To Guide or Not to Guide?
Causes and Consequences of Stopping Quarterly Earnings Guidance

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ABSTRACT

We examine a sample of 222 firms that stopped providing quarterly earning guidance after doing so routinely. Some firms announced the stopping decision publicly while the majority did not. Our findings indicate that poor earnings—past and expected, a spotty record of meeting/beating analyst forecasts, managerial change, low frequency of guidance in the stopper's industry, and past and anticipated difficulty in predicting earnings are the major reasons for stopping guidance. As for the consequences of guidance cessation, we find that analyst following decreases while analyst forecast dispersion and forecast error increase. Contrary to frequent claims by managers and commentators, we find that guidance stoppers, allegedly free of the market myopia shackles to focus on the long-term, do not increase capital investments and R&D after stopping guidance. Our findings do not support the frequent claims that guidance stoppers increase alternative forms of forward-looking disclosure. Finally, 31% of sample stoppers resume guidance, particularly those most negatively affected by the stopping decision. All in all, our findings are not consistent with the widely claimed benefits from guidance cessation.

Keywords: earnings guidance, voluntary disclosure, analyst following, managerial myopia.

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> *The law of large numbers has caught up with Dell. Once worshipped for consistent performance, Dell has had seven quarters of declining revenue growth and missed its own revenue predictions in three of the last four quarters. It finally gave up giving quarterly guidance (arguing that its competitors don't do so either).* (*Forbes*, June 19, 2006, p. 44).

1. Introduction

Earnings guidance—managers' public forecasts of forthcoming earnings—is widespread, yet highly controversial.[1] For example, a recent position paper by the CFA Institute and the Business Roundtable, summarizing a "Symposium Series on Short-Termism," emphatically recommends to corporate leaders: "End the practice of providing quarterly earnings guidance." (CFA [2006], p.2) Arguments for ending the earnings guidance practice are made by purists, who claim that managers should leave securities valuation and the underlying forecasts of future performance to investors and analysts, and by pragmatists, such as lawyers cautioning managers that earnings guidance increases litigation exposure. Regulators and commentators are concerned that a previously issued forecast (guidance) will motivate managers to meet that forecast even when doing so would require costly changes in real activities (e.g., cutting R&D or advertising) or induce them to manage earnings toward the forecast (Levitt [2000]). Frequently voiced is the objection that quarterly guidance caters to the demands of short-term investors and drives managers to accommodate such investors by engaging in myopic behavior that often runs counter to the company's long-term growth and shareholder value. All in all, concludes the consulting company McKinsey, earnings guidance is "misguided." (Hsieh, Koller, and Rajan [2006])

[1] See Figure 1 for the development of quarterly guidance—positive, negative, and confirmatory—over time. Note the substantial increase in guidance frequency in 2000, probably as a result of Regulation Fair Disclosure, where public guidance replaced private communications with analysts and privileged investors.

On the pro-guidance side, managers often claim that guidance is necessary to keep analysts' earnings forecasts within a reasonable range to avoid large earnings surprises that increase stock price volatility and investors' risk perceptions (Ajinkya and Gift [1984]). Some observers note that successful earnings guidance—reliable prediction of corporate performance—enhances investor confidence in managers' ability: Successful guiders are obviously "on top of things" (Trueman [1986]). From a conceptual point of view, transparency is a virtue: Credible and relevant information disclosures, such as high-quality earnings guidance, decrease information asymmetry and improve resource allocation in the capital markets. Reduction in information asymmetry, in turn, leads to a lower cost of capital and enhanced corporate investment and growth—all good things.

So, who is right, supporters or detractors of earnings guidance? In the final analysis, the issue is an empirical one, boiling down to the economic consequences of earnings guidance. There are, of course, various ways of assessing such consequences. We chose to focus on companies that routinely provided quarterly guidance and then stopped the practice, and we examine the causes and consequences of guidance cessation. This methodology enables us to explore empirically a host of claims and arguments raised by participants in the heated guidance controversy. In particular: Is quarterly guidance leading to short-term (myopic) behavior by corporate managers? Is guidance an attribute of management style? Is the cessation of guidance penalized by investors? Do guidance stoppers compensate investors by imparting substitute long-term strategic information in lieu of the guidance? And can firms resist—for long—analyst pressure to provide guidance? All the above are highly relevant questions for the guidance controversy.

Our methodology of focusing on companies which disrupted the practice of guidance is in certain respects preferable to the alternative of comparing guiding with non-guiding companies. The latter methodology is challenged by the endogeneity of the guidance decision: Guiders obviously differ from non-guiders in many ways, such as size, industry, managerial style, past and expected operational performance, and shareholder mix. Some differences may not even be known. Therefore, even when certain differences are controlled for in the comparison of guiders with non-guiders, it is very difficult to determine whether the outcomes of the comparison—for example, differences in R&D intensity or in the number of analysts following—are due to the guiding practice or to uncontrolled or unknown differences between the two groups of firms. Our methodology, which essentially uses the firm as its own control (a guider switching to a non-guider), largely alleviates the endogeneity problem. [2]

In our study we examine a sample of 222 US firms that ceased to provide quarterly guidance during 2002 through the first quarter of 2005, after having routinely done so. Some of the "stoppers" publicly announced and rationalized their action, whereas the majority just ceased to provide quarterly guidance. Our "stoppers" sample is compared with a control sample of 676 guidance "maintainers," who provided guidance throughout the period. This control sample addresses, in part, issues related to the specificity of sample period.

With respect to the causes of guidance cessation, we document that the stoppers are characterized by (1) a weak operating (earnings) performance before stopping and a deterioration in future performance, (2) a poor record of meeting or beating analyst consensus earnings forecast, (3) a change in top management, (4) a relatively low frequency of guidance by industry peers, and (5) past and anticipated difficulty in predicting earnings. Reflecting on these causes, guidance stoppers are hardly role models of corporate success.

[2] Our method requires a time series of observations for each firm and thus leads to a smaller sample size.

Regarding the consequences of stopping guidance, we document a relative decrease in analyst coverage and an increase in analyst forecast dispersion (uncertainty about the firm) and forecast error after the stopping decision. These patterns likely explain the large number of firms that continue to provide guidance (NIRI [2006]). Importantly, and contrary to frequent claims by managers and commentators, we do not find that once "free of myopic pressures" managers enhance long-term investments in R&D and capital expenditures. Nor do the stoppers provide the much-touted enhanced forward-looking strategic disclosures in lieu of the discontinued guidance. In a nutshell, guidance cessation causes a deterioration in the information environment about the company, and the major claimed benefits of stopping guidance—enhanced investment in the long-term and alternative disclosures—do not appear to materialize.

Interestingly, and consistent with our findings concerning the adverse consequence of stopping guidance, we document that it is rather difficult for firms to buck the trend and persist in abstaining from earnings guidance. A full 31% of the stoppers in our sample subsequently resumed quarterly guidance. Compared to those that persist in abstaining from guidance, "resumers" appear to have suffered more from the stopping decision. All in all, we conclude that, consistent with economic theory, decreasing disclosure—stopping guidance in our case—does not seem to benefit investors or firms.

Our research contributes to the voluntary disclosure literature in general and to the emerging earnings guidance research in particular by studying a large sample of guidance stoppers and documenting a host of significant causes and consequences of the drastic change in disclosure policy. In particular, we address, and mostly reject, the major *a priori* arguments against guidance raised in the heated controversy surrounding this practice. A limitation of

our study should be noted: Our inferences are based on firms that *stopped* providing quarterly guidance. While we believe these inferences are relevant to the guiding issue, there are obviously other aspects, particularly related to firms that never provided guidance, which our methodology does not address.

Our study extends and in certain respects complements a concurrent paper by Chen, Matsumoto, and Rajgopal [2006], who examine a sample of 96 US and foreign firms that have *publicly announced*, during 2000-2006, the decision to stop providing quarterly guidance. The major difference between our study and that of Chen et al. is in the sample size (our 222 stoppers vs. their 96) and research design. Compared with Chen et al., our research design is not affected by firms' decisions to publicly announce the guidance cessation. That is, firms that choose to make a public announcement are likely to be different in certain respects from those that do not announce.[3] Moreover, we note in our sample that the announcement and actual cessation of guidance are not always fully synchronized. We observe, for example, that sometimes it takes a firm several months or even more than a year after it stops guidance to make a public announcement. Furthermore, some firms did not regularly issue quarterly guidance before their public announcement of stopping it. Occasionally, firms continue to provide quarterly guidance even after the public announcement of cessation. Because of the above sample and research design differences, quite a few of our findings are different from those of Chen et al. Finally, our analysis includes an important dimension not examined by others—the large number of guidance stoppers that apparently could not buck the trend for long and resumed guiding.

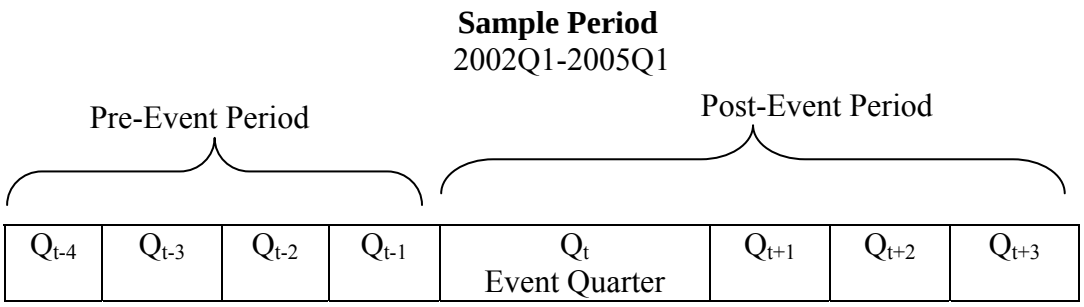
[3] Of our 222 stoppers, 26 firms (11.7%) publicly announced this decision (Appendix A). Among the stopper-announcers, five firms (19.2%) provided no reason for stopping, 12 firms (46.2%) cited difficulties in predicting earnings, 10 firms (38.5%) claimed a refocus on the long term, and two firms (7.7%) said they follow market or industry trends. Sixteen of the 26 firms announced their decision during the event (stoppage) quarter.

Our paper's order of discussion is as follows. Section 2 describes the sample selection and provides summary statistics. Section 3 provides evidence on the general usefulness of guidance. Section 4 presents our findings concerning the causes of guidance cessation, and Section 5 presents the consequences of stopping guidance. Section 6 analyzes whether guidance stoppers enhance alternative disclosures, Section 7 examines whether the stoppers increase long-term investments, and Section 8 examines reasons for resuming guidance. Section 9 concludes the study.

2. Sample Selection

We use a *de facto* approach to identify the firms that maintained and those that stopped providing quarterly guidance, summarized in Table 1. We refer to each quarter during our sample period—2002Q1–2005Q1—as an "event quarter" and to the preceding four quarters as the "pre-event" period, while the event quarter along with the subsequent three quarters is defined as the "post-event" period (See timeline below). We identify as "guidance stoppers" the firms that issue guidance for at least three out of the four pre-event quarters, but give no guidance for any of the four post-event quarters. Those that provide guidance for at least three out of the four quarters in *both* the pre- and post-event periods are termed "guidance maintainers."

Timeline
Identifying Guidance Stoppers and Maintainers



We use the First Call Company Issued Guidelines (CIG) database to identify both guidance stoppers and maintainers. Throughout the study we exclude guidance issued after the fiscal quarter–end because these preannouncements are released so close to the earnings announcement date that they are a part of a firm's earnings announcement policy rather than a guidance strategy. Using the CIG data, we identify 353 firms as stoppers and 699 firms as maintainers. [4]

Since the CIG database is incomplete (Anilowski et al. [2006]), we search the Factiva news database to make sure that the initially identified stoppers indeed did not provide any guidance.[5] We find that 94 of the CIG-identified stoppers actually provided quarterly guidance in the post-event period and exclude these firms from the sample. We also exclude 13 firms whose first "silent" quarter, according to the news search, is after the end of our sample period. Furthermore, our research design may lead to the inclusion of firms that appear to have stopped guidance because they were acquired. Using the first digit of *DLSTCD* in CRSP, we identify and exclude 24 firms that were acquired during the six quarters beginning with the event quarter. Consequently, our final stopper sample has 222 unique firms. Similarly, we exclude from the guidance maintainers 23 firms that were subsequently acquired, leaving us with a final control sample of 676 maintainers.

[4] We find 527 firm-quarters that satisfy the data requirement for guidance stoppers. For a firm that appears in this group in more than one quarter, we choose its earliest quarter. For guidance maintainers we find 5,015 firm-quarters fulfilling our data requirements. If a maintainer satisfies this requirement in more than one quarter, we randomly choose a quarter from the qualified quarters as this firm's event quarter. Accordingly, there are no repeat firms in our samples.

[5] We in fact search for the earnings or revenue guidance history of all the stoppers from a year before the event quarter to October 2006. First, we search by the key word "guidance" in the headline and leading paragraph of *Business Wire*, *PR Newswire*, *Associated Press Newswires*, and *Reuters Significant Developments*. We find that guidance is most often given on the date of previous-quarter earnings announcement and that *Reuters Significant Developments* reports most of the guidance. We additionally search by the key word "sees," "expects," or "expectation" in the headline and leading paragraph and find only a few items of news. For firms with no guidance news in the post-event period, we further search by key word "guidance," "outlook," "expect," or "forecast" in the quarterly earnings announcement press releases for the post-event period.

Panel A of Table 2 presents the distribution of guidance stoppers and maintainers across the four fiscal quarters of our sample period. To avoid skewing the data in Panel A, we report the numbers for the three complete calendar years (2002-2004), excluding 34 stoppers and 99 maintainers whose event quarter is the first quarter of 2005. Note that earnings guidance is disproportionately stopped during the first fiscal quarter: More than 45 percent of the stoppers ceased guidance in the first fiscal quarter, suggesting that the decision to stop guidance is often made when a firm reviews its annual performance after the end of the fiscal year. In contrast, the maintainers are more evenly distributed across the four fiscal quarters.

Panel B of Table 2 reports the distribution of firms across the 13-quarter sample period, indicating a relatively high frequency of stoppers in the first two quarters of 2003, likely due to the ripple effects of the widely-publicized guidance cessation announcement of Coca-Cola on December 13, 2002. The number of guidance maintainers during the sample period steadily increases, consistent with the overall upward trend in quarterly guidance, displayed in Figure 1. Panel C of Table 2 reports the industry composition of guidance stoppers and maintainers: Software companies (business services) and electrical equipment manufacturers are prominent among both the stoppers and maintainers, as are chemical products and measurement equipment manufacturers. There is no significant industry distinction between the stoppers and maintainers.

Finally, earnings guidance may take the form of a point or range estimate.[6] Panel D of Table 2 provides insight into the point-vs.-range issue. Comparing the stoppers and maintainers in the pre-event period, we note that an average stopper provides 0.798 point estimates and 2.350 range estimates during the four quarters before it ceases guidance. In

[6] The CIG database contains the following proportions: point estimates (22.8%), range estimates (69.1%), and qualitative earnings guidance (8.1%).

contrast, an average maintainer provides 0.710 point estimates and 2.732 range estimates in the corresponding four pre-event quarters. The higher frequency of range estimates for the maintainers is statistically significant.[7] A similar result obtains when we compare the guidance issued in the quarter before stoppage (Q_{t-1}).

We report in Panels A and B of Table 3 the three main earnings performance measures surrounding the event quarter: the sample fractions of firms reporting losses, those experiencing an earnings decrease from the same quarter in the prior year, and those meeting or beating analyst consensus. Figure 2 presents these measures for all public companies during 1994–2005. Some clear patterns emerge. Relative to the maintainers, guidance stoppers in each quarter have higher frequencies of losses and earnings declines and a lower frequency of meeting or beating consensus forecasts. Compared with the population of U.S. firms, whose percentages of the three measures during our sample period are 26.3%, 33.3%, and 70.5%, respectively, guidance stoppers perform worse while guidance maintainers perform better than the population. Importantly, we find that as the stoppers approach the event (guidance stopping) quarter, they *increasingly* suffer from losses, earnings declines, and a failure to meet or beat analyst consensus. This pattern is the reverse for the maintainers.

We report in Table 4 a wide range of descriptive statistics for guidance stoppers and maintainers. Relative to the maintainers, during the pre-event period, the stoppers more often experience a change of CEO/CFO *(Management),* have a higher earnings uncertainty (larger forecast dispersion), higher incidences of losses, a larger decrease (or a smaller increase) in earnings, and a poorer record of meeting/beating either analyst consensus or their own earnings estimate. For example, the stoppers meet or beat analyst expectations (*MBanalyst*)

[7] Comparing guidance maintainers' pre-event with their post-event quarters, we find that maintainers provide more range estimates in the post-event than in the pre-event period, suggesting that over time firms are more inclined to issue a range estimate.

only 69.2% of the time while the maintainers' record is much better: 83.3% (*t*-test = –6.70). The stoppers also meet or beat their own earnings estimate (*MBown*) less often than the maintainers (52.5% vs. 61.8%, t-test = –3.06). Reflecting their relatively poor performance, the stoppers have lower market-adjusted stock returns in the pre-event period than the maintainers. Thus, the above earnings and stock performance measures convey a consistent message: Guidance stoppers exhibit poor performance before guidance cessation.

The bottom rows of Table 4 summarize the changes in analyst following, analyst earnings forecast dispersion, forecast error, capital expenditures, and R&D after firms stop providing guidance. Relative to the maintainers, the stoppers suffer from a significant decrease in analyst coverage, significant increases in forecast dispersion and forecast error (medians), and experience no change in capital expenditures and R&D. We examine below these economic consequences of stopping guidance in a multivariate setting.

3. Is Guidance Useful?

Guidance detractors often argue that managers are no better prognosticators of earnings than analysts and investors. Surprisingly, this important question has not been thoroughly examined so far. We study the usefulness of quarterly guidance in two ways: First, we test the extent of analyst revisions of earnings forecasts following the issuance of company guidance. Substantial forecast revisions following guidance naturally attest to the usefulness of guidance. Second, we examine the accuracy of guidance relative to the most recent analyst forecasts. This test addresses directly the detractors' claim concerning managers' poor forecasting ability (Greenberg [2007]).

In the first test we collect quarterly guidance from the CIG database and use its classification of "positive," "negative," and "in-line" guidance (terms described in Figure 1).

We then collect the last forecast issued by an individual analyst *before* and immediately *after* the release of company guidance. This gives us the direction of analyst forecast revisions following the guidance. To avoid confounding news, we exclude guidance (53.5%) issued concurrently with quarterly earnings announcement events, even though the analysis of such guidance yields similar results. Panel A of Table 5 shows that for both negative and positive guidance, over 50% of analyst revisions are made within two days of the guidance and that 96-98% of these revisions are in the direction of the guidance. Very similar results are obtained for the revisions made three-five days after guidance. The remarkable correspondence between guidance and analyst revisions attests to the usefulness of company guidance.

Regarding guidance accuracy, we compare company guidance with the subsequent reported earnings and do the same for the most recent analyst forecast issued before the guidance. We then compare the two prediction errors. Panel B of Table 5 shows that in 70% of the cases company guidance is more accurate than analysts' forecasts. Once more, corporate guidance provides useful information relative to analysts' forecasts.[8] The above positive findings concerning the usefulness of quarterly guidance naturally raise the question of why a substantial number of firms stop guiding investors, to which we now turn.

4. Why Do Firms Stop Guiding?

4.1 EMPIRICAL MODEL

Most firms do not announce or explain changes in their guidance policy. Among those that do, frequent reasons for stopping are the redirection of investors' attention from quarterly

[8] We obtain similar results when we exclude the firm-quarters for which managers may have incentives to manage earnings to avoid losses, earnings decreases, or failure to meet analysts' consensus (unreported).

earnings (myopia) to the long-term goals of the company (e.g., Home Depot), managers' difficulties in predicting earnings (e.g., Leapfrog Enterprises), and following peer firms' guiding practices (e.g., Copart). Shedding further light on the motives for stopping guidance, a survey by the National Investor Relations Institute (NIRI [2006]) asked members who were contemplating discontinuing guidance to list the reasons. The top three reasons are a change in management philosophy (47%), industry trend (27%), and low earnings visibility (25%). Beyond these stated reasons, an unstated yet important motive for stopping guidance is probably poor performance (e.g. Dell's case, with which we lead off this paper).

To validate the above, as well as other stopping motives, we use a logit model incorporating the following motives: (1) disclosure philosophy change, (2) peer pressure, (3) past or anticipated difficulty of forecasting earnings, (4) past or expected poor performance, and (5) other reasons (i.e. litigation risk, firm size, analyst coverage, and stock price volatility).

4.1.1. DISCLOSURE PHILOSOPHY CHANGE

A change in management philosophy regarding guidance most likely occurs with a change in the top management team. Thus we expect a higher likelihood of guidance cessation after a management change. We assign 1 to the dummy variable *Management* if a firm has changed or announced a change of the CEO or CFO positions in the six months before the end of the event quarter, and 0 otherwise. Information about management change is obtained by news search in *Reuters News* and the four newswires mentioned in Footnote 5.

4.1.2. PEER PRESSURE

Previous studies (Dye and Sridhar [1995], Gul and Lundholm [1995]) suggest that a firm's disclosure decision is influenced by the actions taken by its peers; in other words, firms

tend to herd. To quantify this factor, we define for each sample firm *IndNo*, which is the proportion of companies in the firm's 2-digit SIC code that *do not* provide any quarterly guidance in the pre-event period. We expect that firms with high levels of *IndNo* are more likely to cease guidance (less peer pressure). Furthermore, we expect that a new management team is more willing than an existing team to steer the firm's guidance policy away from popular practices in its industry. Therefore, we also examine the interaction between *Management* and *IndNo* and expect a negative coefficient.

4.1.3. PAST OR ANTICIPATED DIFFICULTY OF FORECATING EARNINGS

To capture past difficulty of forecasting earnings, we use the variable *Dispersion*, measured as the standard deviation of analyst forecasts of earnings—reflecting forecasting uncertainty—of the most recent consensus before earnings announcement, averaged over the pre-event period. To scale for cross-sectional differences in earnings per share (EPS), we deflate forecast dispersion by the beginning-of-event-quarter stock price.[9] Prior research finds that forecast dispersion is negatively related to guidance frequency (Ajinkya, Bhojraj, and Sengupta [2005]). We predict a positive coefficient for forecast dispersion because higher dispersion suggests greater difficulty in predicting earnings and therefore a higher likelihood of guidance cessation. To capture the increased difficulty of forecasting future earnings anticipated by managers, we use *FutureVAR*. This measure is computed as the change from the pre-event to the post-event period in the sum of the absolute difference between quarterly EPS and the EPS in the same quarter of the year before the pre-event period (deflated by the beginning-of-event-quarter stock price).

[9] Throughout the paper, we split-adjust earnings (both realized and forecasted) and prices, when price is used as the deflator. To avoid the influence of outliers due to small deflators, we exclude the observations with a deflator less than 1.

4.1.4. PAST OR ANTICIPATED POOR PERFORMANCE

We conjecture that a major unstated reason for stopping quarterly earnings guidance is poor performance. Miller [2002] finds that the frequency of voluntary disclosures increases when firms perform well and that managers become more secretive during challenging times. Relatedly, Lang and Lundholm [1993] report that firms provide better disclosures subsequent to good earnings and stock performance or in anticipation of improved future performance. Similarly, Wasley and Wu [2006] find that firms voluntarily issue cash flow forecasts when they have good news to impart. And Miller and Piotroski [2000] document that the frequency of voluntary forward-looking disclosures increases with stronger, more persistent earnings during turnaround periods. This body of evidence on voluntary disclosure strongly indicates an increasing tendency to disclose in good times and, by implication, a decreasing tendency to disclose when performance deteriorates.[10] Therefore, we conjecture that past or anticipated poor performance increases incentives to curtail guidance.

Following DeGeorge et al. [1999], we use three earnings performance benchmarks which firms strive to surpass—zero profit, earnings level in the same quarter of the prior year, and analyst expectations—and define the respective variables: *Loss*, ΔEPS, and *MBanalyst*. *Loss* indicates the proportion of loss reporting quarters (negative diluted EPS) in the pre-event period. We expect that firms with more frequent losses are more likely to stop providing guidance. ΔEPS is the average earnings change in the four pre-event quarters relative to their respective same-quarter-last-year values, deflated by the beginning-of-event quarter stock price. We predict that the lower this variable, the more likely the firm is to stop guidance. *MBanalyst* is the proportion of quarters in the pre-event period for which the firm meets or

[10] In a theory paper, Grubb [2006] develops a multi-period model where firms establish a reputation for reticence.

beats the most recent analyst consensus compiled before earnings announcement. We predict that the lower a firm's frequency of meeting/beating consensus, the more likely it is to stop guidance.

For completeness, we consider two additional past performance indicators: *MBown*—the proportion of quarters in the pre-event period in which a firm's reported earnings equal or exceed its *own* most recent earnings estimate issued before earning announcement.[11] If a firm fails to meet/beat even its own earnings estimate, either the operating results are surprisingly poor or managers lack an essential ability to predict earnings. In either case, we expect that managers are discouraged to continue providing guidance. The next performance measure is *RET*—the buy-and-hold return (compounded monthly) during the one-year period before the earnings announcement for the quarter preceding stoppage, adjusted for the buy-and-hold return on the equal-weighted market index in the same period. If firms stop guidance because of poor stock performance, we expect a negative coefficient for *RET*.

Our measure for expected future performance is *FutureEPS,* which is the average change in diluted EPS from the four pre-event quarters to the four post-event quarters. Strictly speaking, this measure assumes that managers can perfectly predict next year's performance, which is, of course, a strong assumption. But even if managers have only a partial ability to predict near-term earnings—a reasonable assumption—*FutureEPS* will proxy for anticipated performance.

[11] We thank the referee for this suggestion. A firm's inability to meet its own forecast also impairs the firm's credibility, leading analysts to rely less on the firm's future guidance (Williams [1996]) and therefore decreases the demand for guidance by analysts.

4.1.5. OTHER MOTIVES

We control for four variables that capture important firm characteristics associated with disclosure: litigation risk, firm size, analyst coverage, and stock price volatility. Firms with a greater risk of being sued by shareholders may be inclined to provide guidance, especially regarding bad news, to mitigate litigation risk and the consequences (settlement amount) of litigation (Skinner [1994, 1997]). On the other hand, as Rogers and Buskirk [2006] suggest, firms concerned with lawsuits may tend to limit their voluntary public disclosures: "Stick with mandatory disclosure" is the frequent advice to managers given by lawyers. Thus, we do not predict the effect of litigation risk on firms' guidance cessation decision. The variable *Litigation* is the estimated probability of being sued by shareholders, using the litigation exposure model in Appendix B, with the input variables measured in the one-year period before the event quarter.

We control for firm size, but do not predict its effect on guidance cessation. A large firm faces a greater demand for voluntary disclosure from market intermediaries covering the firm and from the large number of shareholders holding its shares; therefore, it is more likely to provide guidance. On the other hand, large firms may be more likely to lead off a new trend of stopping guidance. Size is measured by *LogMVE,* the logarithm of market value of equity at the beginning of the event quarter. In addition, we control for analyst coverage (number of analysts), but do not predict its coefficient because its effect on guidance cessation depends on the nature of analysts' role in the capital markets (see later discussions). The variable *Analyst* is the average number of analysts whose forecasts are included in the most recent consensus before earnings announcements for the four pre-event quarters. If a firm-quarter is covered by Compustat but not by I/B/E/S, we assume the firm has no analyst following for that quarter.

Finally, we control for stock volatility because managers tend to believe that voluntary disclosure reduces stock volatility (Hsieh et al. [2006]), so managers would be reluctant to stop guidance if their firm's stock volatility is high. The variable *Volatility* is the standard deviation of daily stock returns in the one-year period that ends five days after the earnings announcement for the quarter preceding the event quarter. This variable is adjusted by the standard deviation of the equal-weighted market index in the same period.

Model (1) summarizes the relationship between guidance cessation and its hypothesized determinants. $F(\cdot)$ is the cumulative distribution function of the logistic distribution. The dummy dependent variable *Stop*—the focus of our analysis—is 1 for a stopper and 0 for a maintainer.

$$\begin{aligned}\Pr(\text{Stop} = 1) = F(&a_0 + a_1\text{Management} + a_2\text{IndNo} + a_3\text{Management*IndNo} + a_4\text{Dispersion} \\ &+ a_5\text{FutureVAR} + a_6\text{Loss} + a_7\Delta\text{EPS} + a_8\text{MBanalyst} + a_9\text{MBown} + a_{10}\text{RET} \\ &+ a_{11}\text{FutureEPS} + a_{12}\text{Litigation} + a_{13}\text{LogMVE} + a_{14}\text{Analyst} + a_{15}\text{Volatility} + \varepsilon) \quad (1)\end{aligned}$$

4.2 EMPIRICAL RESULTS

Table 6 reports the logit model estimation, which is robust to heteroskedasticity (the Huber/White/Sandwich standard error estimator). This estimation uses 193 stoppers and 638 maintainers that have complete data. We estimate the model in four ways due to concerns with the high correlations between *MBanalyst* and *MBown* (meeting/beating analysts' and own forecasts) and between *FutureVAR* and *FuturEPS* (future earnings variability and earnings change).[12] Estimation (1) includes *MBanalyst* but excludes *MBown* and the reverse for Estimation (2). Estimation (3) includes *FutureVAR* but excludes *FutureEPS* and vice versa for Estimation (4). The discussions below are mainly about the results of Estimation (4).

[12] The correlation between *MBanalyst* and *MBown* is 0.384. The correlation between *FutureEPS* and *FutureVAR* is –0.933. When both *FutureEPS* and *FutureVAR* are included in the model, they lose statistical significance as a result of multicollinearity.

Consistent with our expectations, we find that firms are more likely to cease guidance if they have recently undergone or plan a change in their senior management (coefficient = 2.429, z-statistic = 3.02). The coefficient on *IndNo* is significantly positive (coefficient = 1.321, z-statistic = 2.03), consistent with our prediction that a firm is more likely to stop guidance if a larger proportion of its industry peers do *not* provide guidance. As predicted, the interaction of *Management* and *IndNo* is negative (coefficient = –2.718, z-statistic = –1.85), suggesting that a new management team is more willing to break away from its industry practice of providing guidance. We also find that past and anticipated difficulty of forecasting earnings contributes to guidance cessation. *Dispersion* has a positive coefficient of 239.4 (z-statistic = 3.73). In Estimation (3) *FutureVAR* is positively associated with the likelihood of guidance cessation (coefficient = 4.134, z-statistic = 1.83).

We find strong and consistent evidence that poor performance—both realized and anticipated—contributes to firms' decision to stop guidance. The probability of stopping guidance is significantly negatively associated with past earnings performance, ΔEPS (coefficient = –5.486 and z-statistic = –2.18), and anticipated future poor performance, *FutureEPS* (coefficient = –4.375 and z-statistic = –2.04). Even after accounting for the latter two effects, we find that a firm is more likely to stop guidance when it has a poorer record of meeting/beating analyst consensus (coefficient = –1.660, z-statistic = –3.65). As Estimation (2) shows, failing to meet/beat a firm's own guidance also contributes to the cessation decision, but in Estimation (4) this effect is subsumed by the effect of failing to meet/beat analyst consensus. Although in the univariate analyses *Loss* (loss reporting) is significantly higher and *RET* (stock return) is significantly lower for the stoppers than for the maintainers, in the multivariate analysis these effects are subsumed by other performance measures.

The associations between other firm characteristics and guidance cessation are as follows: Firms with a higher litigation risk are more likely to cease guidance, suggesting that firms with high litigation exposure limit their public disclosures. Firm size is uncorrelated with guidance cessation. As predicted, firms with higher analyst following and higher stock volatility are less likely to stop guidance.

Summarizing the logit analysis: Poor past and expected performance, top management change, lower peer pressure for guidance, past and anticipated difficulty of predicting earnings, and high litigation risk are the major causes of stopping guidance.

5. The Consequences of Stopping Guidance

Much of the debate about guidance revolves around its effect on the information environment surrounding the firm. Guidance supporters claim that it improves the information environment by enhancing the accuracy of analyst forecasts and decreasing uncertainty about firm operations. Guidance detractors beg to differ: They claim that most managers lack the ability to predict firm performance and often engage in a game with analysts of "guiding down" the consensus only to beat it later on. Accordingly, detractors claim, guidance introduces noise about the firm and adversely affects the information environment. Furthermore, they claim, that real improvement in information will result from replacing guidance with "meaningful" disclosure about a firm's strategy and long-term growth potential (CFA [2006]).

We empirically address these arguments about the effect of guidance on the information environment by (1) examining the effects of guidance cessation on analyst coverage, forecast accuracy, and forecast dispersion; (2) Comparing investor reaction to earnings announcement as well as to analyst forecast revision pre- and post-guidance cessation; and (3) analyzing in

detail (in Section 6) firms' forward-looking, strategic disclosures to test whether guidance stoppers indeed enrich the information environment. Our conclusions concerning all those questions do not support guidance detractors.

5.1 CHANGES IN ANALYSTS' COVERAGE AND PRODUCT

Stock market analysts serve as important intermediaries between firms and their investors. In their published reports, analysts use their knowledge of the firm, industry, and market in conjunction with the available information to produce earnings forecasts, stock recommendations, and analysis of the firm's future prospects. Apart from providing information to investors, analysts also provide benefits to the firms they cover. Analyst coverage makes a firm better known to investors and the decreased information asymmetry helps generate investors' interest to hold the stock (Merton [1987]).[13] It is not surprising that 95% of the respondents to the NIRI [2006] survey believe that one of the benefits of providing guidance is to improve the communication between the firm and its analysts/investors.

How analysts change their behavior following guidance cessation depends on where they obtain their information. To the extent they rely on public information, the quality of their product could be significantly and adversely affected by a firm's decision to cease guidance. As a result, analysts may lose interest in following the firm, have greater difficulty in forecasting its earnings, and thereby produce more biased earnings estimates. If, on the other hand, analysts mainly play a role of private information generators in the capital markets, guidance cessation is expected to *enhance* analysts' interest in a firm. Consequently, the

[13] High analysts following likely reduces information asymmetry, which in turn reduces the cost of capital (Klein and Bawa [1976], Barry and Brown [1985], Easley and O'Hara [2004]). For example, Easley and O'Hara demonstrate that the risk premium in asset pricing can be reduced if the precision of information available to investors is improved, for which, they argue, analysts play a key role.

quality of their forecasts may not decline, even though their opinions may become more divergent as a result of their use of different sources of private information. Thus, the effects of guidance cessation on analyst behavior and a firm's information environment are empirical questions. We use guidance maintainers as the control group and empirically estimate the following three models examining stoppage-related changes in analyst coverage, forecast dispersion, and error: [14]

$$\text{ChgAnalyst} = b_0 + b_1\text{Stop} + b_2\text{RET} + b_3\text{FutureEPS} + b_4\,\text{LogMVE} + b_5\,\text{Analyst} + \varepsilon \quad (2)$$

$$\text{ChgDisper} = c_0 + c_1\,\text{Stop} + c_2\,|\text{ChgEPS}| + c_3\,\text{LogMVE} + c_4\,\text{Dispersion} + \varepsilon \quad (3)$$

$$\text{ChgError} = d_0 + d_1\,\text{Stop} + d_2\,|\text{ChgEPS}| + d_3\,\text{LogMVE} + d_4\,\text{Error} + \varepsilon \quad (4)$$

Our discussion of estimates follows.

5.1.1. CHANGES IN ANALYST FOLLOWING

In Model (2) we compare the average number of analysts following a company during the pre-event period with that in the post-event period to compute the change in analyst following (*ChgAnalyst*). Our main control variables in this model reflect firm performance, since Chung and Jo [1996, p. 496] report that "more analysts follow high quality firms than low quality firms because brokers find it easier to market stocks of high quality firms." Similarly, McNichols and O'Brien [1997] report that analysts initiate coverage of firms that have good prospects and drop those with lackluster performance to avoid jeopardizing their investment banking business after issuing unfavorable recommendations. We, accordingly, include two performance measures in the model, both defined earlier in Section 4: *RET* (return) controls for past stock performance because analysts may adjust their coverage decision with a lag, and *FutureEPS* reflects earnings performance in the examination window. Additionally, we

[14] In unreported tests we find that there is no self-selection on unobservable variables except for in Model (3). When we control for self-selection in Model (3), our conclusion does not change.

control for the level of analyst coverage in the pre-event period, capturing a potential nonlinear relation between the change in analyst coverage and the level of initial coverage. We also control for firm size in this cross-sectional test.

The left column of Table 7 presents the model estimation, which is robust to outliers in the dependent and independent variables, as well as violation of normality assumption in the error term. An alternative OLS estimation after removing outliers (Belsley, Huh, and Welsch [1980]) yields similar results and its R^2 is reported in the last row of Table 7. The coefficient on *Stop* (guidance)—our focus of analysis—is significantly negative (coefficient = –0.562, t-statistic = –3.84), indicating that stopping guidance is associated with a *reduction* in analyst coverage.[15] *RET* has a positive coefficient, consistent with the conjecture that analysts drop poor-performing firms, and *FutureEPS* is positive but not statistically significant. In addition, large firms are more likely to add analysts than small ones—a known fact. Accordingly, we conclude that guidance cessation is associated with a significant decrease in analyst following.

5.1.2. CHANGE IN ANALYST FORECAST DISPERSION

We examine in Model (3) the change in the average analyst forecast dispersion from the pre- to the post-event period (*ChgDisper*). The main controls are the change in average earnings from the pre- to post-event period, deflated by the beginning-of-event quarter stock price (*ChgEPS*, defined earlier), and the absolute change ("|*ChgEPS*|"). We control for the change in earnings because analyst opinions may diverge to a larger extent in case of bad news. We include the absolute change in earnings as a control for change in earnings

[15] When we add a dummy variable for the 16 timely announcing stoppers, we find that these stopper-announcers have no change in analyst following after guidance cessation (coefficient = 0.057), while the other stoppers on average have a decrease of 0.611 analysts. We also find that forecast dispersion for the stopper-announcers increases more by 0.0002 than that for the other stoppers. We do not find differences between the two stopper subgroups in other tests.

volatility because more volatile earnings are more difficult to forecast. For reasons similar to those in the analyst coverage Model (2), we control for the pre-event level of forecast dispersion and firm size.

The middle column of Table 7 presents the estimation of Model (3). The dummy variable *Stop* is significantly positive, indicating increased forecast dispersion after firms stop providing guidance. As expected, dispersion is larger for firms with more volatile earnings and worse news, and analyst disagreement increases to a larger extent for small firms than for large ones.

Our finding of increased forecast dispersion associated with guidance cessation is interesting. In many respects, forecast dispersion captures the uncertainty and difficulty that analysts experience in predicting a firm's earnings. A number of papers have hypothesized that divergence of opinion is correlated with investors' perceived risk, which in turn suggests that firms with greater investor and analyst disagreement should face higher cost of capital and a lower value (see, for example, Williams [1977], Varian [1985] and Merton [1987]).[16]

5.1.3. CHANGE IN ANALYST FORECAST ERROR

We examine in Model (4) the change in average analyst forecast error from the pre- to post-event period (*ChgError*). Forecast error is defined as the absolute difference between realized earnings and the most recent analyst consensus compiled before earnings announcement (both from I/B/E/S), deflated by the beginning-of-event-quarter stock price. For reasons similar to those given above, we control for *ChgEPS*, |*ChgEPS*|, the pre-event level of forecast error (*Error*), and firm size. The right column of Table 7 presents the

[16] Taking a contrary position, Miller (1977) argues that stocks with higher disagreement may trade at a premium because optimistic investors are more inclined to buy the stock, whereas pessimistic investors are more likely to avoid the stock altogether (perhaps because of short selling constraints).

estimation results. The variable *Stop* is significantly positive, indicating that analyst forecasts are less accurate after firms stop providing guidance. To the extent that investors use analyst forecasts in their valuation models—supported by evidence—this suggests that stopping guidance adversely affects investors' decisions.

Summarizing, our three analyst-related tests—coverage, dispersion, and accuracy—do not support the guidance detractors' arguments that the information environment gets noisier with guidance. Moreover, to the extent that a larger number of analysts following benefits companies, our finding about the post-stoppage decrease in analyst coverage should be of concern to firms contemplating stopping guidance.

5.2 CHANGES IN INVESTORS' REACTION TO EARNINGS ANNOUNCEMENTS

Investors' reaction to earnings announcements is another gauge of the change in information environment. Other things being equal, the richer a firm's information environment *before* earnings announcement, the weaker the investors' reaction to reported earnings. Accordingly, we examine whether the guidance stoppers' earnings-returns relation, as reflected by the response coefficient (ERC), is different in the post-event period than in the pre-event period.

For each stopper we use four earnings announcement events in the pre-event period (*Post*=0) and four events in the post-event period (*Post*=1). For each announcement, the dependent variable R_{EA} is the sum of the three market-adjusted daily returns from one trading day before, to one trading day after the earnings announcement. The earnings surprise (*Surprise*) is measured as the difference between reported earnings and the most recent analyst consensus compiled before earnings announcement (both from I/B/E/S), deflated by the stock price on the day before the return window.

To mitigate the error in analyst expectation (staleness), we include in the model the variable *LateNews*, which is the sum of daily returns from the analyst consensus date to the day before the return window. If, for example, good news concerning the firm has arrived during this period, resulting in high *LateNews*, the market expectation will be adjusted upward before the earnings announcement window and the price increase at earnings announcement will thus be small. The reverse holds for negative earnings news before announcement. Therefore, we predict a negative coefficient for *LateNews*. The model assessing investors' response to earnings announcement after guidance cessation is:

$$R_{EA} = a_0 + a_1 \text{Surprise} + a_2 \text{LateNews} + a_3 \text{ Post} + a_4 \text{ Post*Surprise} + a_5 \text{ Post*LateNews} + \varepsilon \quad (5)$$

We estimate Model (5) in two ways and present the results in Panel A of Table 8. Because our model uses eight observations (earnings announcements) for each firm, error correlations are a concern. Thus, we view the second estimation, which is robust to outliers, heteroskedasticity, and especially error correlations within each firm, as the primary estimation. The data in Panel A indicate that the coefficient on the interaction term *Post*Surprise* is significantly positive (coefficient = 0.482, t-statistic = 3.32), indicating that investors respond more strongly to earnings announcements after firms stop guidance. As a validity check, we also estimate the model on guidance maintainers and, as expected, we do not find a change in their response to earnings announcement. The finding for the stoppers indicates that the absence of guidance decreases the quality of the information environment about the firm between earnings announcements.

5.3 INVESTORS' RESPONSE TO ANALYST FORECAST REVISIONS

If analysts rely on public information, including guidance, then guidance cessation should decrease the quality of analyst forecasts and investors' reliance on these forecasts. We test here the latter part of the chain—investors' reliance on analyst earnings forecasts. We use the I/B/E/S individual analyst quarterly forecast database to examine this issue. A forecast revision (*Revision)* is defined as the change in earnings estimate for the same quarter by the *same analyst* from his/her most recent estimate, deflated by the stock price right before the revision date. To ensure that the test is not affected by lack of experience of analysts who have just recently started the coverage, we require an analyst to have submitted forecasts (at least two for each quarter) for at least six out of the eight pre- and post-event quarters. Based on these data requirements, 136 stoppers are left in our sample. These stoppers are followed by 438 (experienced) analysts. The model to estimate investors' response to forecast revisions is:

$$R_{REV} = b_0 + b_1 \text{Revision} + b_2 \text{ Post} + b_3 \text{ Post*Revision} + \varepsilon \qquad (6)$$

The dependent variable R_{REV} is the sum of market-adjusted daily returns from the revision date to the first trading day after the revision date.[17] Panel B of Table 8 reports the estimation results. Here too, we are concerned with overstating the statistical significance when positive error correlations are present and thus view the second estimation as the primary one. We note that the coefficient on the interaction term *Post*Revision* is significantly negative (coefficient = –0.310, t-statistic = –2.25), indicating that investors rely *less* on analyst forecast revisions after firms stop guidance. This finding is consistent with our earlier evidence that, after guidance cessation, analysts face greater difficulty in forecasting earnings and, accordingly,

[17] We use a two-day window instead of a three-day window as we do in the earnings announcement test because a longer window in Model (6) is more likely to be tainted by forecasts issued by other analysts.

their estimates become less useful to investors. We also estimate Model (6) on guidance maintainers and find that investors become weakly *more* responsive to analyst forecast revisions.

6. Do Guidance Stoppers Enhance Forward-Looking Disclosures?

Guidance stoppers and their supporters frequently claim that after guidance cessation firms provide substitute disclosures about strategy and long-term objectives to mitigate investor myopia. So, the argument goes, nothing is lost by stopping guidance. We empirically examine this assertion by collecting and coding stoppers' forward-looking disclosures in quarterly earnings press releases and in the Management, Discussion & Analysis (MD&A) section of the quarterly reports.

Given the substantial effort of hand-collecting these data, we randomly choose 100 stoppers from our stopper sample, and for each stopper we randomly choose a fiscal quarter in the post-event period, which we refer to as the "post-quarter." To examine the change in disclosure, we select for each stopper the same fiscal quarter in the pre-event period, which we refer to as the "pre-quarter" (See the details in Note 2 of Table 9).

For each stopper we download the earnings announcement press releases and the MD&As for the pre-quarter and the post-quarter and code the forward-looking non-earnings disclosures in nine categories, detailed in Appendix C. We then compare the number of disclosures in the pre- vs. post-quarter.[18] Panels A, B, and C of Table 9 report our examination of the press releases of 97 firms (three firms for which we could not find both the pre- and post-quarter press releases are dropped). Panels D, E, and F report our examination

[18] Coding disclosures requires certain judgment. Our research design of coding the same fiscal quarter disclosures in adjacent years from the same firm greatly mitigates the effect of human errors. To further reduce the effect, we use two independent coders and the differences are reconciled.

of the MD&As of 81 firms after we drop 18 firms whose fiscal quarter is the fourth quarter (no 10-Q filings) and one firm for which the MD&A could not be found.

Regarding the press releases, Panels A and B of Table 9 provide the distributions of pre- and post-stoppage disclosures by the nine categories. The columns indicate the number of disclosures per company. For example, the first row of Panel A indicates that in the pre-stoppage period 50 firms gave no information about operational changes, 32 firms gave one disclosure of this type, six firms gave two disclosures. Panel C summarizes the total number of forward-looking disclosures of all categories provided by stoppers before and after ceasing guidance and shows that more stoppers *decrease* forward-looking disclosures than those that increase disclosures: 41 decrease, 29 have no change, and 27 increase. Taken as a whole, our evidence suggests that after guidance cessation the stoppers (weakly) *decrease* the number of forward-looking, strategic disclosures in the earnings announcement press releases (an average decline of 0.32 disclosures with t-statistic 1.91).[19]

The examination of disclosure in the MD&As in Panels D, E, and F follows the same structure as Panels A, B, and C and indicates no change in the frequency of disclosures. The disclosure changes in the earnings press releases and MD&As are positively correlated (0.065), but the correlation is not statistically significant.

Panel G summarizes the stoppers' practices of offering *annual* earnings or sales guidance. For each pre- or post-event period (four quarters each), we count a firm into the "YES" group if the First Call CIG database has a record of annual guidance in that period or if we observe an estimate of annual earnings or sales in our data collection of press releases and MD&As. We report in Panel G that 66 firms (68.0%) gave annual guidance in both periods, 15 firms

[19] We do observe a few exceptions. For example, after stopping quarterly guidance Hillenbrand Industries issued a detailed outlook table for the fiscal year and Kinder Morgan provided guidance on how three out of its five segments were performing towards their respective annual budget targets.

(15.5%) stop issuing annual guidance along with the quarterly guidance, and three firms (3.1%) replace their quarterly guidance with annual guidance. On the whole, we observe that along with quarterly guidance cessation, annual earnings or sales guidance is also curtailed.

Thus, our examinations of press releases, MD&As, and annual earnings/sales guidance do not support firms' claims of enhancing substitute disclosures after they stop quarterly earnings guidance, a sobering finding indeed.

7. Change in Long-Term Investments

Finally we reach a major argument by guidance detractors: Quarterly guidance focuses managers' attention and decisions on the short-term at the expense of long-term growth. Likewise, regulators and trade associations have often expressed concerns that quarterly earnings guidance has contributed to managers' myopia (Levitt [2000], CFA [2006]). If quarterly guidance indeed increases managers' myopia at the expense of the firm's long-run growth, we should observe an increase in long-term investments, such as capital expenditures and research and development (R&D), once firms stop quarterly guidance and managers are unshackled by the myopic earnings game. Accordingly, we examine whether firms increase long-term investments *after* they stop providing guidance.

We measure long-term investments by both capital expenditures and R&D intensities, that is, deflating the expenditures by the beginning-of-quarter total assets. Our dependent variable is the average change in these investments from the pre-event period to post-event period, which in this case is the event (stoppage) quarter plus up to seven subsequent quarters (that is, two years maximum). Because a firm's long-term investments are likely to vary across industries, we adjust its capital expenditures and R&D in each quarter by the median levels of these investments of its industry (2-digit SIC code).

Our main control variable in this test is the change in profitability from the pre- to post-event period, since profitability changes affect investments through changes in perceived investment opportunities and/or changes in cash flows (capital constraints). To measure the change in profitability, we calculate the change in average return on assets (*ChgROA*) from the pre-event period to the event quarter plus up to seven subsequent quarters. We also control for the pre-event levels of capital expenditures and R&D, referred to as *CAP* (or R&D, when only R&D is in the equation), and firm size. We estimate the combined change in long-term investment (i.e. capital expenditures and R&D) is Equation (7) and the R&D change alone in Equation (8):

$$\text{ChgCAP} = e_0 + e_1\text{Stop} + e_2\text{ChgROA} + e_3\ \text{LogMVE} + e_4\ \text{CAP} + \varepsilon \quad (7)$$

$$\text{ChgR\&D} = f_0 + f_1\text{Stop} + f_2\text{ChgROA} + f_3\ \text{LogMVE} + f_4\ \text{R\&D} + \varepsilon \quad (8)$$

Table 10 reports our estimates. We present the results both with the stoppers that subsequently resume guidance (see next section) and without those "guidance resumers." For both models we note that the coefficient on *Stop* is negative in all estimates and statistically insignificant in three of the four estimates, indicating that guidance stoppers *do not* increase their long-term investments after the guidance cessation. Thus, our tests do not support the claim that earnings guidance induces managerial myopia. This finding, however, may not be generalized to the population of firms not providing guidance. Recall that guidance stoppers are characterized by relatively poor earnings performance in the pre-guidance cessation period and anticipate continuation of poor performance after stopping guidance. Accordingly, the long-term investment opportunities and decisions of these firms may be different from those of the general population of non-guiders.

8. Stoppers' Change of Heart

The analyses reported above examine the factors that motivate firms to stop guidance and some of the consequences of this action. We next consider the flip side of this issue and examine the stoppers that subsequently resumed providing guidance. Among our 222 guidance stoppers, a full 68 firms (30.6%) resumed quarterly guidance, according to either the CIG database or our news search in Factiva. This is obviously a large proportion of stoppers that within a relatively short time—six quarters—decided to "mend their ways." We term the quarter of guidance resumption as the resumer-event quarter and the period from guidance cessation to resumption as the "silent period." The median length of the silent period is six quarter—a relatively short time for a reversal of a significant change in disclosure policy.

To analyze the determinants of guidance resumption we retain 49 firms that resumed guidance in the period ending in 2005 (as of this writing we do not have the 2006 data). Further, we exclude seven sporadic resumers—those that issued guidance only once. The remaining 42 firms are our resumer sample. Our control sample includes the stoppers that did not resume guidance. We add five quarters to the event quarter of these 154 non-resumers to make up a "fake" resumer-event quarter for these firms and exclude those whose fake quarter is after the end of 2005.[20]

For each sample and control firm we identify the possible determinants of guidance resumption: the *changes* in analyst following, forecast dispersion, forecast error, the percentage of loss quarters, reported earnings, the percentage of quarters of meeting/beating the consensus, and stock volatility from the pre-stoppage-event period to the silent period. Panel A of Table 11 displays the univariate comparisons of these changes between the

[20] We later compare the resumers' changes in several metrics from the pre-stoppage to the silent period, using the non-resumers as the control group. For the control group, we need to construct a fake resumption date before we measure these metrics.

resumers and the non-resumers. The Wilcoxon test, robust to outliers, shows (in a one-tailed test) that relative to the non-resumers, the resumers experienced (weakly) a larger decrease in analyst following, a smaller increase in forecast dispersion, a decreasing percentage of loss quarters, and improved earnings in the silent period. Panel B reports the multivariate logit test, indicating that the guidance resumers have (weakly) a larger decrease in analyst coverage, a larger increase in stock volatility, and a decreasing percentage of loss quarters in the silent period than do the non-resumers. Thus, firms that resume quarterly guidance were by and large affected more severely by the stopping decision.

9. Conclusions

Earnings guidance is practiced by a large number of public companies (see Figure 1) and is clearly welcomed by investors and analysts, yet forceful arguments against this practice persist, and, in recent years, a substantial number of firms stopped providing quarterly guidance with, or more frequently without, a public announcement.[21] This is an intriguing phenomenon, raising many interesting questions concerning information disclosure. In particular, what motivates firms to cease guidance in the face of an obvious demand for it? Is there a penalty for stopping guidance? Do stoppers decrease the alleged myopic managerial behavior and enhance long-term investments? Do they enhance alternative disclosure in lieu of the discontinued guidance? And how long can a firm buck the trend and persist in a no-guidance policy?

We address these questions and document interesting new results about the motives of the firms that stop guidance and the consequences of this decision. In particular, we find that a

[21] Given that the total number of quarterly guidance providers in recent years was relatively stable, firms that stopped the practice were replaced by new guidance providers.

major reason for stopping guidance is poor performance—lower past and future earnings, and a poor record of meeting/beating analyst forecasts. But this is not all. Certain guidance stoppers have undergone significant managerial changes (perhaps a new management philosophy), operate in industries in which guidance is relatively infrequent, and generally encounter a business environment that challenges earnings prediction.

As to the consequences of stopping guidance, we document adverse outcomes, in particular a decrease in analyst following and forecast accuracy and an increase in forecast dispersion (perceived uncertainty about the firm). As to the argument that quarterly guidance leads to myopic managerial behavior, we do not observe an up-tic in long-term investment following guidance cessation. We also do not observe the frequently claimed increase in "strategic disclosure" in lieu of the guidance.

Finally, our results suggest that it is rather difficult to buck the trend and persist in abstaining from guidance. A full 31% of our guidance stoppers resumed quarterly guidance after being "silent" for about six quarters. The resumers appear to be those that suffered most from guidance cessation. Based on our evidence, we cannot endorse the frequently voiced recommendation to firms to cease providing quarterly guidance (CFA [2006], Hsieh et al. [2006]).

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APPENDIX A
Guidance Stoppers Who Publicly Announced the Stoppage

No.	Company	FQE	Announce	Diff	Reasons Given
1	Leapfrog Enterprises	06/30/04	02/10/04	-141	Difficult to predict
2	Technitrol	03/31/03	12/12/02	-109	Long-term focus
3	Payless Shoesource	10/31/03	08/13/03	-79	None
4	WABTEC Corp.	03/31/04	01/12/04	-79	None
5	CDW Corp.	06/30/03	04/15/03	-76	Replace with monthly sales
6	McDonald's Corp.	03/31/03	01/17/03	-73	None
7	Haemonetics Corp.	06/30/03	04/23/03	-68	Long-term focus
8	Tweeter Home Entertainment	09/30/04	07/27/04	-65	Difficult to predict
9	Home Depot	04/30/03	02/25/03	-64	Long-term focus
10	Consol Energy	03/31/05	01/27/05	-63	Long-term focus
11	Microstrategy	03/31/05	01/27/05	-63	Difficult to predict Long-term Focus
12	Novell	04/30/03	02/27/03	-62	Difficult to predict
13	MEDCATH Corp.	03/31/03	02/06/03	-53	Long-term focus
14	Central Parking	03/31/03	02/14/03	-45	Difficult to predict
15	Haverty Furtniture	03/31/03	02/14/03	-45	Difficult to predict
16	Copart	10/31/03	09/17/03	-44	Difficult to predict; Trend
17	Principal Financial Group	06/30/04	05/24/04	-37	Long-term focus
18	Guess	03/31/03	02/26/03	-33	None
19	ASTEC Industries	03/31/03	04/01/03	1	Long-term focus
20	Calgon Carbon Corp.	12/31/02	02/07/03	38	Long-term focus
21	Forest Oil Corp.	03/31/03	05/08/03	38	None
22	Westpoint Systems	12/31/02	02/11/03	42	Difficult to predict Long-term Focus
23	Action Performance	03/31/04	07/28/04	119	Difficult to predict; Trend
24	Int'l Flavors & Fragrances	09/30/03	01/28/04	120	Difficult to predict
25	Bob Evans Farms	01/31/05	06/06/05	126	Difficult to predict
26	Penton Media	03/31/02	08/07/03	494	Difficult to predict

Notes:

1. Among our 222 guidance stoppers, 26 firms publicly announced the stoppage. The table lists the names of these announcers as well as the fiscal quarter end of the stoppage-event quarter (*FQE*), the public announcement date (*Announce*), the number of days between *Announce* and *FQE*, and the reasons given for the stoppage. We shade 16 timely announcements. An announcement is considered timely if it is issued during the event quarter. Firm #26 is a stopper-resumer-stopper.
2. Sixteen stoppage announcements first appeared in firms' quarterly earnings announcements, seven in quarterly conference calls, and three in other news sources.
3. The reasons for guidance cessation are summarized as follows: 12 (46.2%) firms cited the difficulty of predicting earnings; 10 (38.5%) firms cited or implied a refocus on the long term; two firms (7.7%) indicated they were following the market or industry trend; one firm (3.8%) said it would replace quarterly guidance with monthly sales reports; 5 (19.2%) gave no reason. Note that four companies gave two reasons.

APPENDIX B
Litigation Risk Estimation

The litigation-risk probit model is similar to that used in Tucker (2007), which closely follows Rogers and Stocken (2005). The model estimation uses the class-action filings during January 1996 and September 2003, downloaded from the Stanford Securities Class Action Clearinghouse website.

$$\Pr(\text{Lawsuit}_i = 1) = \Phi\,(a_0 + a_1\,\text{LogMVE}_i + a_2\,\text{Turnover}_i + a_3\,\text{Beta}_i + a_4\,\text{CumRet}_i + a_5\,\text{StdRet}_i + a_6\,\text{MinRet}_i + a_7\,\text{BioTech}_i + a_8\,\text{CompHard}_i + a_9\,\text{CompSoft}_i + a_{10}\,\text{Electronics}_i + a_{11}\text{Retail}_i + \varepsilon_i)$$

Variable	Coefficient	*p*-value
Intercept	–3.993	<0.001
LogMVE	0.171	<0.001
Turnover	13.317	<0.001
Beta	0.106	<0.001
CumRet	–0.285	<0.001
StdRet	–5.676	<0.001
MinRet	–3.759	<0.001
BioTech	–0.087	0.255
CompHard	0.180	0.024
CompSoft	0.127	0.015
Electronics	0.025	0.698
Retail	0.015	0.831
McFadden Pseudo R^2		0.281
789 litigated and 55,329 non-litigated firm-year observations		

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

APPENDIX C
Examples of Forward-Looking Non-earnings Disclosures

A. Operational Changes (e.g. restructuring plans, new store openings, acquisitions or disposals of business units.)

"By fiscal year-end, the Company plans to operate 360 Abercrombie & Fitch stores, 163 Abercrombie stores, 318 Hollister stores, and eight RUEHL stores."
--"Abercrombie & Fitch Reports Third Quarter Results," press release, 11/15/2005, company website.

B. Estimates of Key Drivers for Earnings (e.g. profit margins, segment sales, expenses, tax rate)

"AMO continues to expect its global eye care franchise to grow annually at a rate of 1 percent to 3 percent, excluding the impacts of currency."
-- "Advanced Medical Optics Announced First-Quarter 2005 Results," press release, 4/28/2005, *PR Newswire*.

C. New Products or Services (e.g. prospective products or services, drugs in the FDA approval process)

"In the first quarter, we made our digital CAD mammography solution available through Hologic," continued Parr. "iCAD also received FDA approval to expand Second Look Digital for use with Siemens' full-field digital system, which we expect to contribute to sales in future quarters. Additionally, we filed our first application with the FDA for approval of a product to support radiologists in review of Computed Tomography (CT) studies of the chest, and detection of potentially cancerous lung nodules."
--"iCAD Reports earnings in First Quarter 2005," press release, 4/28/2005, *PR Newswire*.
(Note: This paragraph contains two pieces of Type C disclosures)

D. New Alliances or Important Contracts

"GTC has also recently completed a cross-license agreement with Pharming Group N.V. (Euronext: "PHAR") to gain broad access to transgenic cattle technology and nuclear transfer technology. GTC continues to develop recombinant human serum albumin (rhSA) in transgenic cattle, which is partly based on an earlier license from Pharming. Any additional products developed by GTC under the new broader cattle technology license will have a lower royalty payment to Pharming. Pharming will pay a royalty to GTC for any proprietary antibody programs developed under the cross-license agreement. The nuclear transfer license from Pharming broadens GTC's intellectual property in this technology."
--"GTC Biotherapeutics Reports Second Quarter 2002 Financial Results," press release, 7/18/2002, *PR Newswire*.

E. Capital Expenditure

"Our capital expenditures for the year are targeted at $1.5 billion to $1.6 billion."
-- "McDonald's Ends Year with Strong Performance," press release, 1/26/2004, *PR Newswire*.

F. R&D Spending

"We anticipate research and development expenses to increase in future quarters as activities related to nebivolol progress."
--Mylan Reports Record First Quarter Revenue and Earnings, press release, 7/25/2002, *Business Wire*.

G: Financing Plans (e.g. debts, stock repurchases, change in dividend policy)

"The company also said that a new asset-based $600 million five-year, senior secured revolving credit facility is expected to close early in the fourth quarter. The new facility will replace the current $300 million credit facility. The new credit facility is expected to provide Maytag with substantially more financial capacity and flexibility to meet its 2006 debt maturities and its long-term financing requirements. Maytag would have the ability to increase the new credit facility by $150 million to $750 million."
-- **"**Maytag Announces Third Quarter Results," press release, 10/21/2005, *PR Newswire*.

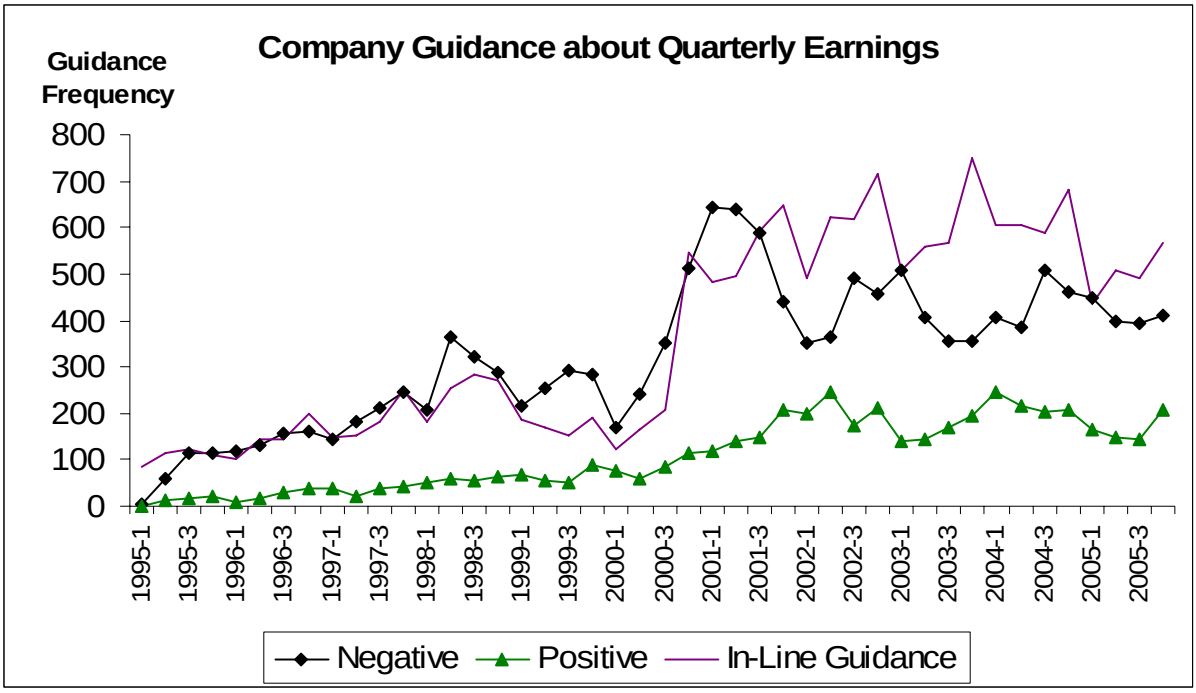
H**:** Estimated Effect of Legal Actions

"The Gorilla V contract dispute with BP continues. Final arguments in the London trial were heard October 2nd, 3rd and 4th and a court decision should be handed down before year end. The Harris County, Texas litigation remains in the discovery phase though the trial date has again been postponed, possibly until the second quarter of next year. We remain confident of a favorable outcome."
-- **"**Rowan Reports Third Quarter Financial Results," press release, 10/17/2001, *PR Newswire*.

I**:** Firm's forecast of Industry Factors

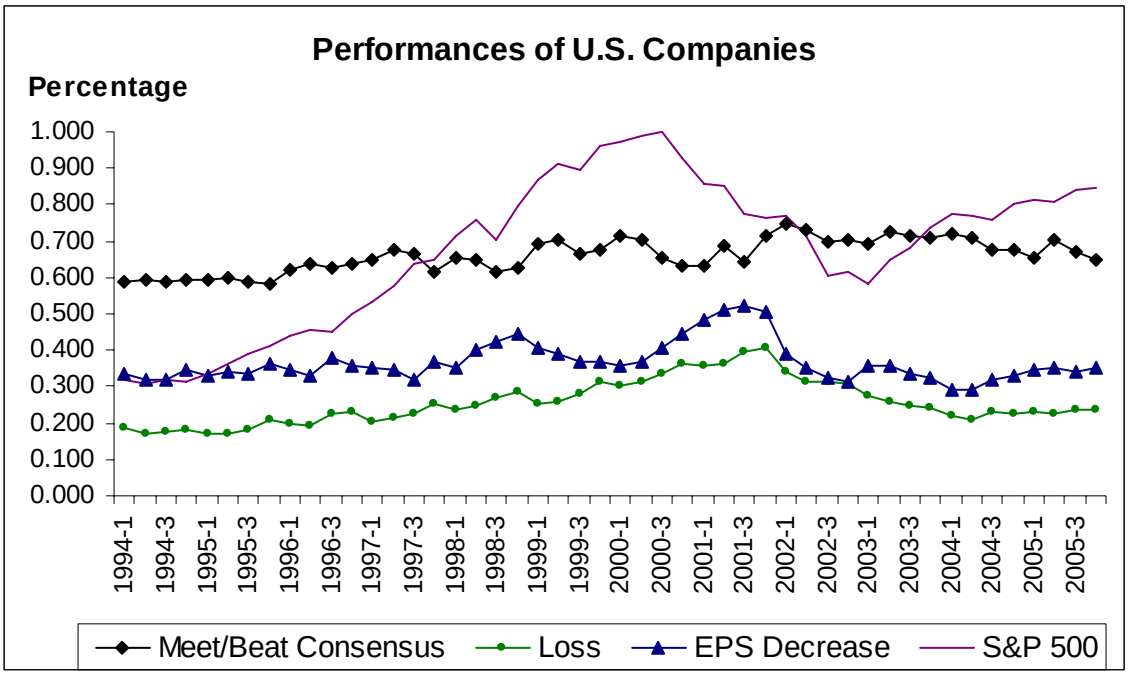
"The company has revised its forecast for U.S. industry demand for the year to 5 percent from 2 percent growth, based on current economic projections and consumer spending trends."
-- **"**Whirlpool Corp. Reports First Quarter 2002 Results," press release, 4/17/2002, *Business Wire*.

FIGURE 1
Guidance about Quarterly Earnings over Time



Note: The data source is the First Call Company Earnings Guidelines (CIG) database. First Call collects company guidelines from press releases and interviews, compares the disclosure with existing market expectations, and codes them as "D" for negative news, "E" for positive news, and "M" for in-line guidance (i.e. confirming guidance) for Variable *CIGCODED*. The x-axis is the calendar year (the first four digits) and calendar quarter (the last digit).

FIGURE 2
Earnings Performances of U.S. Companies



Notes:

1. The graph shows the proportion of U.S. public companies that meet or beat the I/B/E/S analyst consensus at the earnings announcement date (both earnings from I/B/E/S), have losses, or have a decrease in earnings from the same quarter in the prior year. Earnings data for the last two measures are the diluted earnings per share recorded in Compustat.
2. We plot in the background the S&P 500 index over time, shown as a percentage of its highest level (i.e. 1462 in the third quarter of 2000) during the charting period.
3. During our sample period of 2002Q1-2005Q1, the average percentage of firms that incur losses, experience earnings decreases, or meet/beat analyst expectations at earnings announcement is 26.3%, 33.3%, and 70.5%, respectively.
4. The x-axis is the calendar year (the first four digits) and calendar quarter (the last digit).

TABLE 1
Sample Collection

	Procedures	Unique Firms
Sample Period	The sample period is 2002Q1-2005Q1. Each quarter is referred to as an "event quarter." The number of firm-quarters covered by Compustat, CRSP, and I/B/E/S is 42,692. [a]	4,576
Guidance Stoppers	Firms that issue earnings guidance for **at least three out of the four quarters** before the event quarter ("pre-event") and issue no guidance for the event quarter and its subsequent three quarters (these four quarters are referred to as "post-event").[b] The data source for guidance is the First Call Company Issued Guidelines database.	353
	Exclude firms that in fact issue guidance for the post-event period according to our news search in Factiva.	(94)
	Exclude firms whose first quiet quarter is beyond the sample period, according to our news search in Factiva	(13)
	Exclude firms that are acquired in the six quarters beginning with the event quarter.	(24)
	Guidance stoppers [c]	**222**
Guidance Maintainers	Firms that issue earnings guidance for at least three quarters in the four pre-event quarters and at least three quarters in the four post-event quarters.[d] The data source for guidance is the First Call Company Issued Guidelines database	699
	Exclude firms that are acquired in the six quarters beginning with the event quarter.	(23)
	Guidance maintainers	**676**

[a]: The quarters are calendarized: a firm's fiscal quarter is labeled to the calendar quarter with which it overlaps most. For example, fiscal quarters that end in May, June, and July belong to the second calendar quarter.

[b]: The term "guidance" in our study does not include pre-announcements—the estimates issued after a fiscal quarter end. The number of firm-quarters that satisfy this requirement is 527. For a firm that appears in this group for more than one quarter, we choose its earliest quarter. The logic is as follows. Suppose a firm issues one guideline for each of the four quarters before Q_t and gives no guidance afterwards. The number of pre-event guidelines for Q_t, Q_{t+1}, Q_{t+2}, Q_{t+3}, and Q_{t+4} is 4, 3, 2, 1, and 0, respectively; the number of post-event guidelines is 0 for all these quarters. As a result, both Q_t and Q_{t+1} appear in the set of 527 observations, although Q_t is the quarter since when the firm stops providing quarterly guidance.

[c]: Among these firms, 35 firms stop quarterly guidance at a later quarter in the sample period, according to our news search, than the quarter identified from the First Call data.

[d]: The number of firm-quarters that satisfy this requirement is 5,015. For a firm that appears in this group for more than one quarter, we randomly choose a quarter as its event quarter.

TABLE 2
Distributions of Guidance Stoppers and Maintainers

Panel A: Fiscal Quarter Distribution

Event Quarter	Stoppers	Maintainers
1st Fiscal Quarter	85	107
2nd Fiscal Quarter	48	139
3rd Fiscal Quarter	26	158
4th Fiscal Quarter	29	173
Total	188	577

Note: For this table we exclude 34 stoppers and 99 maintainers whose event quarter is 2005Q1.

Panel B: Calendar Year-Quarter Distribution

Year	Quarter	Stoppers	Maintainers
2002	1	27	30
2002	2	11	33
2002	3	9	24
2002	4	9	44
2003	1	36	29
2003	2	27	46
2003	3	10	44
2003	4	10	61
2004	1	18	62
2004	2	9	51
2004	3	12	67
2004	4	10	86
2005	1	34	99
Total		222	676

Note: The quarters are calendarized. A firm's fiscal quarter is labeled to the calendar quarter with which it overlaps most. For example, fiscal quarters that end in May, June, and July belong to the second calendar quarter.

TABLE 2
(Continued)

Panel C: Top-Ten Industry Distribution

Guidance Stoppers (222)			Guidance Maintainers (676)		
Obs.	SIC	Industry	Obs.	SIC	Industry
20	73	Business Services	145	73	Business Services
16	36	Electric Equipment	64	36	Electric Equipment
16	28	Chemical Products	51	38	Measurement Equipment
11	49	Electric, Gas and Sanitary Services	50	35	Machinery and Computers
11	38	Measurement Equipment	28	28	Chemical Products
9	20	Food Products	25	59	Retail
8	35	Machinery and Computers	25	56	Apparel
7	58	Eating and Drinking Services	18	58	Eating and Drinking Services
7	56	Apparel	17	87	Engineering and R&D Services
6	80	Health Services	17	50	Wholesale

Note: "SIC" is the first two digits of the Standard & Poor's Industry Classification.

Panel D: Point vs. Range Guidance

Group Mean	Stoppers (222)		Maintainers (676)		Between-Group Contingency-Table Test χ^2	
Pre-Event (Q_{t-4} to Q_{t-1})	Point	Range	Point	Range	Point	Range
	0.798	2.350	0.710	2.732	1.84	24.67***
Post-Event (Q_t to Q_{t+3})			Point	Range		
			0.565	3.000		
Q_{t-1}	Point	Range	Point	Range	Point	Range
	0.223	0.702	0.188	0.800	1.18	8.23***

Notes:

1. Q_t is the stoppage-event quarter. The table shows the average number of point and range earnings estimates issued by the stoppers and maintainers, respectively. For example, "2.350" in the first row and second column means that on average a stopper issues 2.35 range estimates in the four pre-event quarters. If a firm issues more than one earnings guideline for the same quarter, for this table we choose the most recent guidance issued before the fiscal quarter end.
2. We conduct the contingency tables tests for between-group comparisons and report the chi-squares. "***," "**," and "*" indicate statistical significance at 1%, 5%, and 10% levels in a two-tailed test, respectively.

TABLE 3
Earnings Performance over Time

Panel A: Guidance Stoppers (222)

	Q_{t-4}	Q_{t-3}	Q_{t-2}	Q_{t-1}	Q_t	Q_{t+1}	Q_{t+2}	Q_{t+3}
Loss	54 (24.3%)	55 (24.8%)	63 (28.4%)	72 (32.4%)	64 (28.8%)	67 (30.2%)	62 (27.9%)	62 (27.9%)
EPS Decrease	87 (39.2%)	83 (37.4%)	104 (46.8%)	116 (52.3%)	104 (46.8%)	104 (46.8%)	89 (40.1%)	79 (35.6%)
Meet/Beat	168 (75.7%)	157 (70.7%)	143 (64.4%)	141 (63.5%)	146 (65.8%)	133 (59.9%)	136 (61.3%)	139 (62.6%)

Panel B: Guidance Maintainers (676)

	Q_{t-4}	Q_{t-3}	Q_{t-2}	Q_{t-1}	Q_t	Q_{t+1}	Q_{t+2}	Q_{t+3}
Loss	125 (18.5%)	119 (17.6%)	123 (18.2%)	116 (17.2%)	100 (14.8%)	98 (14.5%)	97 (14.3%)	103 (15.2%)
EPS Decrease	228 (33.7%)	232 (34.3%)	198 (29.3%)	215 (31.8%)	217 (32.1%)	198 (29.3%)	208 (30.8%)	219 (32.4%)
Meet/Beat	542 (80.2%)	560 (82.8%)	564 (83.4%)	559 (82.7%)	561 (83.0%)	569 (84.2%)	533 (78.8%)	528 (78.1%)

Note: Q_t is the stoppage-event quarter. The tables show the number of firms (percentage in the parenthesis) that have losses (i.e. negative diluted earnings per share), a decrease in diluted earnings per share from the same quarter in the prior year after split adjustment, and meet or beat analysts' most recent consensus compiled before earnings announcement (both realized and forecasted earnings are obtained from I/B/E/S), respectively.

TABLE 4
Descriptive Statistics

	Stoppers			Maintainers			Between-Group	
	Obs.	Mean	Median	Obs.	Mean	Median	T-Test	Wilcoxon
Management	222	0.198		676	0.087		χ^2=20.25***	
IndNo	222	0.541	0.527	676	0.522	0.500	1.35	1.52
Dispersion	211	0.0022	0.0009	647	0.0009	0.0005	4.28***	7.67***
FutureVAR	218	0.014	0.002	675	0.001	0.002	–1.53	–0.95
Loss	222	0.276	0.125	676	0.179	0.000	3.74***	4.08***
ΔEPS	218	–0.005	–0.012	675	0.004	–0.007	–1.74*	–5.68***
MBanalyst	222	0.692	0.750	676	0.833	1.000	–6.70***	–7.14***
MBown	206	0.525	0.500	670	0.618	0.667	–3.06***	–3.21***
RET	218	–0.243	–0.311	669	–0.002	–0.100	–4.94***	–5.59***
FutureEPS	222	0.033	0.002	676	0.004	0.002	0.67	–2.22**
Litigation	218	0.021	0.013	669	0.017	0.010	2.35**	3.00***
MVE	222	5,539	809	675	4,796	975	0.46	1.99**
Analyst	222	7.50	5.63	676	8.87	7.00	–2.95***	–2.99***
Volatility	218	0.023	0.019	669	0.022	0.019	1.26	0.48
ChgAnalyst	222	–0.073	0.000	676	0.699	0.750	–5.01***	–5.06***
ChgDisper	205	0.0011	0.0003	640	0.0000	0.000	1.93*	6.94***
ChgError	218	0.0013	0.0004	673	0.0005	0.0001	0.41	2.95***
ChgCAP	213	–0.0014	0.0000	664	–0.0017	0.0000	0.18	–0.26
ChgR&D	89	0.0019	0.0006	359	0.0008	0.0005	0.82	0.49

Notes:

1. "***," "**," and "*" indicate statistical significance at 1%, 5%, and 10% levels in a two-tailed test, respectively.
2. Variable definitions:

   Management takes the value of 1 if a firm has changed or announced a change in the CEO or CFO in the six months before the fiscal quarter end of the event quarter and 0 otherwise. The contingency-table chi-square statistic is reported for the between-group test.

   IndNo is the proportion of firms in a sample firm's industry (2-digit SIC) that do not issue any quarterly guidance for the four quarters before the sample firm's event quarter.

   Dispersion is the standard deviation of analyst forecasts included in the most recent consensus before earnings announcement, averaged in the four pre-event quarters and deflated by the beginning-of-event-quarter stock price.

   FutureVAR is the change from the pre-event to the post-event periods in the sum of the absolute difference between quarterly EPS and the EPS in the same quarter of year before the pre-event period, deflated by the beginning-of-event-quarter stock price.

   Loss is the proportion of quarters in a sample firm's four pre-event quarters in which the firm has a loss (i.e. negative diluted earnings per share).

ΔEPS is the change in diluted earnings per share (split-adjusted) from the same quarter in the prior year, averaged in the four pre-event quarters and deflated by the beginning-of-event quarter stock price.

MBanalyst is the proportion of quarters in the four pre-event quarters for which a firm meets or beats the most recent analyst consensus compiled before earnings announcement.

MBown is the proportion of quarters in the four pre-event quarters for which a firm's realized earnings are no less than the most recent estimate by the firm itself issued before the fiscal quarter end. The mid-value is used for a range estimate. The value is set as missing for a qualitative estimate.

RET is the buy-and-hold return (compounding monthly) in the one-year period that ends with the month of earnings announcement for the quarter preceding the event quarter, adjusted for the buy-and-hold return of the equal-weighted market index during the same period.

FutureEPS is the change in average diluted earnings per share (split-adjusted) from the four pre-event quarters to the four post-event quarters, deflated by the beginning-of-event-quarter stock price.

Litigation is the estimated probability of being sued by using the litigation model in Appendix B out of sample, where the input variables are measured in the one-year period before the beginning of the event quarter.

MVE is the market value of equity at the beginning of the event quarter (in millions of dollars). *LogMVE* is its log transformation.

Analyst is the number of analysts whose forecasts are included in the most recent consensus before a firm's quarterly earnings announcement, averaged in the four pre-event quarters. If a firm-quarter is covered by Compustat but not by I/B/E/S, analyst following for that firm-quarter is considered 0.

Volatility is the standard deviation of daily returns in the one-year period that ends five days after the earnings announcement for the quarter preceding the event quarter, adjusted by the standard deviation of the equal-weighted market return in the same period.

ChgAnalyst is the change in average analyst following (see the definition of *Analyst*) from the four pre-event quarters to the four post-event quarters.

ChgDisper is the change in average analyst forecast dispersion (see the definition of *Dispersion*) from the four pre-event quarters to the four post-event quarters.

ChgError is the change in analyst forecast error from the four pre-event quarters to the post-event quarters. Forecast error in each quarter is the absolute difference between realized earnings and the most recent analyst consensus before earnings announcement (both from I/B/E/S), deflated by the beginning-of-event quarter stock price. We label the forecast error in the pre-event period as "*Error*."

ChgCAP is the change in average capital expenditures (Compustat #90) and R&D (Compustat #4) from the four pre-event quarters to the event and the subsequent up-to-seven quarters.

ChgR&D is the change in average R&D from the four pre-event quarters to the event and the subsequent up-to-seven quarters. For *ChgCAP* and *ChgR&D*, the value in each quarter is the expenditures as a percentage of beginning-of-quarter assets, adjusted for the industry median level in each quarter. We label the capital expenditures plus R&D in the pre-event period as "*CAP"* and the R&D only in the pre-event period as "*R&D"*.

An observation is dropped if the split-adjusted price deflator is less than 1.

TABLE 5
Is Company Guidance Useful?

Panel A: Analyst Revisions after Company Guidance

Guidance	Metric	Existing Forecasts	Revision with 2 days	Revision between 3rd-5th day	Revision between 6th-10th day	Revision after 10th day	No Revision
Negative	Observations	33,389	17,422	3,644	1,421	1,790	9,112
	% of total existing forecasts	100%	52.2%	10.9%	4.3%	5.4%	27.3%
	% of revisions that are consistent with guidance	N/A	98.0%	97.6%	95.2%	79.4%	N/A
Positive	Observations	15,285	7,468	1,114	562	562	4,858
	% of total existing forecasts	100%	50.8%	7.7%	4.0%	5.7%	31.8%
	% of revisions that are consistent with guidance	N/A	96.1%	95.1%	91.7%	76.5%	N/A

Panel B: Comparison of Predicting Accuracy

Comparison	Before Guidance		After Guidance	
Firm' estimate is more accurate than analyst'.	34,238	70.0%	10,182	21.0%
Equal accuracy	948	2.0%	8,041	16.5%
Firm' estimate is less accurate than analyst'.	12,582	26.0%	15,857	32.5%
No comparison because of missing data	906	2.0%	14,594	30.0%
Total analyst forecasts before guidance	48,674	100%	48,674	100%

Notes:

1. The two tables use earnings guidance issued by U.S. companies for the fiscal quarters 2001Q1-2006Q3, which is clearly classified as "positive" or "negative" guidance by First Call by comparing the guidance with the existing market expectations. The tables present only the guidance issued *not concurrently* with quarterly earnings announcements. Our unreported results for the guidance issued concurrently with earnings announcements are similar.
2. Analyst forecasts and revisions are obtained from I/B/E/S. The existing forecast by an analyst is his/her most recent estimate before company guidance. The first new estimate for the same quarter by the same analyst after company guidance is considered his/her forecast revision. In Panel A, a revision is deemed consistent with company guidance if the revision is downward after negative guidance or upward after positive guidance. In Panel B, forecast error is calculated as the absolute difference between the reported earnings and an estimate (the midpoint is used for a range estimate). A comparison is not conducted when the company guidance is neither a point nor a range estimate or, for the "After Guidance" column, a new analyst forecast is not issued.

TABLE 6
Why Do Firms Stop Providing Quarterly Earnings Guidance?

Logit Model Estimation (*z*-statistic appears in parenthesis):

$$\Pr(\text{Stop}=1) = F(a_0 + a_1\text{Management} + a_2\text{IndNo} + a_3\text{Management*IndNo} + a_4\text{Dispersion} + a_5\text{FutureVAR} + a_6\text{Loss} + a_7\Delta\text{EPS} + a_8\text{MBanalyst} + a_9\text{MBown} + a_{10}\text{RET} + a_{11}\text{FutureEPS} + a_{12}\text{Litigation} + a_{13}\text{LogMVE} + a_{14}\text{Analyst} + a_{15}\text{Volatility} + \varepsilon)$$

Logit Model	Estimation (1)	Estimation (2)	Estimation (3)	Estimation (4)
Intercept	–1.394*	–2.465***	–1.467*	–1.397*
	(–1.69)	(–3.19)	(–1.77)	(–1.70)
Management	2.399***	2.545***	2.360***	2.429***
	(3.01)	(3.18)	(2.94)	(3.02)
IndNo	1.311**	1.373**	1.297**	1.321**
	(2.02)	(2.15)	(2.00)	(2.03)
Management*IndNo	–2.659*	–2.883**	–2.573*	–2.718*
	(–1.83)	(–1.98)	(–1.75)	(–1.85)
Dispersion	238.846***	277.118***	244.958***	239.410***
	(3.73)	(3.95)	(3.84)	(3.73)
FutureVAR			4.134*	
			(1.83)	
Loss	0.431	0.667*	0.355	0.438
	(1.12)	(1.75)	(0.92)	(1.13)
ΔEPS	–5.487**	–6.277**	–6.373**	–5.486**
	(–2.17)	(–2.42)	(–2.39)	(–2.18)
MBanalyst	–1.722***		–1.657***	–1.660***
	(–4.17)		(–3.65)	(–3.65)
MBown		–0.472**	–0.071	–0.086
		(–2.00)	(–0.27)	(–0.32)
RET	–0.105	–0.237	–0.134	–0.109
	(–0.50)	(–1.10)	(–0.63)	(–0.51)
FutureEPS	–4.378**	–4.449**		–4.375**
	(–2.04)	(–2.08)		(–2.04)
Litigation	1.650***	1.581***	1.638***	1.645***
	(3.32)	(3.19)	(3.28)	(3.30)
LogMVE	0.084	0.080	0.090	0.084
	(0.81)	(0.78)	(0.87)	(0.82)
Analyst	–0.066***	–0.076***	–0.067***	–0.066***
	(–2.87)	(–3.30)	(–2.92)	(–2.88)
Volatility	–27.682**	–28.763**	–26.396**	–27.653**
	(–2.29)	(–2.38)	(–2.18)	(–2.29)
Wald χ^2	133.26	119.89	132.15	133.36
McFadden R^2	14.79%	13.31%	14.67%	14.81%

See variable definitions in Table 4. The estimation uses 193 stoppers and 638 maintainers that have sufficient data. "***," "**," and "*" indicate statistical significance at 1%, 5%, and 10% levels in a two-tailed test, respectively. The fractional rankings of *Litigation* are used.

TABLE 7
Analyst Behaviors after Guidance Cessation

Model (2): Analyst Following
ChgAnalyst = $b_0 + b_1$Stop + b_2 RET + b_3 FutureEPS + b_4 LogMVE + b_5 Analyst + ε

Model (3): Analyst Forecast Dispersion
ChgDisper = $c_0 + c_1$Stop + c_2FutureEPS + c_3|FutureEPS| + c_4LogMVE + c_5Dispersion + ε

Model (4): Analyst Forecast Error
ChgError = $d_0 + d_1$ Stop + d_2 FutureEPS + d_3 |FutureEPS| + d_4 LogMVE + d_5 Error + ε

Robust-Regression Estimations (t-statistic appears in parenthesis).

	ChgAnalyst	ChgDisper	ChgError
Intercept	–0.609** (–1.96)	0.0004** (6.94)	0.0016** (10.05)
Stop	**–0.562***** **(–3.84)**	**0.0002***** **(8.22)**	**0.0003***** **(4.23)**
Return	0.594*** (6.74)		
FutureEPS	1.083 (1.37)	–0.002*** (–9.68)	–0.006*** (–9.60)
|FutureEPS|		0.006*** (23.08)	0.011*** (15.11)
LogMVE	0.241*** (4.59)	–0.000*** (–4.59)	–0.000*** (–6.15)
Analyst (Model (2)) Dispersion (Model (3)) Error (Model (4))	–0.050*** (–3.72)	–0.276*** (–48.21)	–0.585*** (–113.36)
Model-Test F statistic	21.19	555.41	2768.46
Stoppers	218	198	209
Maintainers	669	637	668
R^2 in alternative OLS	13.9%	21.5%	46.5%

Notes:
1. The robust-regression estimation is robust to outliers in the dependent and independent variables by automatically setting aside influential observations and downweighting observations with large residuals in each iteration. This method does not assume normality and theoretically possesses about 95% of the efficiency of OLS. The OLS estimations when outliers (i.e. studentized residual higher than 2 or lower than –2) are removed yield similar results; the last row shows the R^2 of such estimations.
2. "***", "**", and "*" indicate statistical significance at 1%, 5%, and 10% levels in a two-tailed test, respectively.
3. See variable definitions in Table 4. |*FutureEPS*| is the absolute value of *FutureEPS*.

TABLE 8
Investors' Responses to Earnings Announcement and Analyst Forecast Revision after Guidance Cessation

Panel A: Response to Earnings Announcement

$$R_{EA} = a_0 + a_1 \text{Surprise} + a_2 \text{LateNews} + a_3 \text{ Post} + a_4 \text{ Post*Surprise} + a_5 \text{ Post*LateNews} + \varepsilon$$

	Robust Regression		Least Squares Allowing for Within-Firm Correlations	
	Stoppers	Maintainers	Stoppers	Maintainers
Intercept	–0.000	0.003**	–0.000	0.002
	(–0.17)	(2.14)	(–0.70)	(1.61)
Surprise	0.413***	2.647***	0.408***	1.811***
	(9.72)	(10.67)	(12.45)	(5.03)
LateNews	–0.057**	–0.065***	–0.049*	–0.054***
	(–2.51)	(–4.13)	(–1.72)	(–2.97)
Post	0.003	–0.000	0.005	0.001
	(0.93)	(–0.12)	(1.38)	(0.58)
Post*Surprise	**0.632*** **	**–0.480**	**0.482*** **	**–0.490**
	(6.38)	**(–1.47)**	**(3.32)**	**(–1.02)**
Post*LateNews	0.026	–0.028	0.020	–0.035
	(0.69)	(–1.12)	(0.40)	(–1.33)
Model Test F statistic	46.30	49.81	48.76	10.98
Firm-Quarters	1,568	4,858	1,478	4,653
R^2	N/A	N/A	10.5%	2.6%

Notes:

1. For each firm the model uses the four quarters before the event quarter (*Post*=0) and the event quarter and its subsequent three quarters (*Post*=1). For each firm-quarter R_{EA} is the sum of market-adjusted daily returns from one trading day before earnings announcement to one trading day after earnings announcement. *Surprise* is the difference between realized earnings and the most recent analyst consensus compiled before earnings announcement (both from I/B/E/S), deflated by the stock price on the last day before the return window (An observation is dropped if this deflator is less than 1.). *LateNews* is the sum of daily returns from the analyst consensus date to the second trading day before earnings announcement.
2. The robust-regression estimation is robust to outliers in the dependent and independent variables by automatically setting aside influential observations and downweighting observations with large residuals in each iteration. This method does not assume normality and theoretically possesses about 95% of the efficiency of OLS.
3. In the least squares estimations, outliers (i.e. studentized residual higher than 2 or lower than –2) are removed. The estimations allow for heteroskedasticity and within-firm correlations of the error term.
4. "***", "**", and "*" indicate statistical significance at 1%, 5%, and 10% levels in a two-tailed test, respectively.

TABLE 8
(Continued)

Panel B: Response to Analyst Forecast Revision

$$R_{REV} = b_0 + b_1 \text{Revision} + b_2 \text{ Post} + b_3 \text{ Post*Revision} + \varepsilon$$

	Robust Regression		Least Squares Allowing for Within-Firm Correlations	
	Stoppers	Maintainers	Stoppers	Maintainers
Intercept	–0.000	0.003***	–0.002	0.002*
	(–0.40)	(5.97)	(–1.15)	(1.69)
Revision	0.829***	1.002***	0.758***	0.911***
	(18.53)	(13.51)	(8.20)	(3.82)
Post	0.000	–0.000	0.002	0.001
	(0.32)	(–0.06)	(0.94)	(0.53)
Post*Revision	**–0.547*** **	**1.426*** **	**–0.310** **	**0.603***
	(–7.86)	**(14.25)**	**(–2.25)**	**(1.70)**
Model Test F statistic	126.71	497.77	29.79	8.13
Observations	3,613	13,303	3,403	12,418
Unique Firms	136	458	136	458
Unique Analysts	438	987	438	987
R^2	N/A	N/A	6%	2.9%

Notes:

1. We first use the I/B/E/S Details database to identify the analysts who submit at least two earnings forecasts for a quarter in a firm's pre- and post-event periods. If an analyst submits more than two forecasts for the same firm quarter, we retain his/her most recent two forecasts. The second forecast is considered a revision. We then keep those analysts who forecast and revise earnings for a firm for at least six out of its eight pre-event and post-event quarters. R_{REV} is the sum of market-adjusted daily returns from the revision date to the first trading day after the revision date. *Revision* is the difference between an analyst's second forecast and his/her first forecast, deflated by the stock price on the day before the revision date (An observation is dropped if the deflator is less than 1.). *Post* is 1 for a revision made for the four post-event quarters and 0 for a revision made for the four pre-event quarters.
2. The robust-regression estimation is robust to outliers in both the dependent and independent variables by automatically setting aside influential observations and downweighting observations with large residuals in each iteration. This method does not assume normality and theoretically possesses about 95% of the efficiency of OLS.
3. In the least squares estimations, outliers (i.e. studentized residual higher than 2 or lower than –2) are removed. The estimations allow for heteroskedasticity and within-firm correlations of the error term. The estimations that allow for heteroskedasticity and within-analyst correlations are similar.
4. "***", "**", and "*" indicate statistical significance at 1%, 5%, and 10% levels in a two-tailed test, respectively.

TABLE 9
Change of Forward-Looking Disclosures after Guidance Cessation

Panel A: Forward-Looking Non-earnings Disclosures in Quarterly Earnings Announcement **Press Releases** by 97 Guidance Stoppers in the *Pre-event* Period

Code	Description of Disclosures	Number of Firms					
		0	1	2	3	4	>=5
A	Operational changes	50	32	6	3	4	2
B	Estimates of key drivers for earnings	55	26	14		2	
C	New products or services	84	11	2			
D	New alliances or important contracts	93	4				
E	Capital expenditures	87	10				
F	R&D Spending	94	3				
G	Financing plans	86	9	2			
H	Estimated effect of legal actions	94	3				
I	Firm's forecast of industry factors	81	16				
	All forward-looking disclosures	20	21	22	15	9	10

Panel B: Forward-Looking Non-earnings Disclosures in Quarterly Earnings Announcement **Press Releases** by 97 Guidance Stoppers in the *Post-event* Period

Code	Description of Disclosures	Number of Firms					
		0	1	2	3	4	>=5
A	Operational changes	61	25	8	2	0	1
B	Estimates of key drivers for earnings	64	22	5	4	1	1
C	New products or services	89	6	2			
D	New alliances or important contracts	92	5				
E	Capital expenditures and R&D plans	80	17				
F	R&D Spending	97					
G	Financing plans	87	9	1			
H	Estimated effect of legal actions	96	1				
I	Firm's forecast of industry factors	81	13	3			
	All forward-looking disclosures	29	26	16	9	9	8

Panel C: Change in Forward-Looking Non-Earnings Disclosures in Quarterly Earnings Announcement **Press Releases.**

	# of Firms	Mean	Median
Decrease	41	–1.85	–2
No Change	29	N/A	N/A
Increase	27	1.67	1
All 97 Stoppers		–0.32 (T-test: t = –1.91 Two-tailed p = 0.059)	0 (Signed Rank Test: S = –305 Two-tailed p=0.057)

TABLE 9
(Continued)

Panel D: Forward-Looking Non-earnings Disclosures in the 10-Q **MD&As** by 81 Guidance Stoppers in the *Pre-event* Period

Code	Description of Disclosures	Number of Firms					
		0	1	2	3	4	>=5
A	Operational changes	53	18	9	1		
B	Estimates of key drivers for earnings	44	15	11	4	4	3
C	New products or services	75	5	1			
D	New alliances or important contracts	80	1				
E	Capital expenditures	44	36		1		
F	R&D Spending	75	5	1			
G	Financing plans	57	18	5	1		
H	Estimated effect of legal actions	75	5			1	
I	Firm's forecast of industry factors	73	5	1	2		
	All forward-looking disclosures	16	11	16	15	8	15

Panel E: Forward-Looking Non-earnings Disclosures in the 10-Q **MD&As** by 81 Guidance Stoppers in the *Post-event* Period

Code	Description of Disclosures	Number of Firms					
		0	1	2	3	4	>=5
A	Operational changes	58	19	2	2		
B	Estimates of key drivers for earnings	38	18	11	7	1	6
C	New products or services	76	4		1		
D	New alliances or important contracts	79	2				
E	Capital expenditures	39	40	1	1		
F	R&D Spending	75	6				
G	Financing plans	62	16	2	1		
H	Estimated effect of legal actions	78	2	1			
I	Firm's forecast of industry factors	75	3	3			
	All forward-looking disclosures	11	15	18	10	10	17

Panel F: Change in Forward-Looking Non-Earnings Disclosures in the 10-Q **MD&As**

	# of Firms	Mean	Median
Decrease	23	–1.96	–2
No Change	34	N/A	N/A
Increase	24	2.08	2
All 81 Stoppers		0.06	0
		(T-test: t = 0.30 Two-tailed p =0.762)	(Signed Rank Test: S = 36 Two-tailed p=0.703)

TABLE 9
(Continued)

Panel G: Guidance about Fiscal-Year Earnings (or Sales)

Pre-Event Period	Post-Event Period	# of Firms
YES	YES	66
YES	NO	15
NO	YES	3
NO	NO	13
Total		97

Notes:

1. Guidance stoppers issue earnings guidance for at least three out of four consecutive quarters and then issue no guidance for at least four consecutive quarters. The first quarter for which a stopper becomes quiet is referred to as the "event quarter"; the four quarters before the event quarter are referred to as the "pre-event period"; the four quiet quarters starting from the event quarter are referred to as the "post-event period."
2. We randomly select 100 firms from guidance stoppers and for each firm we randomly select a quarter in its post-event period, referred to as the "post-quarter." We then select the same fiscal quarter in the pre-event period, referred to as the "pre-quarter." If the pre-quarter is the quarter right before the event quarter, we replace it with the same fiscal quarter in the prior year. We do so because quarterly guidance is often issued in the previous-quarter earnings announcement; therefore, the earnings announcement press release for the quarter right before the event quarter probably resembles the press releases for the post-event period rather than for the pre-event period.
3. For each firm we download the earnings announcement press releases and 10-Q MD&As for the pre-quarter and the post-quarter and code the forward-looking non-earnings disclosures into nine categories. In Panels A, B, C, and G, three firms are dropped because we could not find the press releases for both quarters. In Panels D, E, and F, 18 firms are dropped because the post-quarter is the fourth fiscal quarter for which firms do not file 10-Q; one additional firm is dropped because we could not find one 10-Q is lacking.
4. In Panels A, B, D, and E, the columns indicate the number of disclosures per company. For example, the first row of Panel A indicates that in the pre-stoppage period 50 firms gave no information about operational changes, 32 firms gave one disclosure of this type, six firms gave two disclosures.
5. In Panel G, for each period a firm is in the "YES" group if it issues guidance about fiscal-year earnings (or sales) according to either the CIG database or our reading of the press releases and MD&As for its pre-quarter and post-quarter.

TABLE 10
Long-Term Investments after Guidance Cessation

Model (7): Capital Expenditures plus R&D Expenditures

$$\text{ChgCAP} = e_0 + e_1 \text{ Stop} + e_2 \text{ ChgROA} + e_3 \text{ LogMVE} + e_4 \text{ CAP} + \varepsilon$$

Model (8): R&D Expenditures only

$$\text{ChgR\&D} = f_0 + f_1 \text{ Stop} + f_2 \text{ ChgROA} + f_3 \text{ LogMVE} + f_4 \text{ R\&D} + \varepsilon$$

Robust-Regression Estimations (t-statistics in parentheses)

	Use All Stoppers		Exclude Stopper-Resumers	
	ChgCAP	ChgR&D	ChgCAP	ChgR&D
Intercept	0.002	0.004***	0.002	0.003**
	(1.18)	(2.89)	(1.14)	(2.51)
Stop	**–0.002****	**–0.000**	**–0.002**	**–0.001**
	(–1.99)	**(–0.19)**	**(–1.56)**	**(–0.74)**
ChgROA	0.024	0.000	0.014	0.003
	(1.44)	(0.04)	(0.79)	(0.36)
LogMVE	–0.000	–0.000**	–0.000	–0.000**
	(–1.12)	(–2.37)	(–1.07)	(–2.00)
CAP (Model (7))	–0.248***	–0.076***	–0.246***	–0.088***
R&D (Model (8))	(–20.53)	(–5.35)	(–20.12)	(–5.96)
Model-Test F statistic	108.29	7.69	102.20	9.19
Stoppers	213	89	146	52
Maintainers	664	359	664	359
R^2 in alternative OLS	30.0%	6.4%	31.9%	6.6%

Notes:

1. Model (8) uses the firms with nonzero R&D in either the pre- or post-event period.
2. The robust-regression estimation is robust to outliers in the dependent and independent variables by automatically setting aside influential observations and downweighting observations with large residuals in each iteration. This method does not assume normality and theoretically possesses about 95% of the efficiency of OLS. The OLS estimations when the outliers (i.e. studentized residual higher than 2 or lower than –2) are removed yield similar results; the last row reports the R^2 of such estimations.
3. "***", "**", and "*" indicate statistical significance at 1%, 5%, and 10% levels in a two-tailed test, respectively.
4. See variable definitions in Table 4. *ChgROA* is the change in average accounting return on assets from the four pre-event quarters to the event quarter and its subsequent up-to-seven quarters.

TABLE 11
Resuming Quarterly Guidance

Panel A: Change in Key Measures after Guidance Cessation

Change	Resumers			Non-Resumers			Between-Group	
In	Obs.	Mean	Median	Obs.	Mean	Median	t-test	Wilcoxon
Analyst	42	–0.307	–0.508	112	–0.059	0.083	–0.50	–1.59*
Dispersion	38	0.0003	0.0002	103	0.0011	0.0004	–0.85	–1.94**
Error	41	0.0008	0.0003	109	0.0045	0.0003	–1.20	–0.54
Loss	42	–0.057	0.000	112	0.009	0.000	–1.41*	–1.55*
ΔEPS	41	0.021	0.006	109	–0.018	0.002	1.45*	1.45*
MBanalyst	42	–0.090	0.000	112	–0.023	–0.083	–1.10	–0.40
Volatility	41	–0.0006	–0.0021	110	–0.0039	–0.0036	1.17	1.15

Panel B: Logit Estimation

Change in	Coefficient	p-value
Intercept	–1.067***	<0.001
Analyst	–0.138*	0.082
Dispersion	–22.074	0.350
Error	–4.303	0.455
Loss	–1.502*	0.052
ΔEPS	2.711	0.165
MBanalyst	–0.911	0.104
Volatility	23.991*	0.082
Wald χ^2		8.85
McFadden Pseudo R^2		6%
Observations	37 resumers and 102 non-resumers	

Note: 68 stoppers resumed quarterly guidance, according to either the CIG data or our news search. We refer to the quarter for which firms resume guidance as the "resumer-event" quarter and the quarters that begin with the stoppage-event quarter and end right before the resumer-event quarter as the "quiet period." The median length of this quiet period is six quarters. Because of data unavailability for the tests, we exclude 19 firms that resumed guidance for quarters *after* 1/1/2006. We further exclude seven firms that resumed and issued guidance only once. The remaining 42 firms form our resumer test sample. The 154 stoppers that did not resume guidance are our control firms. We add five quarters to their stoppage-event quarter to make up a "fake" resumer-event quarter. Those whose fake resumer-event quarter is after 1/1/2006 are dropped. From the four pre-stoppage-event quarters to the quiet period, we measure the changes in analyst following, forecast dispersion, forecast error, the proportion of quarters in which the firm has losses, the seasonal EPS change, the proportion of quarters for which the firm meets or beats analyst consensus, and market-adjusted stock volatility. All the tests are one-tailed.