Playing Favorites: How Firms Prevent the Revelation of Bad News*

Lauren Cohen
Harvard Business School and NBER

Dong Lou
London School of Economics

Christopher Malloy
Harvard Business School and NBER

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ABSTRACT

We explore a subtle but important mechanism through which firms manipulate their information environments. We show that firms control information flow to the market through their specific organization and choreographing of earnings conference calls. Firms that "cast" their conference calls by disproportionately calling on bullish analysts tend to underperform in the future. A long-short portfolio that exploits this differential firm behavior earns abnormal returns of up to 95 basis points per month. Firms that call on more favorable analysts experience more negative future earnings surprises and more future earnings restatements. Further, firms that cast their calls have higher accruals, barely exceed/meet earnings forecasts, and subsequently issue equity.

JEL Classification: G12, G14, G02

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Regardless of the extent of disclosure regulations, there exists private information which managers can release at their discretion. Given the current regulatory environment in the US (and increasingly globally) of level playing-field information laws, firms can only communicate information in public information exchanges. However, even in these highly regulated venues, there are subtle choices that firms can make that reveal differential amounts of information to the market.

In this paper we explore a subtle, but economically important way in which firms shape their information environments, namely through their specific organization and choreographing of earnings conference calls. Our analysis rests on a simple premise: firms have an information advantage, and they understand this and have the ability to be strategic in its release.

Our empirical strategy is to examine firms' decisions to "cast" their earnings conference calls in a particular way, specifically, how and who they call on to participate in these calls. We focus on the firms that call specifically on analysts that give them the highest recommendations, under the hypothesis that firms that cast their conference calls in this way may be preventing the revelation of future negative information to the market. We then analyze the future behavior and outcomes associated with these firms.

Our key finding is that firms that manipulate their conference calls in this way appear to be hiding bad news, which ultimately leaks out in the future. Specifically, we show that casting firms experience higher contemporaneous returns on the (manipulated) call in question, but negative returns in the future. These negative future returns are concentrated around future calls where they stop this casting behavior, and hence allow negative information to be revealed to the market. A long-short portfolio that goes long the non-casting firms and short the casting firms around their subsequent call earns abnormal returns ranging from 78 basis points (t=3.05) to 95 basis points (t=3.46) per month.

If firms are deliberately choosing to call on more favorable analysts, we might expect them to do so when it is especially valuable. For instance, firms that engage in more earnings management (discretionary accruals), may be especially wary of calling on analysts that will probe into these accrual behaviors. Additionally, firms that barely

meet or exceed earnings expectations (meeting at 0, or beating by 1 penny), have been shown in prior literature to be far more likely to have manipulated earnings in order to do so, and so may be less likely to want to be aggressively questioned. Lastly, firms planning to do SEOs in the near future may be interested in keeping share price high to maximize proceeds, and so may prefer to call on friendly analysts. We find evidence on all three of these paths: firms with higher discretionary accruals, firms that barely meet/exceed earnings expectations, and firms about to issue equity are all significantly more likely to cast their calls (i.e., call on analysts with more optimistic views of the firm).

Further, if firms are deliberately engaging in this activity to withhold negative information (as we find evidence for, given their negative subsequent returns), we might expect this to be more difficult for firms who are in more transparent information environments. We find evidence consistent with this: firms with fewer analysts and less institutional ownership are significantly more likely to engage in casting their calls. In addition, we find that firms with more stock price volatility (presumably causing more potential instances of a need to withhold negative information) also cast their calls significantly more often.

Analysts who have higher recommendations are called on more frequently in earnings calls. However, we show that the firms that engage in this casting have negative future returns, causing the recommendations to be worse predictors of future firm returns. We thus test whether analysts gain any benefit from being called on during a firm's conference call. There could be many sources of this value. For instance, analysts may choose to ask their privately most valuable questions (for example, one whose answer would help complete the analyst's model of the firm's future prospects), which likely vary by analyst, making the opportunity to have the company answer the individual analyst's question more valuable. We find evidence that this is indeed the case: analysts who are able to ask questions during the conference call have significantly more accurate earnings forecast in the future (while those analysts who do not see no commensurate increase in accuracy).

Lastly, we attempt to get a measure of the complexity (and aggressiveness) of the

questions asked by the analysts who companies call on in their conference calls. While this is a difficult task, we use as an initial measure the simply length of the question (and response), with the idea that less-probing questions will be shorter on average (with shorter responses). We find suggestive evidence that analysts that are cast by firms tend to ask shorter questions, which are followed by shorter firm responses. Also, it is not costless for firms to engage in casting their calls: firms who are frequent casters of their calls, see significant future drops in analyst coverage.

The remainder of the paper is organized as follows. Section I provides a brief background and literature review. Section II describes the data we use, while Sections III explores firm behavior in casting earnings conference calls. Section IV examines the effect on firms of casting calls, while Section V explores the mechanism in more detail. Section VI concludes.

I. Background and Literature Review

Our paper adds to a large literature examining firms' attempts to manage their information environments, the manner in which firms disclose information to the markets, and the impact of different forms of disclosure on various stakeholder groups (e.g., investors, customers, regulators, media, etc.). A series of recent papers, for example, studies the impact of Regulation Fair Disclosure ("RegFD"), which was enacted in 2003, and was to designed to combat selective disclosure by firms. Effective October 23, 2000, companies must reveal any material information to all investors and analysts simultaneously in the case of intentional disclosures, or within 24 hours in the case of unintentional disclosures. According to SEC Proposed Rule S7-31-99, regulators believe that allowing selective disclosure is "not in the best interests of investors or the securities markets generally." Several recent papers examining the impact of Regulation FD on the behavior of equity analysts conclude that the law has in fact been effective in curtailing selective disclosure to analysts (see, for example, Cohen, Frazzini, and Malloy (2011), Mohanram and Sunder (2006), Groysberg, Healy, Chapman, Shanthikumar and Gui (2007), Agrawal, Chadha, and Chen (2006), and Gintschel and Markov (2004)). Our paper is unique in that we take as given the "level playing field" imposed by Regulation Fair Disclosure (RegFD), and explore the subtle choices firms can make even within this

seemingly strict information disclosure environment, choices that can (as we document) have large impacts on market prices and firm outcomes.

Since the laboratory we exploit is that of quarterly earnings conference calls, our paper is also relevant to a large literature studying the relationship between firms and analysts, as well as studies of the information content of earnings announcements and earnings conference calls specifically. For example, a recent strand of the literature examines management communication during conference calls and its association with information content (Hollander, Pronk and Roelofsen (2010), Matsumoto, Pronk and Roelofsen (2011)), future performance (Mayew and Venkatachalam (2012)) and financial fraud and misreporting (Larcker and Zakolyukina (2011), and Hobson, Mayew and Venkatachalam (2012)). Chen and Matsumoto (2006) also find that in the pre-Reg FD period that analysts with access to management deliver more accurate earnings forecasts. Finally, Mayew (2008) and Mayew, Sharp, and Venkatachalam (2011) also explore differential analyst participation on conference calls, but focus on its implications for analyst accuracy; our focus is on the *firms* engaging in this type of behavior, and the signal that this behavior conveys for future firm outcomes.

II. Data and Summary Statistics

We draw from a variety of data sources to construct the sample we use in this paper. A critical input to our study is the earnings conference call transcript data. We obtain these transcripts from Thomson Reuters, specifically from the StreetEvents data feed. We collect the complete transcripts of all conference calls from 2003-2011. We isolate the name of the firm conducting the call, along with the name and affiliation of all analysts listening on the call. In practice, firms know the identities of all listeners to the call, as each person must dial in through a conference call-in service that requires them to sign in at the outset of each call; the company then filters who can ask questions, and also determines the queue. In the Thomson data, we see only the names of analysts who were called on to ask a question during the call; we assume that all other analysts covering the stock were listening to the call, but were not called on.[1]

[1] We show that analysts who are able to ask questions during the call have significant increases in their future forecast

To construct our dataset, we first hand-match the StreetEvents analyst names for each call back to the brokerage house and analyst last name and first initial available on IBES, using a conservative matching procedure. This allows us to match the data to IBES, so that we can obtain data on past forecast accuracy and past recommendation levels. For some of our additional tests, we also examine the text of each question in order to assess the difficulty of the question.

In addition to analysts' past forecasts and recommendations, we also obtain analyst data on length of career, Institutional Investor All Star status, and other selected analyst biographical items (such as past employment, educational background, etc.) from ZoomInfo and LinkedIn. We also collect additional firm-level data, such as firm restatements over our sample period from the Audit Analytics database, as well as monthly stock returns, shares outstanding, volume, and market capitalization from CRSP, and a variety of firm-specific accounting variables from Compustat.

Table I presents summary statistics from our final dataset. Each analyst covering a given stock is designated as "in" for a particular conference call if she was called on during that call, and "out" if she was not called on during that call. An analyst is said to be "covering" a stock if she has produced a stock recommendation for a given stock in the IBES database in the past year. Table I shows that an average of 2.7 unique analysts (out of an average of 13.5 analysts covering a stock) are called on during a typical quarterly earnings call. In a preview of some of our results, Table I also shows that analysts who are called tend to issue more optimistic recommendations (an average of 3.7 on a 1-5 scale, where 1=Strong Sell, 2=Sell, 3=Hold, 4=Buy, 5=Strong Buy) relative to other analysts covering the stock (=3.6). The average level difference in analyst recommendations between the two groups (equal to 0.10) is statistically significant and of the same magnitude as the optimism effect associated with affiliation (i.e., when a firm has an underwriting relationship with the analyst's brokerage house), which is the subject of a vast analyst literature (see, for example, Lin and McNichols (1998), Lin et al. (2005), Michaely and Womack (1999), Hong and Kubik (2003)). Additionally, the median

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accuracy following the call. In addition, we contacted a number of analysts, and in those conversations the analysts commented that it was a "job-requirement" to call-in (and if possible to ask questions) during the conference calls. One recounted an instance where a lead-analyst at his firm had not called in, and it being mentioned at the lead analyst's performance review.

recommendation of participating analysts is a Buy, while the median of those analysts not in the call is a Hold recommendation. Table I also shows that participating analysts are more accurate on the given call than non-participating analysts, a result we show more formally below. Finally, Table I reports some firm-level summary statistics; relative to the average firm on CRSP, our sample is tilted towards stocks that are larger, have lower book-to-market ratios (i.e., are more "growth-like" in nature), and have higher institutional ownership; a function of stocks covered by sell side stock analyst universe.

III. Firm Behavior on Earnings Conference Calls

A. Analyst Recommendations and Conference Call Participation

Our first tests examine the recommendations of analysts that are called on by firms, relative to those who are not, during quarterly earnings conference calls. Specifically, we run panel regressions where the dependent variable is the recommendation level of all analysts covering the firm on their most recent recommendation before the conference call; the main independent variable of interest is a dummy variable (*IN*) that equals 1 for analysts called on during the call, and 0 for those analysts who were not. We also control for a variety of other determinants of analyst recommendations, including several analyst-level variables (such as the number of years the analyst has worked in the industry, the number of years the analyst has covered the firm in question, the number of stocks currently covered by the analyst, the number of stocks currently covered by the analyst's brokerage firm, and a dummy if the analyst was named an Institutional Investor All-Star analyst within the past year) and numerous firm-level measures (such as size, book-to-market ratio, past year returns, share turnover, and idiosyncratic volatility). We then test the hypothesis that firms choose to call on or "cast" their earnings calls with analysts who were more favorable in their past recommendations on these firms.

Table II shows that firms do indeed call on analysts who issue more favorable recommendations in the year leading up to a conference call. Further, Table II shows that this effect persists even after controlling for a host of analyst- and firm-level variables known to correlate with analyst recommendations, and after including firm-

quarter fixed effects (in Columns 1-2, thus comparing in and out analysts covering the same firm), and after including analyst-time fixed effects (in Columns 3-4, thus comparing in and out stocks covered by the same analyst in the same quarter). Columns 1-4 indicate that the magnitude of this difference (ranging from 0.10 to 0.19) is highly statistically significant ($p\text{-}value<0.01$), and (as noted earlier) comparable in magnitude to the much-publicized affiliation effect in analyst research. Columns 5 and 6 flip the specification around, and run logit regressions using being "called on" as the dependent variable, and the prior recommendation level (minus the average recommendation level) as the independent variable of interest; these tests again reveal a positive and significant effect of prior recommendation level on the likelihood of being called on during an earnings conference call.

B. Types of Firms that Call on Bullish Analysts

Next we examine the behavior and characteristics of firms that tend to call specifically on analysts with higher past recommendations. Our first test explores the determinants of firms' casting decisions. We create a measure called RecIn-RecOut, equal to the difference in average recommendation level by "in" analysts (i.e., those analysts a firm choose to call on) versus "out" analysts (i.e., those analysts a firm does not call on, but who cover the firm in the given quarter). We then run panel regressions with this firm-level RecIn-RecOut variable on the left-hand side of the regression. For our explanatory variables, we start by analyzing a series of measures that plausibly capture a firm's incentive to call on more favorable analysts. Specifically, we examine discretionary accruals, as firms with higher accruals may have an incentive to call on bullish analysts to avoid a potentially unfavorable discussion of the specific composition of their earnings. We also create a dummy variable equal to one if a firm's earnings surprise in the quarter in question is exactly 0 or 1 cent, since firms that just meet (or barely exceed) consensus forecasts may want to avoid any difficult questions about the precise manner in which they hit their forecasts so narrowly. Finally, we create a dummy variable equal to one if the firm in question issues a secondary equity offering (SEO) in quarter t or quarter t+1, since firms issuing equity in the near future may want to avoid

the release of any potential bad news that could decrease their issuance proceeds. We also control for the same firm-level variables defined in Table II, and run the tests as panel regressions with time (quarter) fixed effects and standard errors also clustered by quarter.

Columns 1-2 of Table III show that discretionary accruals (*ACCRUAL*), a dummy for meeting or barely exceeding consensus earnings forecasts (*SUE(0)*), and future equity issuance (*SEO*), are all positive and significant predictors of RecIn-RecOut, consistent with the idea that firms with the largest incentive to call on favorable analysts are exactly the firms that do so. In terms of magnitude, a one-standard deviation move in accruals leads to a 40% increase in RecIn-RecOut. In addition, firms that meet or barely exceed forecasts have 20% higher value of RecIn-RecOut, and firms that subsequently issue equity have a 70% higher value of RecIn-RecOut.

Next we investigate firms' information environments, to test the idea that firms operating in a more transparent environment will be less willing to stage, or alternatively may gain less from staging, their conference calls by calling on favorable analysts. To proxy for the firm's information environment, we use the following measures: 1) analyst coverage, and specifically the number of unique analyst estimates made in the 12 months leading up to the call, 2) the proportion of institutional holdings, and 3) the idiosyncratic volatility of the firm, measured as the standard deviation of the four-factor adjusted monthly return over the past 12 months. Columns 3-6 show that firms with more analyst coverage and a higher proportion of institutional holdings, i.e., firms operating in more transparent environments, tend to stage their conference calls significantly less, as expected. By contrast, firm-level volatility is positively related to RecIn-RecOut, indicating that volatile firms are indeed more likely to call on favorable analysts.

Collectively, the results in this section indicate that during quarterly earnings calls, firms are more likely to call on analysts who have issued more favorable recommendations on these firms leading up to the call. Further, this type of behavior is most pronounced among firms with the strongest incentives to manage the flow of information to the market, such as firms with higher discretionary accruals, firms that barely meet/exceed earnings expectations, and firms about to issue equity, as well as

those firms facing substantial uncertainty (i.e., volatile firms), and firms operating in more opaque information environments.

IV. The Impact of Casting on Firms

In this section we explore the impact on firms of the tendency to call on more favorable analysts during earnings conference calls. We exploit cross-sectional variation in the extent to which firms engage in this type of behavior, and explore the impact on contemporaneous earnings announcement returns, future earnings surprises, future stock returns, and future earnings restatements.

A. Potential Benefits: Contemporaneous Investor Response

First we explore the potential benefits that firms receive by engaging in this type of behavior. To do so, we investigate the investor response around the earnings call in which the firm is calling on more favorable analysts. If the firm is successful in preventing the flow of negative information by avoiding negative or cynical analysts, then the stock market response around the earnings call may be relatively positive. In Table IV we test this idea by running Fama-Macbeth quarterly regressions of contemporaneous earnings announcement returns on the spread between recommendation levels of analysts in and out of the current call (RecIn-RecOut), plus a host of additional control variables including the magnitude of the earnings surprise itself. To measure earnings surprises, we compute the standardized unexpected earnings (SUE, in percentage terms) for quarter t, and to measure announcement returns, we compute the market-adjusted cumulative return (CAR, in percentage terms) from days t-1 to t+1 around the current earnings announcement date (in quarter t). We also control for the following lagged firm-level variables: market capitalization; book-to-market ratio; prior year returns; share turnover over the past 12 months; and idiosyncratic volatility, institutional holdings, analyst coverage, and accruals as defined in Tables II and III.

Table IV indicates that firms have significantly more positive abnormal returns around the call when they "play the game" (i.e., call on more favorable analysts). In terms of magnitude, a one standard-deviation increase in (RecIn-RecOut) implies a 36%

increase in the contemporaneous earnings announcement effect (CAR_t). Further, we include an interaction term ((RecIn-RecOut)*SUE) in this regression, which indicates that returns are less sensitive to earnings themselves when the firm plays this game, consistent with the analysts who are called on asking less probing questions. For robustness, we also compute an indicator variable equal to one if RecIn is greater than RecOut in quarter *t* (RecIn>RecOut), which again captures the contemporaneous effect of "playing the game" on earnings announcement returns in that same quarter *t*. Columns 4-6 reveals that this indicator variable yields similar results as the continuous measure used in Columns 1-3.

B. Future Earnings Surprises and Earnings Announcement Returns

If firms calling on favorable analysts are doing so in order to portray the most positive view to the market and potentially hide any negative information from coming to light, our hypothesis is that firms engaging in this type of behavior are more likely to experience negative *future* outcomes, such as negative future earnings surprises, as this news will ultimately be revealed to the market (it likely cannot be hidden forever). We test this idea by running forecasting regressions of future earnings surprises and future earnings announcement returns on the *lagged* spread between recommendation levels of analysts in and out of the call (RecIn-RecOut), plus a host of additional control variables. We again measure earnings surprises using SUEs, and announcement returns using CARs, and again control for the same firm-level variables used in Table IV. We also include time (quarter) fixed effects in all of the SUE panel regressions; the CAR regressions are run as quarterly Fama-MacBeth regressions.

Columns 1-3 of Table V show that firms that call more on favorable analysts (i.e., those with higher values of RecIn-RecOut) experience more negative future earnings surprises. In terms of the magnitude of this effect, a one-standard deviation move in (RecIn-RecOut) this period implies over an interquartile lower earnings surprise next announcement, so a large effect. Columns 4-6 find a similar effect for future earnings announcement returns; for example, the coefficient of -0.225 implies that for a one-standard deviation move in (RecIn-RecOut) this period, CARs are 54% lower at the next

announcement (computed relative to the sample mean CAR of 33 basis points).

Next we test whether the announcement return effect documented in Columns 4-6 is concentrated around times when the firm "stops playing the game," i.e., stops calling on more favorable analysts during its earnings calls. As in Table IV, we first compute an indicator variable equal to one if RecIn is greater than RecOut in quarter t+1, which captures the contemporaneous effect of "playing the game" on earnings announcement returns in that same quarter t+1. Column 7 shows that this dummy variable is again positive and significant, indicating that firms are contemporaneously rewarded in the sense that around calls where firms call on favorable analysts, their CARs around that call are positive. It is only in the *future*, when the negative news being held back by the firm at time t gets revealed to the market later, do the CARs turn negative (which is shown by the large negative coefficient on lagged RecIn-RecOut, as described earlier). Thus, to test the idea that these negative returns may be concentrated around times when the firm finally stops calling on favorable analysts, we create an interaction term between lagged RecIn-RecOut and contemporaneous RecIn>RecOut. As Column 7 shows, this interaction term is positive and significant, suggesting that announcement returns are positive as long as the firm keeps calling on favorable analysts. Only once the firm stops doing this, i.e., when the RecIn>RecOut dummy turns to zero, do the negative announcement returns materialize.

C. Portfolio Returns

Next we employ a portfolio approach to examine if the CAR returns documented above can be captured in simple, calendar-time portfolios. To do so, each day we sort all stocks into two groups based on RecIn-RecOut in the prior quarter. Then during the five days around their *next* earnings announcement, we long the stocks with prior RecIn<RecOut, and short the stocks with prior RecIn>RecOut. If on any given day there are less than or equal to 10 stocks on either the long or short side, we hold the 3-month Treasury bill instead. The portfolios are rebalanced daily, and aggregated up to monthly figures that are reported in Table VI. Panel A presents excess returns (in excess of the 3-month Treasury bill), 1-factor (CAPM), 3-factor Fama-French, 4-factor Carhart,

and 5-factor (including the Pastor-Stambaugh liquidity factor) alphas, and Panel B presents factor loadings.

Panel A indicates that the Long/Short portfolio earns monthly abnormal returns ranging from 78 basis points (t=3.05) to 95 basis points (t=3.46) per month. Given that the mean earnings announcement month return is roughly 59 basis points per month (Frazzini and Lamont (2006)), subtracting this amount from both Long and Short sides, we see that most of the return comes from the relative underperformance of the Short portfolio in the earnings month.

D. Future Earnings Restatements

Given the findings on future negative earnings surprises, and the future negative stock returns associated with these casting firms, as well as the results in Table III suggesting that casting firms tend to be those with higher discretionary accruals, a natural question is to what extent this type of behavior predicts future earnings restatements and accounting irregularities. Ultimately, in the future the market seems to be realize the negative information that these firms were withholding during their prior earnings calls, and future earnings restatements could be one such trigger that causes this price revelation. To test this conjecture, we run a predictive regression of future restatements (drawn from the Audit Analytics database) in quarter t+1 on lagged RecIn-RecOut, plus the same firm-level control variables used in Tables III-V. Table VII confirms that RecIn-RecOut is a positive and significant predictor of future earnings restatements. In particular, a one standard-deviation move in (RecIn-RecOut) this period predicts a 10% increase in future restatements by the firm.

V. Additional Tests of Mechanism

In this section we explore the impact on, and response of those analysts who are called on during conference calls. We also investigate the nature of the questions asked in greater depth. These tests help clarify the mechanism at work behind our main

results.

A. Future Analyst Accuracy

First we examine if analysts participating on the call are more accurate in their earnings forecasts in the future. To do so, we run panel regressions of future earnings forecast accuracy on a participation dummy, and a host of analyst- and firm-level characteristics. If an analyst was called on during a given call, the dummy equals one; otherwise the dummy is set to zero. We measure earnings forecast error in the next quarter (t+1) in percentage terms as follows: [(actual earnings in quarter t+1 minus forecasted earnings in quarter t+1), divided by lagged quarter t-1 price]. We include the same analyst- and firm-level controls as in Table II.

We run several different versions of this basic test, and report the results in Table VIII. For example, Columns 1-2 include firm-quarter fixed effects, and hence examine the relative accuracy of analysts covering the same firm (A is in stock X's call, and B is out of stock X's call). Then in Columns 3-4 we include analyst-quarter fixed effects, and hence examine the relative accuracy on stocks covered by the same analyst (A is in stock X's call, but is out of stock Y's call). Next in Columns 5-6 we include firm-quarter fixed effects, and examine the relative accuracy of analysts on the same *other* firm (A is in stock X's call, but not in stock Y's call, and B is in neither; we examine A and B's forecast accuracy for stock Y). Columns 1-4 of Table VIII indicate that analysts participating in the call are more accurate in their next earnings forecast, both relative to other analysts on the same stock who do not participate, and relative to themselves on other stocks where they themselves do not participate. This finding is consistent with the idea that analysts receive some benefit to being able to receive answers to their own private questions. In Columns 5-6 we find only modest evidence that this benefit spills over to their accuracy on other stocks.

In Columns 7 and 8, we also explore *changes* in forecast accuracy; we do this by computing the percentage change in quarterly earnings forecast accuracy between quarter t and quarter t+1. Columns 7 and 8 reveal that there is a jump in analysts' accuracy directly after participating in the call and asking their questions to management.

Specifically, being in the call increases accuracy by 15%. Thus, in sum while issuing higher recommendations will cause an analysts' recommendation to be less informative (as we show in Tables V-VII these firms have lower future returns, and more future restatements), this behavior does appear to have the benefit of access into the earnings call to ask the analyst's privately valuable question, which increases that analyst's future earnings forecast accuracy.

B. Future Changes in Analyst Coverage

Next we examine if there is a cost to firms of persistently casting their calls over time. Given that there is a benefit to firms in the form of higher contemporaneous earnings announcement returns, one might expect virtually all firms to engage in this behavior. As shown above in Table IV, casting does predict negative future earnings surprises for the firm, but these negative returns are concentrated around times when the firm stops calling on favorable analysts, which begs the question of why firms ever stop casting. One possibility is that firms will lose analyst coverage over time, as analysts are unable to ask their own privately-valued questions (which lead to increases in future earnings accuracy as shown above), and become unwilling to cover the firm. Analyst coverage is valuable to a firm as it potentially increases liquidity in the stock (see Irvine (2003) for evidence in favor of this idea).

We test this idea in Table IX by running regressions of the change in analyst coverage on a measure of "persistent casting," defined as the average of (RecIn-RecOut) over the prior 4 quarters (or alternatively, as the fraction of quarters in which RecIn is greater than RecOut. We measure the change in coverage ("delta coverage") as the difference between "post-coverage" and "pre-coverage," where post-coverage is defined as coverage after the event year during which we measure persistent casting, and pre-coverage is defined as coverage before the event year.

Table IX shows that persistent casting predicts a significant decline in coverage. In terms of magnitude, the estimates in Column 4 (which uses the fraction of quarters in which RecIn>RecOut to define persistence) imply that an additional quarter of casting is associated with a 0.10 drop in analyst coverage the following year. Columns 5 and 6

report regressions with post-coverage on the left-hand side, and show that controlling for pre-coverage, persistent casting again has a negative impact on future coverage. Collectively, the results in Table IV reinforce the idea that persistent casting is not without costs, as eventually it is associated with declines in analyst coverage for the casting firms.

C. Types of Questions Asked

Next we attempt to analyze the difficulty of the questions asked, to further assess the degree to which firms manage the information environment of the call by calling on favorable analysts. If firms truly are trying to conceal negative information by calling on analysts less likely to uncover problematic information through their questioning, one might expect to see that the questions posed by favorable analysts are "easier" in some way. Gauging the difficulty of a question is obviously a nontrivial exercise without understanding the context in which a question is asked, but one simple classification of an easy question is the number of words in the question, and perhaps even more importantly, the number of words in the answer (since firms may attempt to obfuscate with a long-winded response to a difficult question).

In Table X we examine this issue by running regressions of the number of words in each question on the recommendation level of the analyst asking the question, her place in the conference call (e.g., 2nd to ask a question), and a host of additional analyst-level characteristics. We then conduct additional tests using the number of words in the answer as the left-hand side variable as well. For all of these tests we run panel regressions, include firm/quarter fixed effects, and cluster all standard errors at the quarter level.

Columns 1 and 2 of Table X show that analysts who issued higher past recommendations on a firm tend to ask shorter questions in the subsequent quarterly earnings call. In addition, Columns 3-6 of Table X indicate that these same analyst questions are met with significantly fewer words per response, which is suggestive evidence that these questions are less difficult to answer. These results in Table X are statistically significant, but modest in terms of economic significance: an increase in one

recommendation notch shortens the question length by 2% (relative to a mean of about 100 words), and shortens the answer length by 4% (relative to a mean of about 200 words).

VI. Conclusion

We explore a subtle, but economically important way in which firms shape their information environments, namely through their specific organization and choreographing of earnings conference calls. Our analysis rests on a simple premise: firms have an information advantage, and they understand this and have the ability to be strategic in its release. Our key finding is that firms that manipulate their conference calls by calling on those analysts with the most optimistic views on the firm appear to be hiding bad news, which ultimately leaks out in the future. Specifically, we show that casting firms experience higher contemporaneous returns on the (manipulated) call in question, but negative returns in the future. These negative future returns are concentrated around future calls where they stop this casting behavior, and hence allow negative information to be revealed to the market. A long-short portfolio that goes long the non-casting firms and short the casting firms around their subsequent calls earns abnormal returns ranging from 78 basis points (t=3.05) to 95 basis points (t=3.46) per month.

We also find evidence that firms with an ex-ante larger incentive to cast their calls, namely: firms with higher discretionary accruals, firms that barely meet/exceed earnings expectations, and firms about to issue equity, are all significantly more likely to do so (i.e., call on analysts with more optimistic views of the firm). Further, firms in less transparent information environments, in which it is likely easier to withhold information, engage in casting significantly more. For instance, firms with fewer analysts and less institutional ownership are significantly more likely to engage in casting their calls.

Lastly, we show evidence suggesting that analysts gain an advantage by having the opportunity to ask questions in conference calls. Specifically, analysts who are able to ask questions during the conference call have significantly more accurate earnings forecast in the future (while those analysts who do not see no commensurate increase in accuracy). However, it is not costless for firms to engage in casting their calls: firms who

are frequent casters of their calls, see significant future drops in analyst coverage.

In sum, we show new evidence on a channel through which firms influence information disclosure in level-playing-field information environments. In doing so, the paper offers insights into the subtle but important mechanisms that firms employ to manipulate their information environments, and the extent to which the market recognizes these firm-level behaviors.

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Table I: Summary Statistics

This table reports the summary statistics of our sample that spans the period of 2003-2011. Panel A reports the average number of analysts that get an opportunity ask questions in a conference call (in analysts), and the number of analysts that do not have the opportunity to ask questions (out analysts). Panel B reports the recommendations issued by analysts in the conference call vs. those not in the conference call. Specifically, $RECD_{in}$ is the recommendation issued by an in analyst, and $RECD_{in}$ is the recommendation issued by an out analyst. $RECD(IN)$ is the average recommendation by all the in analysts, while $RECD(OUT)$ is the average recommendation by all the out analysts. Panel C reports the earnings forecast error of analysts in the conference call vs. those not in the conference call. Panel D reports the standardized earnings surprise, defined as difference between the actual earnings and consensus forecast scaled by lagged stock price, and the cumulative abnormal return in the five-day window surrounding the earnings announcement. Finally, Panel E reports some firm characteristics. $MKTCAP$ is the log of market capitalization, BM is the book-to-market ratio, while $INSTOWN$ is the fraction of shares outstanding owned by institutional investors.

	No.	Mean	StdDev	Min	Q1	Median	Q3	Max
Panel A: Number of analysts								
$\#(IN)$	65,299	2.70	1.85	1	1	2	4	30
$\#(OUT)$	65,299	10.76	7.82	1	5	9	15	62
Panel B: Analyst recommendations								
$RECD_{in}$	178,638	3.70	0.87	1	3	4	4	5
$RECD_{out}$	738,568	3.61	0.96	1	3	3	4	5
$RECD(IN) - RECD(OUT)$	65,299	0.10	0.74	-4	-0.41	0	0.49	4
Panel C: Earnings forecast accuracy								
FCE_{in}	83,536	0.0034	0.0205	0.0000	0.0005	0.0014	0.0037	0.3046
FCE_{out}	590,311	0.0047	0.0284	0.0000	0.0005	0.0016	0.0045	0.3046
Panel D: Earnings surprise and announcement day returns								
SUE	43,219	0.0000	0.0108	-0.0753	-0.0004	0.0006	0.0023	0.0298
CAR	46,937	0.0033	0.0945	-0.7454	-0.0399	0.0022	0.0470	2.7500
Panel E: Other firm characteristics								
$MKTCAP$	65,299	8.20	24.77	0.00	0.54	1.58	5.22	487.14
BM	56,036	0.57	0.55	0.03	0.27	0.45	0.70	11.18
$INSTOWN$	59,336	0.69	0.21	0.00	0.57	0.74	0.86	1.00

Table II: Firm Behavior on Conference Calls

This table examines the recommendations issued by analysts that ask questions in the conference call vs. those that do not ask questions. Columns 1-4 conduct a panel regression, where the dependent variable is the recommendation issued prior to the conference call by each analyst covering the firm. Columns 5 and 6 conduct a logit regression where the dependent variable is an indicator that equals one if the analyst asks a question in the conference call and zero otherwise. The main independent variables are the IN dummy and the recommendation issued by the analyst relative to the consensus recommendation ($RECD^{adj}$). Analyst level controls include: the number of years the analyst has covered the firm ($LENGTH$), the number of years the analyst has been in the IBES database ($CAREER$), the number of stocks covered by the analyst, the number of stocks covered by the broker, and whether the analyst is an all-star analyst. Firm level controls include: the monthly share turnover in the previous year, the idiosyncratic volatility in the previous year, the number of analysts covering the firm, and the discretionary accruals. Columns 1 and 2 include firm-quarter fixed effects, while columns 3 and 4 include analyst-quarter fixed effects. Standard errors, clustered at the quarterly level, are shown in parentheses. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	$RECD_{i,j,t}$	$RECD_{i,j,t}$	$RECD_{i,j,t}$	$RECD_{i,j,t}$	$IN_{i,j,t}$	$IN_{i,j,t}$
	[1]	[2]	[3]	[4]	[5]	[6]
$IN_{i,j,t}$	0.093***	0.100***	0.188***	0.192***		
	(0.004)	(0.004)	(0.005)	(0.006)		
$RECD^{adj}_{i,j,t}$					0.041***	0.067***
					(0.009)	(0.009)
$LENGTH_{j,t}$		0.027***				-0.073***
		(0.004)				(0.021)
$CAREER_{j,t}$		0.031***				0.201***
		(0.003)				(0.081)
$\#STOCK^{analyst}_{j,t}$		0.000***				-0.009***
		(0.000)				(0.002)
$\#STOCK^{broker}_{j,t}$		0.000***				0.001***
		(0.000)				(0.000)
$ALLSTAR_{j,t}$		-0.075***				0.289***
		(0.006)				(0.039)
$MKTCAP_{i,t}$				0.093***		
				(0.005)		
$BM_{i,t}$				-0.081***		
				(0.012)		
$RET12_{i,t}$				0.135***		
				(0.009)		
$TURNOVER_{i,t}$				-0.018***		
				(0.001)		
$IDIOVOL_{i,t}$				0.017***		
				(0.005)		
$INSTOWN_{i,t}$				0.210***		
				(0.021)		
$NUMEST_{i,t}$				-0.003***		
				(0.001)		
$ACCRUAL_{i,t}$				0.588***		
				(0.046)		
No Obs.	834,347	834,347	834,347	834,347	834,347	834,347
Adj-R^2/ LH Ratio	0.13	0.15	0.21	0.25	27.59	21281.82

Table III: Which Firms Call on More Favorable Analysts

This table relates the difference in recommendations between analysts that ask questions in the conference call ($RECD(IN)$) and those that do not ask questions ($RECD(OUT)$) to a list of firm characteristics. Three of these firm characteristics are linked to earnings management in prior literature: $ACCRUAL$, the discretionary accruals, $SUE(0)$, a dummy variable that equals one if the firm has a zero cent earnings surprise and zero otherwise, and SEO, an indicator that equals one if the firm has at least one seasoned equity offering in the following quarter and zero otherwise. Three are linked to the information environment of the firm: $NUMEST$, the number of analysts covering the firm, $INSTOWN$, the fraction of shares outstanding owned by institutional investors, and $IDIOVOL$, the idiosyncratic volatility in the previous year. Other control variables include firm size, the book-to-market ratio, lagged stock returns, and share turnover. Quarter fixed effects are included in all regressions. Standard errors, clustered at the quarterly level, are shown in parentheses. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	Dependent Variable = $RECD(IN)_{i,t} - RECD(OUT)_{i,t}$					
	[1]	[2]	[3]	[4]	[5]	[6]
$ACCRUAL_{i,t}$	0.198***	0.261***			0.217***	0.264***
	(0.052)	(0.056)			(0.056)	(0.060)
$SUE(0)_{i,t}$	0.022***	0.017**			0.027***	0.025***
	(0.008)	(0.008)			(0.009)	(0.009)
$SEO_{i,t}$	0.067***	0.082***			0.048***	0.062***
	(0.015)	(0.016)			(0.016)	(0.017)
$NUMEST_{i,t}$			-0.002***	-0.002***	-0.002***	-0.004***
			(0.001)	(0.001)	(0.001)	(0.001)
$INSTOWN_{i,t}$			-0.044***	-0.051***	-0.045**	-0.045**
			(0.015)	(0.018)	(0.020)	(0.021)
$IDIOVOL_{i,t}$			0.014***	0.015***	0.020***	0.026***
			(0.003)	(0.004)	(0.003)	(0.004)
$MKTCAP_{i,t}$		-0.013***		-0.001		0.008**
		(0.002)		(0.003)		(0.004)
$BM_{i,t}$		-0.010		-0.010		-0.019**
		(0.007)		(0.006)		(0.007)
$RET12_{i,t}$		0.015**		0.014**		0.014**
		(0.007)		(0.007)		(0.007)
$TURNOVER_{i,t}$		0.002		0.001		0.001
		(0.002)		(0.002)		(0.002)
No Obs.	43,701	43,701	43,701	43,701	43,701	43,701
Adj-R^2	0.01	0.01	0.01	0.01	0.01	0.01

Table IV: Investor Response

This table conducts Fama-MacBeth regressions of earnings announcement day returns on the difference in recommendations between analysts that ask questions in the conference call vs. those that do not ask questions. The dependent variable is the cumulative abnormal return in the five day window around the quarterly earnings announcement. The main independent variable in columns 1 and 2 is the difference in recommendations between the in analysts and out analysts, while that in columns 3 and 4 is a dummy variable that equals one if the average recommendation issued by the in analysts is higher than that issued by out analysts, and zero otherwise. We also include in the regression an interaction term between SUE (the standardized unexpected earnings) and the recommendation differential between in analysts and out analysts. Other control variables include SUE, firm size, the book-to-market ratio, lagged stock returns, share turnover, idiosyncratic volatility, institutional ownership, number of analysts covering the firm, and discretionary accruals. Standard errors, with Newey-West adjustments of four lags, are shown in parentheses. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	Dependent Variable = CAR_t					
	[1]	[2]	[3]	[4]	[5]	[6]
$RECD(IN)_{i,t} - RECD(OUT)_{i,t}$	0.162***	0.174***	0.152**			
	(0.047)	(0.060)	(0.071)			
$RECD(IN)_{i,t} > RECD(OUT)_{i,t}$				0.269***	0.230***	0.155**
				(0.065)	(0.048)	(0.064)
$SUE_{i,t}$	1.911***	2.087***	2.870***	2.159***	2.510***	3.092***
	(0.329)	(0.392)	(0.373)	(0.400)	(0.511)	(0.495)
$INTERACT_{i,t}$	-0.307**	-0.286**	-0.260**	-0.440**	-0.493**	-0.507*
	(0.149)	(0.144)	(0.141)	(0.210)	(0.206)	(0.268)
$MKTCAP_{i,t}$		0.301***	0.631***		0.293***	0.621***
		(0.054)	(0.059)		(0.055)	(0.060)
$BM_{i,t}$		0.307	0.270		0.309	0.249
		(0.233)	(0.241)		(0.235)	(0.240)
$RET12_{i,t}$		-0.564**	-0.582**		-0.575**	-0.587**
		(0.246)	(0.215)		(0.252)	(0.229)
$TURNOVER_{i,t}$		-0.150***	-0.114***		-0.147***	-0.113***
		(0.036)	(0.028)		(0.037)	(0.029)
$IDIOVOL_{i,t}$		0.782***	0.836***		0.764***	0.813***
		(0.145)	(0.169)		(0.144)	(0.167)
$INSTOWN_{i,t}$		0.702***	1.004***		0.671***	0.944***
		(0.253)	(0.281)		(0.250)	(0.287)
$NUMEST_{i,t}$			-0.094***			-0.094***
			(0.011)			(0.011)
$ACCRUAL_{i,t}$			0.337			0.420
			(1.130)			(1.120)
No Obs.	43,260	43,260	43,260	43,260	43,260	43,260
Adj-R^2	0.03	0.06	0.07	0.03	0.06	0.07

Table V: Forecasting Future Earnings Surprises and Earnings Announcement Returns

This table reports forecasting regressions of earnings surprises and earnings announcement day returns on lagged difference in recommendations between analysts that ask questions in the conference call vs. those that do not ask questions. The dependent variable in columns 1-3 is the standardized unexpected earnings (SUE) and that in columns 4-7 is the cumulative abnormal return in the five day window around the quarterly earnings announcement. The main independent variable is the lagged difference in recommendations between the in analysts and out analysts. In the last column, we also include a dummy variable that equals one if the average recommendation issued by the in analysts is higher than that issued by out analysts in the contemporaneous period, and zero otherwise, as well as an interaction between this dummy variable and the lagged recommendation differential between in analysts and out analysts. Other control variables include SUE, firm size, the book-to-market ratio, lagged stock returns, share turnover, idiosyncratic volatility, institutional ownership, number of analysts covering the firm, and discretionary accruals. The first three columns conduct a panel regression with quarter fixed effects where the standard errors are clustered at the quarterly level. The next four columns conduct Fama-MacBeth regressions where the standard errors are Newey-West adjusted with four lags. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	SUE_{t+1}	SUE_{t+1}	SUE_{t+1}	CAR_{t+1}	CAR_{t+1}	CAR_{t+1}	CAR_{t+1}
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
$RECD(IN)_{i,t} -$	-0.020**	-0.016**	-0.009*	-0.205***	-0.231***	-0.225***	-0.372***
$RECD(OUT)_{i,t}$	(0.007)	(0.008)	(0.005)	(0.065)	(0.086)	(0.066)	(0.079)
$RECD(IN)_{i,t+1} >$							0.254**
$RECD(OUT)_{i,t+1}$							(0.114)
$INTERACT_{i,t}$							0.241***
							(0.076)
$MKTCAP_{i,t}$		0.012***	0.027***		-0.098**	-0.066	-0.081
		(0.004)	(0.005)		(0.049)	(0.060)	(0.064)
$BM_{i,t}$		0.062	-0.045		-0.142*	-0.027	-0.168
		(0.042)	(0.041)		(0.085)	(0.124)	(0.142)
$RET12_{i,t}$		0.002	0.008		-0.157	-0.201	-0.202
		(0.003)	(0.011)		(0.180)	(0.169)	(0.159)
$TURNOVER_{i,t}$		-0.012	0.002		-0.019	-0.019	0.004
		(0.011)	(0.003)		(0.019)	(0.023)	(0.015)
$IDIOVOL_{i,t}$		-0.079***	-0.024***		-0.036	0.029	0.067
		(0.006)	(0.007)		(0.122)	(0.141)	(0.074)
$INSTOWN_{i,t}$		0.148***	0.112***		1.645***	1.954***	1.386***
		(0.031)	(0.031)		(0.441)	(0.499)	(0.333)
$NUMEST_{i,t}$			-0.002*			0.007	0.013
			(0.001)			(0.018)	(0.009)
$ACCRUAL_{i,t}$			0.129*			-0.364	-0.224
			(0.073)			(0.803)	(0.502)
No Obs.	33,310	33,310	33,310	35,943	35,943	35,943	35,943
Adj-R^2	0.01	0.03	0.03	0.01	0.02	0.02	0.02

Table VI: Portfolio Approach

This table reports monthly returns to a calendar-time portfolio that exploits the return predictability of recommendation differentials between analysts that ask question and those that do not in the conference call. Specifically, in the five days around quarterly earnings announcements, we go long in stocks whose $RECD(IN)$ is below $RECD(OUT)$ in the previous quarter's conference call, and go short in stocks whose $RECD(IN)$ is above $RECD(OUT)$ in the previous quarter's conference call. If on any given day, there are less than 10 stocks in either the long or short side of the strategy, we hold the 30-day Treasury bill instead (this is the case for less than 10% of the trading days). We then aggregate these daily returns to the long short portfolio to the monthly level. Panel A reports the monthly returns to this long short portfolio after adjusting for various known risk factors, while Panel B reports the risk exposures of this strategy. In the full specification, we control for the Carhart four factors (including momentum) and the liquidity factor. Standard errors, with Newey-West adjustments of four lags, are shown in parentheses. Estimates significant at the 5% level are indicated in bold.

Panel A: Portfolio Returns

Decile	Excess Returns	1-Factor Alpha	3-Factor Alpha	4-Factor Alpha	5-Factor Alpha
S	0.63%	0.24%	0.03%	0.03%	-0.09%
	[1.07]	[0.47]	[0.08)	[0.08]	[-0.18]
L	**1.41%**	**1.06%**	**0.87%**	**0.86%**	**0.86%**
	[2.51)	[2.21)	[2.30]	[2.29]	[2.33]
L/S	**0.78%**	**0.82%**	**0.83%**	**0.83%**	**0.95%**
	[3.05]	[3.28]	[3.04]	[3.02]	[3.46]

Panel B: Factor Loadings

	xret	alpha	MKT	SMB	HML	UMD	LIQ
S	0.63%	-0.09%	0.409	0.494	**0.570**	0.001	0.129
	[1.07]	[-0.18]	[1.92]	[1.87]	[3.02]	[0.02]	[0.83]
L	**1.41%**	**0.86%**	0.306	**0.440**	**0.615**	-0.086	0.002
	[2.51]	[2.33]	[1.79]	[2.14]	[3.55]	[-1.00]	[0.02]
L/S	**0.78%**	**0.95%**	-0.104	-0.054	0.045	-0.087	-0.126
	[3.05]	[3.46]	[-1.06]	[-0.25]	[0.29]	[-1.39]	[-1.87]

Table VII: Forecasting Future Earnings Restatements

This table reports forecasting regressions of earnings restatements on lagged difference in recommendations between analysts that ask questions in the conference call vs. those that do not ask questions. The dependent variable in all columns is a $RESTATE$ dummy that equals one if the firm restates its earnings in the following quarter and zero otherwise. The main independent variable is the lagged difference in recommendations between the in analysts and out analysts. Other control variables include SUE, firm size, the book-to-market ratio, lagged stock returns, share turnover, idiosyncratic volatility, institutional ownership, number of analysts covering the firm, and discretionary accruals. The first three columns conduct a logit regression, while the next three columns conduct a panel OLS regression with quarter fixed effects. Standard errors, clustered at the quarterly level, are reported in parentheses. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	Dependent Variable = $RESTATE_{t+1}$					
	[1]	[2]	[3]	[4]	[5]	[6]
$RECD(IN)_{i,t} -$	0.108**	0.107**	0.091*	0.002**	0.002**	0.002*
$RECD(OUT)_{i,t}$	(0.047)	(0.053)	(0.049)	(0.001)	(0.001)	(0.001)
$MKTCAP_{i,t}$		-0.132***	-0.278***		-0.002***	-0.005***
		(0.032)	(0.047)		(0.001)	(0.001)
$BM_{i,t}$		0.095**	0.089*		0.003**	0.003*
		(0.047)	(0.050)		(0.001)	(0.001)
$RET12_{i,t}$		0.047***	0.051***		0.001***	0.001***
		(0.018)	(0.019)		(0.000)	(0.000)
$TURNOVER_{i,t}$		0.003	0.016		0.000	0.000
		(0.089)	(0.107)		(0.002)	(0.002)
$IDIOVOL_{i,t}$		-0.118***	-0.168***		-0.002**	-0.003***
		(0.049)	(0.059)		(0.001)	(0.001)
$INSTOWN_{i,t}$		0.153	-0.032		0.001	-0.003
		(0.224)	(0.254)		(0.004)	(0.005)
$NUMEST_{i,t}$			-0.006			-0.000*
			(0.006)			(0.000)
$ACCRUAL_{i,t}$			-0.938*			-0.014*
			(0.542)			(0.008)
No Obs.	36,196	36,196	36,196	36,196	36,196	36,196
LH Ratio / Adj-R^2	5.39	32.68	59.29	0.01	0.01	0.01

Table VIII: Analyst Earnings Forecast Errors

This table examines the earnings forecast accuracy of analysts that ask questions in the conference call vs. those that do not ask questions. The dependent variable in columns 1-6 is the earnings forecast error in the following quarter, while that in columns 7-8 is the quarterly change in earnings forecast error. The main independent variable is the IN dummy that takes the value of one if the analyst asks a question in the conference call in the current quarter an zero otherwise. Analyst level controls include: the number of years the analyst has covered the firm ($LENGTH$), the number of years the analyst has been in the IBES database ($CAREER$), the number of stocks covered by the analyst, the number of stocks covered by the broker, and whether the analyst is an all-star analyst. Firm level controls include: the monthly share turnover in the previous year, the idiosyncratic volatility in the previous year, the number of analysts covering the firm, and the discretionary accruals. Columns 1, 2, 7, and 8 include firm-quarter fixed effects and examine the relative accuracy of in analysts and out analysts covering the same firm. Columns 3 and 4 include analyst-quarter fixed effects and examine the relative accuracy of in stocks and out stocks covered by the same analyst. Finally, Columns 5 and 6 include firm-quarter fixed effects and examine the relative accuracy of in analysts and out analysts covering the same firm where neither of the two analysts are in the conference call. Standard errors, clustered at the quarterly level, are shown in parentheses. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	FCE_{t+1}	FCE_{t+1}	FCE_{t+1}	FCE_{t+1}	FCE_{t+1}	FCE_{t+1}	ΔFCE_{t+1}	ΔFCE_{t+1}
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
$IN_{i,j,t}$	-0.034***	-0.035***	-0.064***	-0.039***	-0.007*	-0.004	-0.028***	-0.030***
	(0.004)	(0.004)	(0.011)	(0.009)	(0.004)	(0.003)	(0.006)	(0.006)
$LENGTH_{j,t}$		0.000				-0.001		0.002
		(0.003)				(0.003)		(0.005)
$CAREER_{j,t}$		-0.005*				-0.009***		0.000
		(0.003)				(0.003)		(0.005)
$\#STOCK_{j,t}^{analyst}$		0.000***				0.000***		0.000
		(0.000)				(0.000)		(0.000)
$\#STOCK_{j,t}^{broker}$		-0.000				-0.000**		0.000
		(0.000)				(0.000)		(0.000)
$ALLSTAR_{j,t}$		-0.021***				-0.027***		-0.007
		(0.006)				(0.005)		(0.009)
$MKTCAP_{i,t}$				-0.024***				
				(0.005)				
$BM_{i,t}$				0.203***				
				(0.009)				
$RET12_{i,t}$				-0.323***				
				(0.009)				
$TURNOVER_{i,t}$				0.004*				
				(0.002)				
$IDIOVOL_{i,t}$				0.565***				
				(0.058)				
$INSTOWN_{i,t}$				-0.385***				
				(0.026)				
$NUMEST_{i,t}$				-0.004***				
				(0.001)				
$ACCRUAL_{i,t}$				-0.751***				
				(0.072)				
No Obs.	341,020	341,020	186,078	186,078	571,022	571,022	203,459	203,459
Adj-R^2	0.65	0.65	0.21	0.32	0.68	0.68	0.60	0.60

Table IX: Change in Analyst Coverage

This table reports forecasting regressions of changes in analyst coverage on lagged recommendation differentials between analysts that ask questions in the conference call vs. those that do not ask questions. The dependent variable in columns 1-4 is the change in analyst coverage in the following year, and that in columns 5 and 6 is the number of analysts covering the stock in the following year. The main independent variable is $CAST$: it is equal to the average recommendation differential between in analysts and out analysts in the previous four quarters in columns 1, 2, and 5, and is equal to the fraction of quarters in which $RECD(IN)$ is above $RECD(OUT)$ in the previous year in columns 3, 4, and 6. Other control variables include firm size, the book-to-market ratio, lagged stock returns, share turnover, idiosyncratic volatility, and institutional ownership. Standard errors, clustered at the quarterly level, are reported in parentheses. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	$\Delta COVER_{t+1}$	$\Delta COVER_{t+1}$	$\Delta COVER_{t+1}$	$\Delta COVER_{t+1}$	$COVER_{t+1}$	$COVER_{t+1}$
	[1]	[2]	[3]	[4]	[5]	[6]
$CAST_t$	-0.177***	-0.304***	-0.298**	-0.433***	-0.289***	-0.293***
	(0.050)	(0.044)	(0.122)	(0.092)	(0.037)	(0.069)
$COVER_t$					0.666***	0.666***
					(0.054)	(0.054)
$MKTCAP_{i,t}$		-0.156		-0.151	0.920***	0.924***
		(0.136)		(0.136)	(0.163)	(0.163)
$BM_{i,t}$		-1.947***		-1.949***	-2.048***	-2.047***
		(0.474)		(0.474)	(0.458)	(0.459)
$RET12_{i,t}$		1.572		1.570	0.952	0.949
		(1.050)		(1.050)	(1.089)	(1.089)
$TURNOVER_{i,t}$		-0.347*		-0.345*	-0.147	-0.146
		(0.190)		(0.189)	(0.176)	(0.176)
$IDIOVOL_{i,t}$		0.511**		0.512**	0.808***	0.808***
		(0.215)		(0.216)	0.258	(0.257)
$INSTOWN_{i,t}$		1.383**		1.404***	1.332***	1.352***
		(0.548)		(0.549)	(0.565)	(0.566)
No Obs.	35,627	35,627	35,627	35,627	35,627	35,627
Adj-R^2	0.00	0.07	0.00	0.07	0.54	0.54

Table X: Textual Analysis

This table examines the number of words in the analyst's questions and manager's answers. The dependent variable in columns 1-4 is the log of number of words in the questions asked by the analyst ($\#WORDS^{Q}$), while that in columns 5 and 6 is the log of number of words in the manager's response ($\#WORDS^{A}$). The main independent variable is the recommendation issued by the analyst prior to the conference call. Other control variables include: the analyst's place in the conference call (e.g., 2nd in line to ask a question, $PLACE$), the number of years the analyst has covered the firm ($LENGTH$), the number of years the analyst has been in the IBES database ($CAREER$), the number of stocks covered by the analyst, the number of stocks covered by the broker, and whether the analyst is an all-star analyst. All specifications include firm-quarter fixed effects. Standard errors, clustered at the quarterly level, are shown in parentheses. *, **, *** denote significance at the 90%, 95%, and 99% level, respectively.

	$\#WORD^{Q}_{i,j,t}$	$\#WORD^{Q}_{i,j,t}$	$\#WORD^{A}_{i,j,t}$	$\#WORD^{A}_{i,j,t}$	$\#WORD^{A}_{i,j,t}$	$\#WORD^{A}_{i,j,t}$
	[1]	[2]	[3]	[4]	[5]	[6]
$\#WORD^{Q}_{i,j,t}$					0.786***	0.777***
					(0.015)	(0.016)
$RECD_{i,j,t}$	-0.030***	-0.024***	-0.059***	-0.047***	-0.043***	-0.037***
	(0.005)	(0.004)	(0.006)	(0.006)	(0.006)	(0.006)
$PLACE_{i,j,t}$	-0.048***	-0.045**	-0.108**	-0.098**	-0.070*	-0.063
	(0.020)	(0.020)	(0.048)	(0.048)	(0.041)	(0.041)
$LENGTH_{j,t}$		-0.003		-0.040***		-0.038***
		(0.005)		(0.012)		(0.011)
$CAREER_{j,t}$		-0.012*		0.000		0.009
		(0.007)		(0.012)		(0.010)
$\#STOCK^{analyst}_{j,t}$		-0.001***		0.003***		0.004***
		(0.000)		(0.001)		(0.001)
$\#STOCK^{broker}_{j,t}$		0.001***		0.001***		0.001***
		(0.000)		(0.000)		(0.000)
$ALLSTAR_{j,t}$		0.035***		-0.069***		-0.096***
		(0.007)		(0.016)		(0.015)
No Obs.	169,868	169,868	169,868	169,868	169,868	169,868
Adj-R^2	0.12	0.12	0.12	0.12	0.12	0.12