, financially weaker, more complex, growing rapidly, or undergoing restructuring. We expect that firms with weak internal controls will encounter more problems and have difficulty filing their 10-K in a timely manner and therefore are more likely to be late.

Our measure of internal control is taken from Ge and McVay (2005). It is an indicator variable set equal to 1 if the firm has disclosed a material weakness in internal control over financial reporting (*Weak IC*). Under the SEC's final rules implementing Section 302, effective as of August 29, 2002, CFOs and CEOs are obligated to report their conclusions based on the effectiveness of internal controls (Huber et al. 2003). In addition, under the SEC's final rules implementing Section 404, all public companies that are accelerated filers must report on internal control over financial reporting for fiscal years ending on or after November 15, 2004 (Deloitte et al. 2004).⁷ A disclosed material weakness in internal control would be evidence of a weakness in internal control and an indication that a firm may have difficulty filing in a timely manner. We expect that *Weak IC* is positively related to the probability of a late filing.⁸

Another determinant of late filing is the time it takes the auditor to complete the audit. The longer the auditor must work to complete the audit, for whatever reason, the more likely a firm will file late. In addition, the change in the time to complete the audit from the prior year may also be a determinant of late filings. If it takes longer in a given year to complete the audit, relative to prior years, then the more likely a firm is to be late in filing their 10-K. We measure *Audit Time* as the number of days from fiscal year end to audit report date. This measures the time to complete the audit and should be positively related to the probability of a late filing. We also expect Δ *Audit Time* to be positively related to the probability of a late filing.

Late filings may be a function of firm history and practice. Firms that have filed late in the recent past may have a larger problem and therefore are likely to have difficulty filing in a

⁷ In the initial proposal related to Section 404, the SEC intended to require such reports for fiscal years ending on or after September 15, 2003. That deadline was later changed to June 14, 2004 and eventually postponed until November 15, 2004.

⁸ We also examine other potential measures of strength of internal control for a subset of our firms, including whether financial statements were restated during the previous 5 years, whether the CEO was also chairman of the Board, and the percent of independent directors on the Board. None of these variables are significantly associated with a late filing. We attribute the lack of significance to the fact that these are weak proxies for the strength of the internal control system.

timely manner. We measure *Prior Late* as an indicator variable equal to one if the firm has filed a Form 12b-25 in the past four years. This variable represents our belief that historic late filing behavior may explain current late filing behavior. We expect *Prior Late* to be positively related to the probability of a late filing.

Finally, we expect firm size to be a determinant of the probability of a late filing; however we do not have a prediction about the direction of this relationship. While smaller firms may experience more difficulty complying with the SEC's disclosure requirements and, as a consequence, struggle to file in a timely manner, the complexity of larger firms may indicate that size makes meeting filing requirements in a timely manner more difficult. *Size* is measured as the log of total assets.

Based on the preceding discussion, we estimate the following logistic regression:

$$\begin{aligned}
 Late_{it} = & \alpha + \beta_1 Leverage_{it} + \beta_2 CR_{it} + \beta_3 ROA_{it} + \beta_4 Perc\ Loss_{it} + \beta_5 Weak\ IC_i \\
 & + \beta_6 Audit\ Time_{it} + \beta_7 \Delta Audit\ Time_{it} + \beta_8 Prior\ Late_{it} + \beta_9 Size_{it} + \varepsilon_{it}
 \end{aligned} \tag{1}$$

Late is an indicator variable equal to one if the firm filed late, zero otherwise. All other variables were previously described.

Accelerated Filing Deadline

In addition to the determinants discussed above, we examine whether the accelerated filing deadline caused firms to file late. Many opponents to the shortened filing deadline stated that 75 days was not enough time to complete and file the Form 10-K. If the opposition is correct, then we would expect the implementation of the accelerated filing deadline to be a determinant of the probability of a late filing. In our analysis, we include an indicator variable, *Accel*, equal to 1 if it is an accelerated year and 0 otherwise.

While it is likely that the accelerated filing deadline would cause some firms to file late, it is unlikely that the shortened deadline was the primary determinant of firms filing late. The

change in the reporting deadline was not unexpected; all firms affected by the accelerated deadline had a year to prepare for the change (SEC 2002a). The failure by firms in our sample to meet the shortened filing deadline may, in part, be attributed to a difference in systems of internal control. The acceleration of the reporting deadline should not have been a burden for firms with strong internal control systems. Therefore, the accelerated filing deadline could have revealed a weakness in internal controls for some firms. That is, firms have historically had 90-days to file their Form 10-K. Their system of internal controls may have been adequate to meet this deadline; however, those systems may not have been flexible or strong enough to meet a shortened filing deadline. The shortened filing deadline would reveal the weaknesses in internal control, therefore causing a delay in reporting. This perspective is consistent with a Glass, Lewis and Company report (2004) that states

We believe filing for an extension is likely to be an indication of a company's lack of proper internal controls over financial reporting and/or insufficient accounting records. ... Bottom line: the shortened filing deadline should not be viewed by investors as an excuse for a late filing, but rather should be accompanied by a heavy dose of skepticism.

To examine this expectation, we interact *Accel* and *Weak IC* in our analysis. We expect the coefficient on this interaction to be positive.

We estimate the following logistic regression, which adds to Equation (1) the additional variables, to test the impact of the accelerated filing deadline on late filings:

$$\begin{aligned}
 Late_{it} = & \alpha + \beta_1 Leverage_{it} + \beta_2 CR_{it} + \beta_3 ROA_{it} + \beta_4 Perc\ Loss_{it} + \beta_5 Weak\ IC_i \\
 & + \beta_6 Audit\ Time_{it} + \beta_7 \Delta Audit\ Time_{it} + \beta_8 Prior\ Late_{it} + \beta_9 Size_{it} \\
 & + \beta_{10} Accel_t + \beta_{11} Accel_t \times Weak\ IC_{it} + \varepsilon_{it}
 \end{aligned} \tag{2}$$

SAMPLE

Our initial search of the SEC's Edgar database finds 157 unique late filing notifications (or NT 10-K filings, the SEC's code for the Form 12b-25 filing) in the 10-day window surrounding the filing deadlines for fiscal year ends 2002 and 2003.⁹ We focus on those firms that meet the SEC's accelerated filer classification. There are many more NT10-Ks filed during this time period, but they relate to small businesses or non-accelerated filers. On further investigation, 14 of these filings are eliminated because they relate to "small businesses" or they are not accelerated filers, seven are eliminated because they are financial institutions, and 20 are eliminated because they are REIT, Limited Partnership or Limited Liability Company filings. Finally, 13 firms are eliminated because of missing historical financial data, leaving a sample of 103 late-filing firm-year observations (41 in 2002 and 62 in 2003).¹⁰ Thirteen firms filed late in both 2002 and 2003, so we have 90 unique late-filing firms over the sample period.

In order to have a basis for comparison, we create a randomly selected pool of timely filing firms. To identify a potential sample, we begin with the population of COMPUSTAT firms and identify those non-financial-service firms that would also be subject to the accelerated filing requirements. Thus, we delete (1) any firm with common equity public float less than \$75 million as of the last business day of its second quarter in fiscal year 2003,¹¹ (2) any firm that files a Form 10-KSB ("small business"), (3) any firm with a fiscal year end between February and November, to limit our sample to similarly cyclically situated firms, (4) any firm that filed a Form 12b-25 in 2003 or 2004, (5) any firm incorporated outside the U.S., and (6) any firm

⁹ We focus on firms whose fiscal year ends are close to calendar year end. For the 2002 fiscal year end, the deadline was March 30, 2003. For the 2003 fiscal year end, the deadline was March 15, 2004.

¹⁰ Included in this sample are three firms that still have not filed their 2003 financial statements. These observations are included in the descriptive analysis of reasons for late filings (Table 3); however they are excluded from the empirical analyses.

¹¹ Float is calculated as common shares outstanding (COMPUSTAT #14) multiplied by closing stock price (COMPUSTAT #61) at the end of the second quarter of fiscal year 2003. The accelerated filing guidelines are addressed in Section II.

without data necessary to calculate the independent variables employed in our analysis. This partitioning leaves us with a sample of 1,575 firms from which to randomly draw a control sample.

We use simple random sampling to choose a 100-firm control sample from this 1,575 firm pool.^{12,13} From this reduced sample, we delete firms that changed their fiscal year end during our sample period,¹⁴ firms that are REITs, firms that liquidated, and a firm that was not publicly traded. This leaves us with a control sample of 82 timely-filing firms. In addition, we include in the timely-filing sample the timely filing by the remaining 77 late filers, resulting in a sample of 241 timely-filing firm-year observations.

EMPIRICAL ANALYSES

Before we discuss the characteristics of late-filing firms and the impact of the accelerated filing deadline, we first discuss the costs associated with filing the 10-K late.

Costs of Late Filings

If firms are unable to timely file their 10-K, they are required to file a Form 12b-25, Notification of Late Filing, by the filing deadline. Filing of the Form 12b-25 grants an automatic fifteen calendar day extension to file the 10-K. Failing to file the 10-K in a timely manner results in penalties on the firm. Firms that fail to file their 10-K in a timely manner face certain prohibitions on their ability to use the short form registration statements on Forms S-2 and S-3 for at least one year and may be subject to delisting from their stock exchange. The inability to

¹² We contemplated using a size and industry matched sample. However, we expect size to be a determinant of late filings. We chose instead to use simple random sampling. As noted in footnote 16, our results are not sensitive to controls for industry.

¹³ In simple random sampling, each unit has an equal probability of selection, and sampling is without replacement; an observation cannot be selected more than once.

¹⁴ While our tests are generally restricted to 2002 and 2003, we require firms to have data available from 1999 to 2003.

use short form registration is costly for companies that rely on shelf registration for raising capital.

The exchange delisting requirement varies by stock exchange. The NASDAQ is the most stringent. It immediately appends an “E” to the ticker symbol and issues a delisting letter to the company. Upon receipt of the delisting letter, the company can either delist, submit the required filing within seven calendar days, or request a hearing. The NYSE was, until recently, the most lax. There generally was no enforcement by the NYSE of late filings. However, as of June 2, 2005, the NYSE will append a “.LF” to the ticker symbol and will monitor the firm, giving it up to nine months to file. As noted in Table 1, 44 percent of our late filing firms and 38 percent of our timely filing firms are listed on the NASDAQ. However, 55 percent of timely filers are listed on the NYSE, while only 38 percent of late filers are listed on the NYSE. The late filing sample also has a number of firms listed Over-the-Counter (OTC).¹⁵

[Insert Table 1 here]

Nine of our sample firms were delisted by either the NYSE or NASDAQ during 2003 and 2004. Further examination suggests that only one of these firms, Medquist Inc., was delisted and moved to the OTC because of filing late. Other reasons for delisting included too low of price, insufficient capital, float, or assets, and bankruptcy.

In addition to the above penalties, we also look at the stock market reaction to the filing of the Form 12b-25. Table 2 presents market-adjusted stock returns for the three-day window surrounding the Form 12b-25 filing date. In 2003 there was a significant market-adjusted return of -1.7 percent on the day of the filing of the Form 12b-25. However, there was not a negative stock price reaction in 2002. In fact, there was a significant positive reaction the day before the

¹⁵ As a sensitivity analysis, we include in the logistic regression an indicator variable, *NYSE*, equal to one if the firm is listed on the NYSE, zero otherwise. The coefficient estimate is not significant and our results are qualitatively unchanged.

filing of the Form 12b-25. The negative reaction in 2003 is consistent with the results in Alford et al. (1994), although our returns are larger in magnitude. This negative reaction suggests that there was a cost to the delay and that such a filing revealed previously unavailable private information to the market.

[Insert Table 2 here]

Characteristics of Late Filing Firms

In Table 3, we provide a summary of the reasons given by management for the late filing. We obtain this information from the narrative provided in the Form 12b-25. We use a classification scheme similar to Alford et al. (1994). We find that 59 percent of our firms give an accounting or auditing reason as an explanation for the delay in filing their Form 10-K. Reasons within this category are diverse, ranging from waiting on third party information to restatements. These reasons suggest that a weak system of internal control may be a driver of late filings. We broadly categorize other explanations for late filings as financial distress (13%), needing more time (5%), or asset acquisitions or dispositions (4%). Four firms provided no explicit reason for their delay. The frequency of stated reasons differs dramatically from the Alford et al. (1994) analysis. Only 27 percent of their sample firms provide an accounting or auditing related explanation for the delayed filing, while 31 percent provide a financial distress explanation. The difference in explanations across time is likely due to the heightened scrutiny of financial accounting during our sample period.

[Insert Table 3 here]

Table 4 presents descriptive information regarding the timing of the 10-K filing, the timing of the audit report, and the announcement of earnings. Panel A presents the number of days from fiscal year-end firms took to file their 10-K. Note that in 2002 the deadline was 90

days, so there is clustering at 90 days and in the 15 days prior to the deadline. This is consistent with Griffin's (2003) finding that many firms file their 10-Ks within a few days of the filing deadline. As expected, in 2003, there was a shift so that the majority of firms were filing within 75 days. There is also a larger percentage of firms filing late in 2003, 36 percent, than in 2002, 24 percent. Of the late filers in 2003, 60 percent of the firms in the sample filed within the 15-day extension period automatically granted with the Form 12b-25 filing, which, in effect, extends the filing period to the historic 90-day filing deadline.

[Insert Table 4 here]

Panel B provides descriptive statistics on the number of days to announce earnings, number of days to complete the audit, and number of days to file the 10-K. Not surprisingly, the late-filing firms take longer to announce earnings and to file their 10-K. In addition, it takes longer to audit the late filing firms.

Panel A of Table 5 presents the descriptive statistics for the independent variables used in the logistic regression partitioned by late and timely filers. Consistent with Alford et al. (1994), we find that in the year of late filing, late-filing firms have statistically higher leverage, mean of 0.73, than timely files, mean of 0.55. Late filers also have a statistically lower current ratio, 1.70, and ROA, -0.07, than timely filers (2.28 and 0.00, respectively). In addition, late-filing firms have a statistically higher percentage of loss years over the past five years. Similar to previous research, the univariate analysis supports the expectation that late-filing firms are in worse financial health than timely-filing firms.

We next examine whether firms that have disclosed a material weakness in internal control over financial reporting are more likely to be late in filing their Form 10-K. Fifty three

percent of our late-filing firms disclosed a material weakness in internal controls, while only 27 percent of our timely-filing firms did.

As expected, we find that it takes significantly longer to complete the audit for late-filing firms, 119 days on average, than timely-filing firms, 46 days on average. In addition, late filers had an average increase of 64 days to complete the audit, while the timely filers had a slight decrease of 5 days.

Thirty percent of late-filing firms were late filers in the prior 5 years, while only 20 percent of timely filers were prior late filers. Finally, the late and timely filers do not differ significantly on total assets. The last finding suggests that size may not be as important in affecting regulatory compliance currently as it has been demonstrated to be in the past.

[Insert Table 5 here]

Panel B of Table 5 presents Pearson and Spearman correlation coefficients for the independent variables used in the logistic regression. Consistent with prior research (e.g., Andrade and Kaplan 1998; Doyle et al. 2005), we find that the financial distress variables and the weak internal control indicator are correlated with ROA, our measure of firm performance.

In general, our univariate results support our expectations regarding the determinants of late-filing firms. However, as evidenced in panel B, a number of our variables are correlated with each other. Therefore, we next examine a multivariate analysis.

Multivariate Analyses

In Table 6, column (1) we present a modified version of Equation (1), excluding the *Audit Time* variables. Columns (2) and (3) present the results from estimating Equations (1) and (2), respectively.

While our univariate analysis showed a difference in financial distress and profitability across late and timely filing firms, the results from the logistic regression only partially support the expectation that these variables are significant in predicting an untimely filing. Column 1 shows that the coefficient estimates on *Leverage* and *Percent Loss* are significantly and positively related to the probability of filing late. The coefficient estimate on the *Current Ratio* is marginally significant ($p = 0.09$) and the coefficient estimate on *ROA* is not significantly different from zero.¹⁶

Consistent with our expectation and with the results of our univariate analysis, the coefficient on the indicator variable for weak internal controls is positive and significant ($p < 0.01$). It is important to note that we have controlled for the primary determinants of disclosing a material weakness in internal control (Doyle, Ge, and McVay 2005). Therefore, this finding suggests that firms disclosing a material weakness in internal control are more likely to be late filers.

However, when we include the *Audit time* variables (column 2), we find that the coefficient estimates on the financial distress, profitability, and internal control variables are no longer significant. Rather, we find that the time to complete the audit is positively related to the probability of a late filing and this variable subsumes other determinants. We do find that size is negatively related to the probability of a late filing. This suggests that smaller firms are more likely to be late filers. While this is consistent with the direction of the descriptive statistics in Table 5, panel A, there was not a significant difference in the univariate analysis.

Column 3 includes the variables that test whether the accelerated filing deadline caused firms to file late. As discussed in a prior section, we include an indicator variable for the

¹⁶ These results do not change when we control for industry by including industry dummy variables, nor if we industry adjust the financial distress and profitability variables.

accelerated year (*Accel*) and an interaction of *Accel* and the weak internal control variable. We find that coefficient on *Accel* is only marginally significant ($p=0.10$). Given the low level of significance, it does not seem that the accelerated filing deadline caused firms to file late. However, the coefficient on the interaction term is positive and significant. This shows that firms that had a weak system of internal controls were more likely to be late filers in the presence of the accelerated filing deadline. This result is consistent with the conjecture that the internal control system was not flexible to meet the accelerated filing deadline, therefore causing a delay in filing the 10-K in a timely manner.

CONCLUSIONS

This research examines firm responses to the change in the Form 10-K filing deadline with the intent of understanding how firms behaved in the presence of the shortened filing deadline. In examining these late filings, our aim is to understand the impact of Sarbanes-related changes in reporting requirements on the provision of audited financial information as well as on the firms providing such information.

We find that the main determinants of late filings are the time it takes to complete the audit and the size of the firm. In addition, we find that firms with weaker systems of internal control had difficulty meeting the accelerated filing deadline, after controlling for other determinants of late filings. This finding suggests that complying with the shortened filing deadline was not a difficult obstacle for firms with good systems of internal control. This is also consistent with Glass, Lewis and Company's (2004, 1) observation that a late filing "...should be accompanied by a heavy dose of skepticism." Additionally, while we find that late and timely-

filing firms differ on dimensions of financial and economic viability, these differences are not significantly associated with the probability of a late filing.

These research results are informative about the shortened filing deadline in two primary ways. First, the SEC received numerous comment letters concerning the shortened filing deadline. Many commenters noted that the technological advances that allow companies to generate earnings information quickly enough to facilitate a timely earnings release do not replace the analytical thought and scrutiny necessary to prepare periodic (Form 10-K) reports (SEC 2002b). Our results suggest that, for our sample of firms, the shortened filing deadline was not problematic on this dimension.

Second, in explaining the rationale for shortening the filing deadline, the SEC concluded that information that was timelier would be more useful to investors. While “usefulness” in this context means information that is timely enough to be useful in decision making, it is important to remember that an alternate definition of usefulness exists. If the usefulness of audited financial information lies in the fact that such information disciplines other firm-reported (and non-audited) information, the danger exists that shortening the deadline may undermine this disciplining function. Our research results suggest that shortening the deadline to 75 days was not, for firms with good systems of internal control, problematic. However, what period of time is too short is open to debate. Thus, while implementing a shortened deadline may improve usefulness, the need for accuracy and quality in such financial information should not be overlooked. The SEC’s delay in implementing the 60-day deadline is consistent with this conclusion.

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Table 1
Exchange Listing of Firms

	Timely Filers		Late Filers	
	# of obs	% of obs	# of obs	% of obs
NASDAQ	31	38%	40	44%
NYSE	45	55%	34	38%
AMEX	6	7%	5	6%
OTC	0		11	12%
	<hr/> 82		<hr/> 90	

Table 2

Market-adjusted stock returns around the Form 12b-25 filing date

Time	Mean	Median
2002 (n = 36)		
-1	0.027*	0.016*
0	0.022	-0.003
1	0.006	0.001
0 to 1	0.028	0.005
2003 (n = 53)		
-1	0.004	-0.001
0	-0.017*	-0.012*
1	-0.019	-0.002
0 to 1	-0.036*	-0.015*

* significant at $p < 0.05$.

Table 3
Reasons for late filing

	Primary reason provided		Additional reasons provided
	# of obs	% of obs	# of obs
Accounting/Auditing Issues			
Restatement	24	23%	0
Accounting issue/problems	12	12%	0
Investigating numbers	12	12%	0
Audit-related	7	7%	2
Information needed from 3rd party	6	5%	0
	61	59%	
Financial Distress	13	13%	3
Other			
More time	6	5%	1
Acquisition/Merger	4	4%	1
Legal Matter	3	3%	0
Short staffed	2	2%	0
Accounting systems	2	2%	0
Investigation	3	3%	0
Miscellaneous	6	5%	0
	25	24%	
No Reason	4	4%	
Total	103		7

Table 4
Descriptive Information on Timing of Important Dates

Panel A Days from fiscal year-end to actual filing of 10-K

Number of Days	# of observations 2002	# of observations 2003
45 to 75 days	21	110
76 to 89 days	71	25
90 days	38	12
91 to 105 days	28	6
More than 105 days	14	16
Not yet filed		3

Panel B Descriptive Statistics on Days to Announce Earnings, Days to Complete Audit, and Days to File 10-K from fiscal year-end

	2002		2003	
	Timely	Late	Timely	Late
<i>Earnings Announcement</i>				
Mean	45	85	42	89
Median	42	59	40	75
Std	18	69	15	84
Min	20	22	20	23
Max	90	351	75	456
<i>Audit Time</i>				
Mean	45	124	48	116
Median	41	97	50	83
Std	18	74	16	97
Min	17	33	20	30
Max	88	351	75	455
<i>Days to File 10-K</i>				
Mean	82	136	70	128
Median	86	105	72	90
Std	10	64	7	93
Min	45	91	43	76
Max	90	351	75	457

Table 5
Descriptive Statistics for Regression Variables

Panel A: Distribution of Regression Variables

Variable	Late Filers					Timely Filers				
	Mean	Median	Std. Dev.	25%	75%	Mean	Median	Std. Dev.	25%	75%
<i>Leverage</i>	0.73**	0.70**	0.37	0.43	0.95	0.55	0.54	0.32	0.31	0.72
<i>Current Ratio</i>	1.70**	1.39**	1.33	0.98	2.03	2.28	1.66	1.89	1.15	3.04
<i>Return on Assets</i>	-0.07**	-0.04**	0.18	-0.11	0.01	0.00	0.03	0.14	-0.03	0.06
<i>Percent Loss</i>	0.46**	0.40**	0.34	0.20	0.80	0.25	0.00	0.33	0.00	0.40
<i>Weak IC</i>	0.53**	1.00**	0.50	0.00	1.00	0.27	0.00	0.44	0.00	1.00
<i>Audit Time</i>	119**	89**	88	74	134	46	42	17	31	59
<i>Δ Audit time</i>	64**	35**	115	3	82	-5	0	37	-4	6
<i>Prior Late</i>	0.30*	0.00**	0.46	0.00	1.00	0.20	0.00	0.40	0.00	0.00
<i>Assets (in millions)</i>	3,515	618	6,907	172	2,640	4,037	963	10,713	218	2,841

^a Variable definitions (COMPUSTAT annual data numbers are in parentheses):

Leverage = Total liabilities (#181) divided by total assets (#6)

Current Ratio = Current assets (#4) divided by current liabilities (#5)

Return on Assets = Income before extraordinary items (#18) divided by average total assets (#6)

Percent Loss = Percentage of loss years based on earnings before interest and taxes (#170 + #15) over the last five years

Weak IC = 1 if the firm disclosed that they had identified a material weakness in internal control, 0 otherwise

Audit Time = number of days from fiscal year end to audit report date

Prior Late = 1 if the firm has had a late 10-K filing in the past five years, 0 otherwise

Assets = Total assets (#6)

** , * represents a significant difference from the timely group at 0.01 and 0.05, respectively. Wilcoxon Rank Sum tests are used to test for differences in median amounts.

Panel B: Spearman\Pearson Correlation Matrix^a

Variable ^b	<i>Late</i>	<i>Leverage</i>	<i>Current Ratio</i>	<i>ROA</i>	<i>Percent Loss</i>	<i>Weak IC</i>	<i>Audit Time</i>	Δ <i>Audit time</i>	<i>Prior Late</i>	<i>Assets</i>
<i>Late</i>	1.000	0.236	-0.151	-0.212	0.276	0.249	0.558	0.414	0.109	-0.024
<i>Leverage</i>	0.231	1.000	-0.548	-0.255	0.225	0.010	0.222	0.061	0.199	0.149
<i>Current Ratio</i>	-0.149	-0.651	1.000	0.085	-0.086	0.015	-0.143	-0.027	-0.161	-0.193
<i>ROA</i>	-0.318	-0.323	0.148	1.000	-0.565	-0.169	-0.156	-0.063	-0.067	0.068
<i>Percent Loss</i>	0.297	0.182	-0.046	-0.644	1.000	0.191	0.173	0.055	0.204	-0.113
<i>Weak IC</i>	0.249	0.009	-0.029	-0.194	0.204	1.000	0.290	0.175	0.059	-0.052
<i>Audit Time</i>	0.629	0.260	-0.228	-0.312	0.267	0.305	1.000	0.787	0.108	0.021
Δ <i>Audit time</i>	0.460	0.007	0.018	-0.113	0.074	0.188	0.504	1.000	-0.178	0.024
<i>Prior Late</i>	0.109	0.189	-0.183	-0.154	0.231	0.059	0.244	-0.250	1.000	-0.045
<i>Assets</i>	-0.048	0.476	-0.342	0.021	-0.163	-0.117	0.047	0.008	-0.016	1.000

^a Correlations that appear in bold are significant at $p < 0.05$.

^b Variable definitions appear in Panel A.

Table 6

Results from Estimating a Logistic Regression Predicting Late Filing Status

$$Late_{it} = \alpha + \beta_1 Leverage_{it} + \beta_2 CR_{it} + \beta_3 ROA_{it} + \beta_4 Perc\ Loss_{it} + \beta_5 Weak\ IC_i \\ + \beta_6 Audit\ Time_{it} + \beta_7 \Delta Audit\ Time_{it} + \beta_8 Prior\ Late_{it} + \beta_9 Size_{it} + \beta_{10} Accel_t \\ + \beta_{11} Accel_t \times Weak\ IC_{it} + \varepsilon_{it}$$

Independent Variables ^a	Predicted Sign	Estimate (p-value) (1)	Estimate (p-value) (2)	Estimate (p-value) (3)
<i>Intercept</i>		-1.50* (0.04)	-4.27** (<0.01)	-4.65** (<0.01)
<i>Leverage</i>	+	1.09* (0.02)	1.30 (0.07)	1.37 (0.06)
<i>Current Ratio</i>	-	-0.15 (0.09)	-0.12 (0.16)	-0.17 (0.09)
<i>Return on Assets</i>	-	-0.34 (0.37)	1.13 (0.39)	0.58 (0.69)
<i>Percent Loss</i>	+	1.11** (0.01)	0.96 (0.06)	0.99 (0.06)
<i>Weak IC</i>	+	1.06** (<0.01)	-0.09 (0.81)	-0.92 (0.16)
<i>Audit time</i>	+		0.08** (<0.01)	0.08** (<0.01)
Δ <i>Audit time</i>	+		0.01 (0.16)	0.01 (0.08)
<i>Prior Late</i>	+	0.09 (0.40)	-0.26 (0.60)	-0.36 (0.47)
<i>Size</i>	?	-0.09 (0.28)	-0.40** (<0.01)	-0.38** (<0.01)
<i>Accel</i>	+			0.60 (0.10)
<i>Accel x Weak IC</i>	+			1.39* (0.05)
Pseudo R ²		0.13	0.50	0.53
Wald χ^2 statistic (p-value)		50.2 (0.001)	87.22 (0.001)	93.59 (0.001)

^a Variable definitions appear in Table 5.* (**) represents significance at $p < 0.05$ (0.01) based on a one- (two-) tailed test for variables with (without) predicted signs.