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## Ethics-Related Cheap Talk In 10-Ks

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ETHICS-RELATED CHEAP TALK IN 10-Ks

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by

Sedat Erdogan

2023

## **Dedication**

I dedicate this work to my wife, parents, colleagues,  
and mentors who gave me unconditional support.

ETHICS-RELATED CHEAP TALK IN 10-Ks

by

Sedat Erdogan

DISSERTATION

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for the Degree of

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## **Abstract**

In this study, I investigate the existence of direct ethics-related cheap talk in 10-Ks. Firms can utilize ethics-related language in 10-Ks to emphasize the importance of ethics or ethical behaviors. Direct ethics-related language in corporate financial disclosures may increase the stakeholders' expectation that firms act ethically. However, ethics-related language in 10-Ks shows cheap talk characteristics since it is qualitative, unaudited, not binding, and not costly to generate. As a result, firms may increase the extent of direct ethics-related language in 10-Ks to obfuscate corporate financial disclosures to confuse stakeholders. I focus on regulatory and financial pressure sources to understand ethics-related cheap talk in 10-Ks. For regulatory pressure, I investigate direct ethics-related language in non-reliance ("Big R") restatement firms to test the direct ethics-related cheap talk in 10-Ks. I document that firms use more direct ethics-related language in 10-Ks during non-reliance restatement periods and in the year of restatement filing, mainly when the future restatement is triggered by excessive firm misbehavior such as fraud. I also examine whether firms under financial performance pressure increase direct ethics-related language. I show a significant increase in direct ethics-related language for firms that marginally missed analyst EPS forecasts and are incentivized to manage their small losses to small profits. Finally, I investigate the obfuscation component of financial reporting complexity for the firms that increase direct ethics-related language in 10-Ks. I document that when firms with greater ability to obfuscate through ethical language employ more ethics-related language, they, on average, report less decision-useful earnings. These findings show that firms use ethics-related cheap talk in 10-Ks to appear more ethical and signal positive ethics-related signals to the stakeholders to alleviate adverse reactions to negative news, especially under severe regulatory and financial pressure sources.

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## **Chapter 1: Introduction**

In this study, I examine whether firms opportunistically cheap talk direct ethics-related language in 10-Ks. Ethics-related language in 10-Ks shows cheap talk characteristics because these disclosures are unaudited, not binding, and not costly to generate. Besides, understanding the information content of ethics-related language may be highly complicated since information extraction from qualitative corporate financial disclosures could be very challenging. Therefore, firms may intentionally increase ethical language in 10-Ks to send cheap ethics-related signals to stakeholders to delay information extraction by making information extraction from corporate financial disclosures more costly.

Firms may try to appear ethical because ethics generate positive stakeholder reactions. For example, existing ethics literature documents a significant positive impact of ethical behaviors on consumer satisfaction, job satisfaction, and financial performance. Being ethical “in fact” requires time and effort since it demands long-term commitments and behavioral changes. However, appearing ethical is based entirely on perception. One channel to appear ethical is increasing ethics-related voluntary language in corporate financial disclosures. For example, firms may increase voluntary ethics-related language in 10-Ks to increase the expectation that they act ethically. The other channel to increase ethical appearance is emphasizing mandatory ethics-related disclosures in 10-Ks to appear more ethical to stakeholders.

Firms are more likely to increase opportunistic applications when they face regulatory and financial pressure. Firms may develop fictitious voluntary disclosures or make the information content of mandatory disclosures difficult to understand instead of waiting for good news to arise and offset the bad news under regulatory and financial pressure sources. Therefore, I investigate

ethics-related cheap talk in 10-Ks around regulatory and financial pressure sources, respectively: non-reliance (“Big R”) restatements and meeting or beating analyst EPS forecasts.

Non-reliance (“Big R”) restatements (restatements, hereafter) are commonly associated with a lower-quality information environment because such restatements reflect lower quality prior to corporate financial disclosures. Compared to non-restatement firms, restatement firms during restatement periods could increase cheap signals in corporate financial disclosures to obfuscate corporate financial disclosures. Regulations do not require any mandatory direct ethics-related disclosure during restatement periods. Therefore, if firms increase direct ethics-related language in 10-Ks, it is because of their intentional emphasis on ethics in their corporate financial disclosures during restatement periods.

I find evidence that firms use more direct ethics-related language during the restatement periods in 10-Ks. I also document that the year of restatement is significantly positively associated with increased direct ethics-related language in 10-Ks. Additionally, I test if firms use more direct ethics-related language in 10-Ks under fraud. Even though the fraud sample is small, I find a significant increase in the direct ethics-related language in 10-Ks for the fraud sample. These results show that firms use more direct ethics-related cheap talk in 10-Ks under regulatory pressure to delay or alleviate adverse reactions to restatement-related negative news.

The financial pressure source that I investigate the existence of ethics-related cheap talk is meeting or beating analyst EPS forecasts. The market severely reacts to analyst EPS forecast misses (e.g., Lopez & Rees, 2002) and rewards firms that meet or beat earnings expectations (e.g., Bartov et al., 2002). The market negatively reacts to small EPS misses because the market believes that finding one or two cents to beat the target is not very difficult (Graham et al., 2005). In addition, the market may interpret small analyst EPS forecast misses as evidence of hidden

problems at firms (Graham et al., 2005). Thus, firms that marginally miss analyst EPS forecasts are most likely to increase noisy signals to justify their relatively poor financial performance. Therefore, if firms cheap talk their direct ethics-related language under financial pressure, I expect such firms that marginally missed analyst earnings forecasts to do it more to delay or alleviate market reaction to negative news. I use the large beat sample as the base group since large beat firms are less likely to use opportunistic direct ethics-related language in 10-Ks. Results show that firms significantly use more direct ethics-related language in 10-Ks during the years they marginally miss analyst EPS forecasts.

Cheap talk is more likely to happen when firms report more complex corporate financial disclosures. More complex disclosures are less transparent and informative and provide a greater ability to obfuscate corporate financial disclosures to confuse stakeholders. People may increase the length of the explanations to mitigate not keeping their promises (Erhard et al., 2016). Similarly, firms may report linguistically more complex corporate financial disclosures to mask their poor financial performance (e.g., Li, 2008; Bloomfield, 2008; Lo et al., 2017). In such cases, firms may try to attenuate or delay the effects of bad news by increasing the complexity level of disclosures (Bloomfield, 2002; Li, 2008). Compared to less complex disclosures, more complex disclosures include a higher obfuscation component in corporate financial disclosures. Therefore, I expect firms to increase noisy signals in more complex corporate financial disclosures compared to less complex corporate financial disclosures.

To further test direct ethics-related cheap talk in corporate financial disclosures and understand the accounting implications of direct ethic-related language usage in 10-Ks, I examine the decision usefulness of earnings for the firms that increase direct ethics-related language when these firms' ability to obfuscate through ethical language is greater. First, I document a significant

reduction in earnings persistence and cash flows predictability for the firms that use more direct ethics-related language in more complex 10-Ks. Additionally, investors negatively react to the earnings of firms that use more direct ethics-related language in complex 10-Ks. These results show that the decision usefulness of earnings drops for the firms that increase direct ethics-related language in complex 10-Ks.

Lastly, I investigate discretionary accruals to understand why earnings become less informative for firms that use more direct ethics-related language in more complex 10-Ks. For that purpose, I focus on firms more likely to have higher discretionary accruals, such as complex firms, high-leverage firms, loss firms, and mergers and acquisitions. I document that when complex, high leverage, loss, and mergers and acquisitions firms use more direct ethics-related language in 10-Ks, they also significantly increase discretionary accruals. These results show that earnings management practices have become more prevalent for firms that use more direct ethics-related language under different incentives.

This study contributes to the existing ethics literature by examining how firms under financial pressure increase ethics-related noisy signals in 10-Ks. This study differs from prior literature in many critical aspects. First, the study window focuses on an era where mandatory and voluntary ethics-related language in 10-Ks are intertwined. Previous literature focuses on voluntary ethics in 10-Ks (e.g., Loughran et al., 2009); however, this study investigates ethics-related language after regulations requiring mandatory ethics in 10-Ks. Second, prior literature examines the presence of ethics-related language in 10-Ks; however, this study focuses on the magnitude of direct ethics-related language in 10-Ks. Third, to my knowledge, this is the first study investigating the implications of direct ethics-related language in 10-Ks under regulatory and financial pressure sources, such as restatements and meeting or beating analyst EPS forecasts.

This study is subject to several important caveats. First, I investigate the frequency of the presence or absence of ethics-related language in 10-Ks. I do not evaluate the qualitative characteristics of ethics-related language. For example, some firms may use more (fewer) ethics-related language that may convey less (more) useful information. Second, I do not differentiate which sections of the 10-K firms use ethics-related language. I assume that firms are strategic about ethics-related language in 10-Ks. Third, I assume that firms can increase voluntary and mandatory ethics-related language in 10-K when needed. Finally, in this study, ethics-related keywords come from Loughran et al. (2009); however, there may be other ethics-related keywords beyond the dictionaries of Loughran et al. (2009). I use Loughran et al. (2009) dictionaries because these dictionaries directly focus on ethics, which is why ethics-related signals are more noticeable in these dictionaries.

## Chapter 2: Literature

Ethics-related language usage is not new in corporate financial disclosures; however, accounting literature investigating ethics in corporate financial disclosures is scarce and focuses on voluntary disclosures during the pre-SOX era. Thus, the information content of ethics-related language after SOX remains mostly uninvestigated. Only a few studies investigate ethics in corporate financial disclosures but document mixed results. For example, Loughran et al. (2009) document that sin stocks, firms with class action lawsuits, and firms with poor corporate governance speak more about ethics in 10-Ks to send mixed signals to outsiders. However, Persons (2009) finds that voluntary ethics disclosures are positively associated with an audit committee's independence, size, and meeting frequency but negatively associated with fraudulently prepared financial reporting.

Ethics-related disclosures are available in different reporting environments, such as mandatory filings (e.g., 10-Ks and proxy statements), corporate websites, corporate social responsibility reports, and other reporting formats (e.g., specialized ethics brochures and standalone ethics statements and complaint/whistleblowing procedure guideline) (Holder-Webb et al., 2008). Ethics became an integral component of financial disclosures after the Sarbanes-Oxley Act (SOX) of 2002 and the SEC (2003). Section 406 of SOX requires public companies to disclose whether they have implemented a code of ethics that applies to the firm's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Following Section 406(c) of SOX, the SEC (2003) mandates NYSE and Nasdaq firms to adopt a code of conduct applicable to all directors, officers, and employees and to make it publicly available. In addition, the SEC requires that the code of conduct complies with the

definition of a code of ethics in Section 406 (c) of SOX. Finally, the SEC requires listed firms to include their code of business conduct and ethics on their websites and reference the code of conduct on 10-Ks. Firms use ethics-related language mostly in Item (1) Business, Item (3) Legal Proceedings, Item (9A) Controls and Procedures, and Item (10) Directors, executive officers, and corporate governance sections of 10-Ks.

Ethics-related language in 10-Ks is an example of intertwined mandatory and voluntary disclosures. Regulations do not clearly define the scope of ethics-related language in 10-Ks, and managers may use their discretion to decide the extent of such language. As a result, firms show significant variation in mandatory ethics-related language. For example, some firms meet the regulatory requirements with one or two sentences, while others make comprehensive ethics-related disclosures. Firms may also voluntarily increase ethics-related language in 10-Ks to emphasize the importance of ethics for their firms and give stakeholders more information about their ethical behaviors or mindsets.

Firms have incentives to appear ethical in their operations (Ben-Amar & Belgacem, 2018) and corporate financial disclosures (Loughran et al., 2009) and generate more informative and extensive ethics-related disclosures (Gelb & Strawser, 2001). Being ethical and socially responsible are positive virtues that resemble organizations' stances on their societal obligations (Morsing & Schultz, 2006). Studies show positive associations between high ethical orientation and the quality of the information environment (e.g., Elias, 2004; Greenfield et al., 2008; Kim et al., 2012; Shafer, 2015). For example, firms with a robust commitment to ethics are less likely to employ earnings management practices (Shleifer, 2004) since more ethical firms value transparency and give fewer opportunities to earnings management. Many firms implement ethics programs to communicate their ethical position to their stakeholders (Schlegelmilch & Pollach,



2005) because corporate ethical and social responsibility-related messages generate strong and positive stakeholders' reactions (Morsing & Schultz, 2006).

Firms enjoy the advantages of acting ethically. Existing ethics literature shows a significant positive impact of ethical behavior on consumer satisfaction, job satisfaction, and financial performance. Firms' ethical behavior impacts consumers' purchase decisions because customers are willing to pay higher prices for ethical firms to reward ethical behaviors (e.g., Creyer & Ross, 1997; Carrigan & Attalla, 2001). Employees show higher job satisfaction when top management emphasizes ethical behavior (Vitell & Davis, 1990). Ethical firms, on average, are more profitable and efficient in using their operating assets (Blazovich & Smith, 2011). Likewise, more successful managers are more ethical than unsuccessful managers (Deshpande, 1996). Ethical firms are more likely to focus on sustainability and management quality, focusing more on longer time horizons than conventional investments (Michelson et al., 2004). Finally, ethical firm behavior may result in higher profit since workers may work harder, customers may become more loyal to businesses and pay higher prices, suppliers may deliver high-quality supplies, and communities may support these firms (Michelson et al., 2004).

Regarding the investment perspective, some researchers disagree that ethical firms generate a higher return for investors (Michelson et al., 2004; Hudson, 2005; Blazich & Smith, 2011). For example, Blazovich and Smith (2011) find that ethical firms, firms in the 100 Best Corporate Citizens published annually by Business Ethics Magazine, are more profitable, more efficient in using their operating assets, and perceived as less risky and have lower costs of capital. They also documented that more ethical firms experience no market premium. However, Mallin et al. (1995) find that ethical funds outperform non-ethical and the market in the sample. In

addition, Karim et al. (2015) find a significant and positive abnormal return around Worlds' Most Ethical (WME) firm announcement.

Firms that are not ethical “in fact” may try to appear ethical because ethics generate positive stakeholder reactions. Being ethical “in fact” requires time and effort since it demands long-term commitments and behavioral changes. However, appearing ethical is based entirely on perception. One channel to appear ethical is increasing ethics-related voluntary language in corporate financial disclosures. Firms may increase voluntary ethics-related language in 10-Ks to increase the expectation and assurance that they act ethically. Existing disclosure literature reveals that managers may generate noisy voluntary disclosures instead of waiting for good news to offset bad news. Farrell and Gibbons (1989) describe cheap talk as not verifiable, binding, and costly. Voluntary ethics-related language in 10-Ks shows cheap talk characteristics since it is qualitative, unaudited, not binding, and not costly to generate. Acquisition costs may be lower for simple disclosures but highly costly for complex or qualitative disclosures. Voluntary ethics-related language in 10-Ks is qualitative and extracting qualitative information signals could be challenging.

Firms may also increase ethical appearance by increasing mandatory disclosures. Blankespoor et al. (2020) argue that firms can manipulate the information content of mandatory disclosures by increasing processing costs and making mandatory disclosures show voluntary disclosure characteristics. For example, firms may specifically over-emphasize some mandatory ethics-related disclosures to channel stakeholders' attention to such disclosures.

### Chapter 3: Hypotheses Development

Firms may use direct ethics-related language in corporate financial disclosures to signal that they act ethically. Linguistic literature (e.g., Yin & Kuo, 2013) documents that the directness of communication significantly impacts participants' attention processes and comprehension. Two channels play an essential role in why firms try to increase expectations that they act ethically. First, firms may use ethics-related language in corporate financial disclosures to emphasize their ethical behaviors or mindsets. Ethical firms have incentives to appear trustworthy and ethical in their operations (Ben-Amar & Belgacem, 2018) because stakeholders react positively to ethical firms. Second, even firms with no ethics-related developments to share with stakeholders may use more direct ethics-related language in corporate financial disclosures. Again, ethics is associated with positive stakeholder reactions. Thus, firms may opportunistically increase ethics-related language in corporate financial statements to appear more ethical to their stakeholders, especially under different pressures.

Firms increase opportunistic behaviors when they face pressures. Without pressure, firms may generate more reliable corporate financial disclosures because stakeholders expect firms' behavior to be consistent with the information content signaled within these disclosures. Nevertheless, pressure may eliminate the interest alignment between managers and stakeholders, and noisy signaling often occurs unless managers' interests coincide with shareholders' interests (Crawford & Sobel, 1982). For example, firms may create fictitious voluntary disclosures or add complexity to mandatory disclosures to increase noisy signals under various pressures.

Direct ethics-related language usage in 10-Ks shows cheap talk characteristics. Firms may utilize cheap talk characteristics of ethics-related language to impress stakeholders with their

ethical appearance. For example, ethics in 10-Ks are unaudited and not binding other than mandatory ethics-related disclosure requirements, which gives flexibility to firms to decide about the extent and location of such disclosures in 10-Ks. In addition, direct ethics-related disclosures are not costly to generate because these disclosures are qualitative, easy to incorporate into existing disclosures, and signal positive information to stakeholders. However, direct ethics-related signals may be difficult to understand since information processing costs to extract and analyze signals from qualitative disclosures may be very high. As a result, firms may intentionally increase ethical appearance in 10-Ks to send noisy signals to stakeholders to delay information extraction by making information extraction from corporate financial disclosures more costly.

I expect direct ethics-related cheap talk to occur when firms face severe regulatory and financial pressures. The first regulatory pressure source I investigate is the existence of direct ethics-related cheap talk in re-issuance restatements. Effective on August 23, 2004, firms are required to disclose the restatements in 8-Ks under item 4.02 with misstatements that lead to re-issuance (“Big R”) restatements (restatements, hereafter). Restatements address material errors that require the complete withdrawal and republishing of past financial statements. A restatement is a sign of lower quality in prior financial statements. Investors negatively react to restatements (Anderson & Yohn, 2002) because restatements are often time associated with intentional misstatements (Ettredge et al., 2010) that result in earnings manipulations (Richardson et al., 2002).

Ethical firms are less likely to manipulate their financial reporting. Therefore, if ethical language usage in 10-Ks captures ethical firm behavior, it should be negatively associated with restatements. However, if firms use direct ethics-related language in 10-Ks as a cheap talk mechanism to send a noisy signal to stakeholders, direct ethics-related language could be

positively associated with restatements. I expect direct ethics-related noisy signals to be stronger than informative ethics-related signals during the restatement periods. For example, restatement firms may increase direct ethics-related cheap talk in 10-Ks to appear more ethical to stakeholders because ethics is generally associated with positive stakeholder reactions. Therefore, firms under restatement-related regulatory pressure may opportunistically increase direct ethics-related language in 10-Ks to send noisy signals to stakeholders to delay or alleviate adverse reactions to restatements.

I focus on how restatement firms utilize direct ethics-related language in 10-Ks during restatement periods (e.g., firm years between the beginning and end of restatements) and the year of restatement filing (e.g., when 8-Ks under item 4.02 is filed) to investigate ethics-related cheap talk around restatements. First, I examine direct ethics-related cheap talk around restatement periods. Even though the financial pressure during restatement periods is not as high as financial pressure during the year of restatement filing, firms may try to mask their questionable practices during restatement periods by sending cheap ethical signals to stakeholders. Therefore, I expect restatement firms to increase cheap direct ethics-related signals during restatement periods significantly.

***Hypothesis 1a (H1a): During restatement periods, restatement firms use more direct ethics-related language in 10-Ks to send ethics-related cheap talk signals to stakeholders.***

To further examine direct ethics-related cheap talk under regulatory pressure, I examine direct ethics-related language usage in 10-Ks during restatement filing dates. During restatement filings dates, the financial pressure due to the adverse effects of restatement is severe. As a result, firms may even emphasize direct ethics-related signals in 10-Ks more to delay or alleviate stakeholders' adverse reactions to such questionable practices. Therefore, during the year of

restatement filing, restatement firms may increase noisy direct ethics-related signals even higher than restatement firms during restatement periods<sup>1</sup>.

***Hypothesis 1b (H1b): Restatement firms, in the year of restatement filing, use more direct ethics-related language in 10-Ks to send ethics-related cheap talk signals to stakeholders.***

The financial pressure source I examine in this study is meeting or beating analyst EPS forecasts. Studies (e.g., Lopez & Rees, 2002; Bartov et al., 2002) show that the market strongly reacts to meeting or beating analyst EPS forecasts. Specifically, the market negatively reacts to small EPS misses because the market believes that finding one or two cents to meet or beat the common targets is not very difficult (Graham et al., 2005). Accordingly, the market may interpret small analyst EPS forecast misses as evidence of hidden problems at firms (Graham et al., 2005). As a result, firms that marginally miss analyst EPS forecasts are under significant financial pressure to justify their relatively poor financial performance. Therefore, firms may increase noisy signals in 10-Ks to delay or alleviate adverse reactions to such unfavorable financial news under pressure.

Suppose firms opportunistically generate an ethical appearance in corporate financial disclosures. In that case, I expect opportunistic disclosure choices to be more prevalent when firms try to justify their poor performance, such as marginally missing analyst EPS forecasts. Therefore, I expect firms that marginally missed analyst earnings forecasts to increase direct ethics-related language in 10-Ks to send noisy or cheap ethics-related signals to delay or alleviate adverse reactions to negative news. I use the large analyst EPS forecasts beat group as the base group since

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<sup>1</sup> For examples of ethical language change in the year of restatement filing, please look at Appendix C.

firms that large beat analyst EPS forecasts are less likely to increase direct ethics-related noisy signals.

***Hypothesis 2 (H2): Firms that marginally miss analyst EPS forecasts use more direct ethics-related language in 10-Ks to send cheap ethics-related signals to stakeholders.***

To further test the direct ethics-related cheap talk in 10-Ks and better understand the accounting implications of direct ethics-related cheap talk, I focus on disclosure complexity. Stakeholders experience difficulties understanding the information content of complex corporate financial disclosures. Complex corporate financial disclosures include a higher obfuscation component or noise in disclosures than less complex corporate financial disclosures and give greater ability to obfuscate corporate financial disclosures. Therefore, direct ethics-related noisy or cheap signals in corporate financial disclosures could be more prevalent in complex corporate financial disclosures.

Financial reporting complexity literature documents three types of complexity sources in corporate financial disclosures: operation-based (business) complexity, accounting-based complexity, and linguistic complexity (readability) (Peterson, 2012; Guay et al., 2016; Dyer et al., 2017; Hoitash & Hoitash, 2018; Chychyla et al., 2019). Operation-based complexity derives from the complexity of business transactions (Guay et al., 2016). For example, larger firms, growth firms, firms with a volatile business environment and more complex financial situations, firms with unusual events, and firms with more business and geographic segments have more complex disclosures (Li, 2008). Accounting-based complexity represents a difficulty for preparers to properly apply generally accepted accounting principles (SEC, 2008). For example, Hoitash and Hoitash (2018) use XBRL tags to proxy accounting-based or reporting complexity. Studies (e.g., Dyer et al., 2016) also show that regulation may also increase accounting-based complexity.

Lastly, linguistic complexity is about the readability of the disclosures (Hoitash & Hoitash, 2018) and the language characteristics of disclosures.

These three financial reporting complexity sources are interrelated. For example, when a firm's transactions become more diverse and complex, the firm needs to apply more complex accounting and prepare more complex financial reports (Hoitash & Hoitash, 2018). In addition, firms with higher operation-based and accounting-based complexity increase the linguistic complexity such that firms with more complex operations and accounting may generate longer and less readable disclosures.

Researchers document that financial reporting complexity increases when firms give more information to stakeholders or obfuscate corporate financial disclosures to confuse stakeholders. The information hypothesis argues that financial reporting complexity arises because firms provide more information to stakeholders. For example, Bloomfield (2008) and Bushee et al. (2018) emphasize that firms may increase financial reporting complexity by providing more technical disclosures to explain the underlying economics of situations. Thus, when firms have more complex operations requiring more complex accounting or topics to explain, financial reporting complexity will increase due to the information requirements. However, the obfuscation hypothesis argues that firms may intentionally increase financial reporting complexity to obfuscate disclosure and make information extraction from corporate disclosures more costly. For example, firms may increase disclosure complexity by making documents lengthier and foggier to attenuate reactions to bad news (Bloomfield, 2008).

Studies show the negative economic implications of complex corporate financial disclosures. For example, analysts often fail to capture signals from complex financial disclosures (Bloomfield, 2002), given that more complex 10-Ks are associated with higher dispersion, lower



accuracy, and higher overall analyst earnings forecast uncertainty (Lehavy et al., 2011). On the contrary, lower financial reporting complexity positively associates with some economic implications, such as more informative disclosures (Loughran & McDonald, 2010), better financial performance (Subramanian et al., 1993), and information processing (Lee, 2012), and lower over- and under-investment (Biddle et al., 2009) and investor underreaction (You & Zhang, 2009).

The obfuscation hypothesis emphasizes intentional complexity in corporate financial disclosures. Stakeholders should be cautious about accepting the benefits of disclosures quickly, especially if the interests of the two groups are not aligned perfectly (Cain et al., 2005). If managers intentionally increase the corporate financial disclosure complexity, these managers will be less likely to find alternative disclosure channels to improve the quality of the information environment (Guay et al., 2016).

I examine the decision usefulness of earnings for the firms that increase direct ethics-related language when these firms' ability to obfuscate through ethical language is greater. Firms with more complex corporate financial disclosures are more likely to report less decision-useful financial information because firms may intentionally increase the complexity of corporate financial disclosures to obfuscate corporate financial disclosures to confuse stakeholders. For example, suppose firms increase direct ethics-related language in corporate financial disclosures to signal how much they value ethics, which are accurate signals of ethical behaviors. In that case, I expect to see an increase in the decision usefulness of earnings because more ethical firms, on average, commit fewer earnings management practices and generate more value-relevant and faithfully represented financial information.

However, suppose firms increase direct ethics-related language in corporate financial disclosures to increase noisy or cheap direct ethics-related signals to obfuscate such disclosures

and confuse stakeholders. In that case, I expect to see a reduction in the decision usefulness of earnings because firms avoid cheap talk and noisy signals in their disclosures if there is no reason to do that; however, cheap talk is more likely to happen when the ability to obfuscate is greater. Because complex corporate disclosures include a higher obfuscation component, I expect firms to increase direct ethics-related signals in already complex corporate financial disclosures not to inform but to obfuscate corporate financial disclosures to confuse stakeholders further. Therefore, the earnings of the firms with greater ability to obfuscate will be less informative since the earnings of these firms may be less decision-relevant and faithfully represented. I use earnings persistence, cash flows predictability of earnings, and the association between returns and earnings to test the decision usefulness of earnings.

***Hypothesis 3 (H3): Firms with greater ability to obfuscate through ethical language generate less decision-useful earnings when they use more direct ethics-related language in 10-Ks.***

## Chapter 4: Research Design

### 4.1 Data, Sample, and Variable Measurement

Ethics dictionaries come from Loughran et al. (2009). I generate direct Ethics dictionary data by writing R and Python Codes with the help of an R package by Lonare et al. (2021) from 2004 to 2020. Following Loughran et al. (2009), I create three ethics-related dictionaries. The first dictionary includes ethics-related keywords other than the code context and ethics-related phrases are excluded from the analysis. The second dictionary comprises the ethics-related keywords in the code context. Finally, the third dictionary contains ethics-related phrases excluded from the analysis. Terms in the third dictionary are either industry-specific professional ethics-related keywords or other ERD that are definitive, not informative. Then, I combine direct ethics-related keywords of the first two dictionaries, exclude corporate social responsibility-related keywords, and name it as “Ethics” dictionary. For the Loughran et al. (2009) ethics-related dictionaries, see Appendix B.

I use the Bog Index (Bonsall IV et al., 2017) as the primary complexity measure of 10-Ks. Bog Index focuses on the most common problems listed in the SEC (1998) A Plain English Handbook, including sentence length, passive voice, weak verbs, overused words, complex words, and jargon. Bonsall IV et al. (2017) validate their measure with an archival-based capital market test and document that the Bog Index shows the most significant association with future stock market volatility compared to other examined measures. Higher values of the Bog Index imply higher complexity of disclosures.

I acknowledge that none of the complexity measures is perfect and free from measurement errors. However, given that Bog Index focuses on creating clear SEC disclosure documents (SEC, 1998), I believe that it is one of the most suitable measures to proxy for complexity in corporate financial disclosures. I also control for a quantity-based complexity measure, the number of words in 10-Ks, to better control firms' complexity environment.

Accounting and segments (business and geographic) data come from Compustat from 2004 to 2020. Return and firm age data come from CRSP from 2004 to 2020. Restatement data comes from Audit Analytics for the period from 2004 to 2020. Finally, analyst earnings per share (EPS) data come from I/B/E/S from 2004 to 2020. The first year in the data window is 2004 because SOX and the SEC (2003) require firms to report ethics-related disclosures in 10-Ks after 2003.

Table 4.1 summarizes the sample selection process for the study. Following the existing literature, I exclude financial institutions and regulated industries from the study. Overall, the sample has 28,386 firm-year observations from 4,126 unique firms for H1a and H1b, 21,484 firm-year observations from 3,472 unique firms for H2, and 23,118 firm-year observations from 3,230 unique firms for H3.

Table 4.1: Sample Selection

Number of observations after merged data sets from bog Index, ethics, CRSP, Compustat, Audit Analytics for the period from 2014 to 2020	67,870
Number of missing observations for dependent, independent, and control variables and firm-year observations for financial institutions and regulated industries are excluded	(39,484)
Number of observations for Sample for H1a and H1b	28,386
Number of missing observations after Merged with I/B/E/S dataset	(6,902)
Number of observations for H2	21,484
Number of missing observations in the earnings persistence, cash flows predictability, and returns earnings association compared to H1a and H1b	(5,268)
Number of observations for H3	23,118

## 4.2 Empirical Models

### 4.2.1 Restatement Model

Restatements are strongly associated with earnings manipulations (Ettredge et al., 2010; Richardson et al. 2002). When firms are manipulating their earnings, they may try to increase noisy signals to make the information extraction from corporate financial disclosures more costly for stakeholders. One of the channels to increase noisy signals is using ethics-related cheap talk. For example, firms may increase ethics-related cheap signals during the restatement period in 10-Ks to confuse stakeholders. Ethics-related signals are associated with positive stakeholders' reactions. Firms may use ethics-related language in 10-Ks to impact stakeholders' expectations that firms are ethical and less likely to commit earnings manipulations.

Firms face intense pressure during the restatement periods and the years restatement is filed. Since restatement is negative news for firms, stakeholders penalize restatement firms harshly. To alleviate stakeholders' adverse reactions to such negative news, firms may increase positive signals, such as ethics-related signals, during the years of restatement filing or in the year of restatement filings. Regulations do not require direct ethics-related disclosure for restatement firms during the restatement periods or the year of restatement filings. Therefore, the increase in the ethics-related language during the restatement periods or the restatement filings year may be as a result of cheap talk since these disclosures share no or few information for stakeholders. I employ the restatement model as follows:

$$Ethics_{it} = \beta_0 + \beta_1 Ethics_{it-1} + \beta_2 Restatement\ Period(Year\ of\ Restatement\ Filings)_{it} + \beta_{3-20} CONTROLS_{it} + Year\ FE + Industry\ FE + \varepsilon_{it} \quad (1)$$

*Ethics* represents the number of direct ethics-related word usage in 10-Ks, based on Loughran et al. (2009). *Restatement* represents Big R restatements from Audit Analytics' non-reliance restatements data source. Control variables are *age*, *capital expenditures*, *Delaware*, *dividend*, *leverage*, *litigious industries*, *loss*, *market-to-book*, *mergers and acquisitions*, *number of business segments*, *number of geographic segments*, *number of items in Compustat*, *profitability*, *returns*, *sales growth*, *size*, *special items*, and *10-K size*. Suppose restatement firms during the restatement periods (year of restatement filings) increase ethics-related cheap talk in 10-Ks to send noisy signals to the stakeholders. In that case, I expect  $\beta_2$  to be positive and significant, consistent with H1a and H1b.

#### 4.2.2 Meet or Beat Analyst Earnings Forecasts Model

In this study, the meet or beat analysts' earnings forecasts model investigates whether firms change their direct ethics-related language usage in 10-Ks when they slightly miss analyst EPS forecasts. Missing analyst EPS forecast is often associated with hidden problems in the firms because the market believes that finding one or two cents to meet or beat the common targets is not very difficult (Graham et al., 2005). As a result, firms that marginally miss analyst EPS forecasts may increase ethics-related language in 10-Ks to send cheap ethics-related signals to stakeholders to alleviate adverse market reactions to such negative news. I employ the meet or beat analyst earnings forecasts model as follows:

$$Ethics_{it} = \beta_0 + \beta_1 Ethic_{it-1} + \beta_2 Large\ Missed_{it} + \beta_3 Small\ Missed_{it} + \beta_4 Small\ Meet\ or\ Beat_{it} + \beta_{5-22} CONTROLS_{it} + \varepsilon_{it} \quad (2)$$

I examine the impact of incentives to meet or beat analyst EPS forecasts on ethics-related language usage in 10-Ks in finer detail by subdividing the sample into four groups: *Large Missed*, *Small Missed*, *Small Meat or Beat*, and *Large Beat*. *Large Missed* is an indicator variable equal to one if annual EPS misses the final median consensus analyst EPS forecast issued before the annual earnings announcement by more than a cent, two cents, and five cents, and zero otherwise. *Small Missed* is an indicator variable equal to one if annual EPS misses the final median consensus analyst EPS forecast issued before the annual earnings announcement by less than a cent, two cents, and five cents, and zero otherwise. *Small Meat or Beat* is an indicator variable equal to one if annual EPS exceeds the final median consensus analyst EPS forecast issued before the annual earnings announcement by less than a cent, two cents, and five cents, and zero otherwise. *Finally*, *Large Beat* is an indicator variable equal to one if the annual EPS exceeds the final median consensus analyst EPS forecast issued before the annual earnings announcement by more than a cent, two cents, and five cents, and zero otherwise. I define the *Large Beat* group as the reference group because these firms are less likely to increase their ethics-related language usage in 10-Ks opportunistically. *Ethics* represents the number of direct ethics-related word usage in 10-Ks, based on Loughran et al. (2009). Control variables are *age*, *capital expenditures*, *Delaware*, *dividend*, *leverage*, *litigious industries*, *loss*, *market-to-book*, *mergers and acquisitions*, *number of business segments*, *number of geographic segments*, *number of items in Compustat*, *profitability*, *returns*, *sales growth*, *size*, *special items*, and *10-K size*.

The *Small Missed* group has the highest likelihood of increasing ethics-related cheap talk in 10-Ks because, compared to other groups, the *Small Missed* group will be more likely to face adverse reactions from stakeholders because of their poor financial performance. Therefore, if

firms that marginally miss (*Small Missed*) analyst EPS forecast increase ethics-related cheap talk in 10-Ks, I expect  $\beta_3$  to be significant and positive, consistent with H2.

#### **4.2.3 Earnings Persistence and Cash Flows Predictability Models**

Relevant financial information will make a difference in users' decisions if it has predictive value. Conceptual Framework (2018) defines data with predictive value "if it can be used as an input to processes employed by users to predict future outcomes." In addition, relevant financial information with predictive value will be more likely to persist in future periods and strengthen the relation between earnings and future cash flows. In particular, reported financial data with predictive value will assist users in developing accurate assessments "of the amount timing and uncertainty of future net cash inflows" (Conceptual Framework, 2018).

The complexity of 10-Ks is associated with a higher obfuscation component in corporate financial disclosures. In addition, firms with complex corporate financial disclosures are more likely to provide less informative and relevant financial information to stakeholders. Thus, the likelihood of ethics-related cheap talk will be higher in complex firms since these firms will have greater ability to obfuscate corporate disclosures through ethical language. Therefore, I expect the ethics-related cheap talk to be significantly associated with less decision-useful earnings.

Firms with more relevant financial information have better earnings persistence relative to firms with less relevant financial information because higher earnings persistence improves the predictive relevance of financial information. To test the association between ethics-related language and the decision usefulness of earnings for complex firms, I employ earnings persistence model and cash flows predictability models as follows:



$$Earnings_{it} = \beta_0 + \beta_1 Earnings_{it-1} + \beta_2 Ethics_{it} + \beta_3 Earnings_{it-1} * Ethics_{it} + \beta_{4-10} CONTROLS_{it} + \beta_{11-17} Earnings_{it-1} \times CONTROLS_{it} + Year FE + Industry FE + \varepsilon_{it} \quad (3)$$

$$Cash Flows_{it} = \beta_0 + \beta_1 Earnings_{it-1} + \beta_2 Ethics_{it} + \beta_3 Earnings_{it-1} * Ethics_{it} + \beta_{4-10} CONTROLS_{it} + \beta_{11-17} Earnings_{it-1} \times CONTROLS_{it} + Year FE + Industry FE + \varepsilon_{it} \quad (4)$$

*Earnings* represent income before extraordinary items as a percentage of lagged total assets, measured at the end of the fiscal year. *Cash flows* represent net cash flows from operating activities minus extraordinary items and discontinued operations as a percentage of lagged total assets, measured at the end of the fiscal year. *Ethics* represents the number of direct ethics-related word usage in 10-Ks, based on Loughran et al. (2009). Following Folsom et al. (2017), I use control variables as follows: *size*, *book-to-market*, *leverage*, *earnings volatility*, *return volatility*, *number of business segments*, and *number of geographic segments*.

I separate firms into low- and high-complexity firms by measuring complexity deciles of 10-Ks in each fiscal year. If an observation is higher than the fifth decile of complexity in each fiscal year, I categorize this observation as a high-complexity firm, and low-complexity otherwise. I separate firms into complexity groups because high-complexity firms have a higher obfuscation component in corporate financial disclosures than low-complexity firms. Therefore, the likelihood of cheap talk is higher in high-complexity firms. The  $\beta_3$  will be significant and positive in earnings persistence and cash flows predictability models for high-complexity firms if firms cheap talk ethics-related language in 10-Ks to confuse stakeholders.

On the other hand, if firms increase ethics-related language usage in 10-Ks to inform stakeholders about their ethical activities or perspectives, I expect  $\beta_3$  to be positive and significant in the high-complexity group. Ethics is positive news for stakeholders, and if ethics-related language is informative, it should positively associate with the informativeness of earnings. High-

complexity firms should experience the highest benefit from such an association because earnings are less informative in high-complexity firms.

#### 4.2.4. The Contemporaneous Association between Returns and Earnings Model

To test the value relevance of reported earnings for investors, I examine the contemporaneous association between returns and earnings (Lang et al. 2006; Srivastava 2014; Myers et al. 2021). I employ contemporaneous association between returns and earnings model as follows:

$$Returns_{it} = \beta_0 + \beta_1 Earnings_{it} + \beta_2 Ethics_{it} + \beta_3 Earnings_{it} * Ethics_{it} + \beta_{4-10} CONTROLS_{it} + \beta_{11-17} Earnings_{it} x CONTROLS_{it} + Year FE + Industry FE + \varepsilon_{it} \quad (5)$$

*Returns* represent the difference between the adjusted end of year share price (Compustat variables: PRCCQ/AJEXQ) plus dividends per share (Compustat variables: DVPSPQ/AJEXQ) and the adjusted beginning of year share price, divided by the adjusted beginning of year share price. *Earnings* represent income before extraordinary items as a percentage of lagged total assets, measured at the end of the fiscal year. *Ethics* represents the number of direct ethics-related word usage in 10-Ks, based on Loughran et al. (2009). Following Folsom et al. (2017), I use control variables as follows: *size*, *book-to-market*, *leverage*, *earnings volatility*, *return volatility*, *number of business segments*, and *number of geographic segments*. For control variable descriptions, see Appendix A.

I separate firms into low- and high-complexity firms by measuring complexity deciles of 10-Ks in each fiscal year. If an observation is higher than the fifth decile of complexity in each fiscal year, I categorize this observation as a high-complexity firm, and low-complexity otherwise. Again, I separate firms into complexity groups because high-complexity firms have a higher

obfuscation component in corporate financial disclosures than low-complexity firms. Therefore, the likelihood of cheap talk is higher in high-complexity firms. I expect the association between earnings and returns to be significant and negative if investors understand ethics-related cheap talk in high-complexity firms. Therefore,  $\beta_3$  will be significant and positive in returns and earnings association model if investors understand ethics-related cheap talk in 10-Ks for high-complexity firms.

## Chapter 5: Results

Table 5.1 and 5.2 show descriptive statistics for the selected variables and Pearson and Spearman univariate correlations among these variables, respectively. In the final sample, an average firm uses three direct ethics-related words in 10-Ks. Univariate correlations show that direct ethics-related word usage in 10-Ks is not purely informative; on the contrary, they are also opportunistic. For example, univariate correlations document that direct ethics-related word usage positively correlates with the restatement, consistent with H1a. In addition, direct ethics-related word usage in 10-Ks increases with financial reporting complexity. In other words, firms with more complex 10-Ks use more direct ethics-related words in these corporate financial disclosures. Moreover, I also document that direct ethics-related word usage in 10-Ks is significantly positively associated with leverage, mergers and acquisitions, sales growth, and negative special items. However, profitable firms and firms with higher capital expenditures use less direct ethics-related words in 10-Ks.

Table 5.1: Descriptive Statistics

This table shows descriptive statistics of variables. Variable definitions are provided in Appendix A. I use a consistent sample for all the variables. All continuous variables are winsorized at the 1st and 99th percentiles in financial years

<b>Variables</b>	<b>N</b>	<b>mean</b>	<b>sd</b>	<b>p25</b>	<b>p50</b>	<b>p75</b>
Ethics	28,386	2.95	2.68	1.00	2.00	4.00
Age	28,386	19.42	17.10	7.00	15.00	26.00
Bog Index	28,386	86.81	7.10	82.00	87.00	91.00
Capital Expenditures	28,386	0.05	0.08	0.02	0.03	0.06
Delaware	28,386	0.67	0.47	0.00	1.00	1.00
Dividend	28,386	0.33	0.47	0.00	0.00	1.00
Leverage	28,386	0.23	0.28	0.01	0.17	0.34
Litigious Industries	28,386	0.41	0.49	0.00	0.00	1.00
Loss	28,386	0.33	0.47	0.00	0.00	1.00
Market-to-Book	28,386	2.43	2.56	1.20	1.72	2.72
Mergers and Acquisitions	28,386	0.48	0.50	0.00	0.00	1.00
Number of Business Segments (Log)	28,386	1.13	0.48	0.69	0.69	1.61
Number of Geographic Segments (Log)	28,386	1.33	0.53	0.69	1.39	1.79
Profitability (ROA)	28,386	-0.01	0.26	-0.04	0.04	0.09
Restatement	28,386	0.03	0.17	0.00	0.00	0.00
Returns	28,386	0.13	0.65	-0.22	0.05	0.34
Sales Growth	28,386	0.15	0.62	-0.02	0.07	0.19
Size (Log Assets)	28,386	6.30	1.93	4.90	6.23	7.61
Special Items	28,386	-0.02	0.06	-0.02	0.00	0.00
10-K Size	28,386	12.75	1.23	11.84	12.86	13.76

Table 5.2: Pearson and Spearman Correlations of Selected Variables

This table presents Pearson (below) and Spearman (above) univariate correlation coefficients of variables. Bolded coefficients are statistically significant at the 1% level. All continuous variables are winsorized at the 1st and 99th percentiles in financial years. Variable definitions are provided in Appendix A.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(1) Ethics		0.01	<b>0.02</b>	<b>-0.02</b>	<b>-0.02</b>	0.01	<b>0.03</b>	0.00	0.00	<b>0.02</b>	<b>0.02</b>	0.00	0.00	0.00	<b>0.02</b>	0.00	0.00	<b>0.05</b>	<b>-0.02</b>	<b>0.06</b>
(2) Age	0.01		<b>-0.07</b>	<b>-0.03</b>	<b>-0.20</b>	<b>0.40</b>	<b>0.04</b>	<b>-0.17</b>	<b>-0.21</b>	<b>-0.10</b>	<b>0.06</b>	<b>0.26</b>	<b>0.12</b>	<b>0.19</b>	<b>-0.04</b>	<b>0.07</b>	<b>-0.17</b>	<b>0.22</b>	0.01	<b>0.11</b>
(3) Bog Index	<b>0.06</b>	<b>-0.07</b>		<b>-0.20</b>	<b>0.17</b>	<b>-0.17</b>	<b>0.09</b>	<b>0.14</b>	<b>0.16</b>	<b>0.10</b>	<b>0.16</b>	<b>0.04</b>	0.14	<b>-0.17</b>	<b>-0.03</b>	<b>-0.04</b>	<b>0.03</b>	<b>0.12</b>	<b>-0.15</b>	<b>0.30</b>
(4) Capital Expenditures	<b>-0.03</b>	<b>-0.08</b>	<b>-0.13</b>		<b>-0.04</b>	<b>0.08</b>	<b>0.15</b>	<b>-0.12</b>	<b>-0.17</b>	<b>0.13</b>	<b>-0.03</b>	<b>0.02</b>	<b>-0.09</b>	<b>0.20</b>	0.01	<b>0.03</b>	<b>0.17</b>	<b>0.17</b>	<b>0.08</b>	0.01
(5) Delaware	-0.01	<b>-0.18</b>	<b>0.17</b>	<b>-0.02</b>		<b>-0.14</b>	<b>0.04</b>	<b>0.11</b>	<b>0.09</b>	0.08	<b>0.05</b>	<b>-0.05</b>	<b>0.03</b>	<b>-0.09</b>	-0.01	-0.01	<b>0.05</b>	<b>0.07</b>	<b>-0.05</b>	<b>0.08</b>
(6) Dividend	0.00	<b>0.42</b>	<b>-0.17</b>	<b>-0.03</b>	<b>-0.14</b>		<b>0.08</b>	<b>-0.21</b>	<b>-0.33</b>	0.02	<b>0.11</b>	<b>0.25</b>	<b>0.09</b>	<b>0.31</b>	<b>-0.05</b>	<b>0.09</b>	<b>-0.10</b>	<b>0.38</b>	<b>0.02</b>	<b>0.14</b>
(7) Leverage	<b>0.03</b>	-0.01	<b>0.11</b>	<b>0.17</b>	<b>0.05</b>	0.01		<b>-0.20</b>	0.00	<b>-0.05</b>	<b>0.18</b>	<b>0.17</b>	<b>-0.02</b>	<b>-0.08</b>	<b>0.02</b>	-0.01	<b>0.03</b>	<b>0.39</b>	<b>-0.15</b>	<b>0.26</b>
(8) Litigious Industries	0.01	<b>-0.18</b>	<b>0.14</b>	<b>-0.12</b>	<b>0.11</b>	<b>-0.21</b>	<b>-0.12</b>		<b>0.13</b>	<b>0.17</b>	<b>-0.04</b>	<b>-0.26</b>	0.01	<b>-0.09</b>	0.00	<b>-0.03</b>	<b>0.04</b>	<b>-0.12</b>	-0.01	<b>-0.04</b>
(9) Loss	0.01	<b>-0.20</b>	<b>0.17</b>	<b>-0.07</b>	<b>0.09</b>	<b>-0.33</b>	<b>0.05</b>	<b>0.13</b>		<b>-0.22</b>	<b>-0.14</b>	<b>-0.17</b>	<b>-0.06</b>	<b>-0.81</b>	<b>0.02</b>	<b>-0.28</b>	<b>-0.17</b>	<b>-0.33</b>	<b>-0.25</b>	0.00
(10) Market-to-Book	<b>0.02</b>	<b>-0.12</b>	<b>0.12</b>	<b>0.09</b>	<b>0.08</b>	<b>-0.08</b>	<b>0.11</b>	0.16	<b>-0.02</b>		<b>0.09</b>	<b>-0.12</b>	<b>0.04</b>	<b>0.37</b>	0.00	<b>0.41</b>	<b>0.43</b>	<b>0.04</b>	<b>0.11</b>	<b>0.03</b>
(11) Mergers and Acquisitions	<b>0.03</b>	<b>0.09</b>	<b>0.14</b>	<b>-0.10</b>	<b>0.05</b>	<b>0.11</b>	<b>0.13</b>	<b>-0.04</b>	<b>-0.14</b>	0.00		<b>0.24</b>	<b>0.18</b>	<b>0.11</b>	<b>-0.02</b>	<b>0.05</b>	<b>0.12</b>	<b>0.35</b>	<b>-0.20</b>	<b>0.19</b>
(12) NBSEG	0.00	<b>0.29</b>	<b>0.03</b>	<b>-0.08</b>	<b>-0.05</b>	<b>0.25</b>	<b>0.08</b>	<b>-0.26</b>	<b>-0.17</b>	<b>-0.15</b>	<b>0.24</b>		<b>0.18</b>	<b>0.12</b>	0.00	<b>0.06</b>	<b>-0.06</b>	<b>0.35</b>	<b>-0.09</b>	<b>0.15</b>
(13) NGSEG	<b>-0.01</b>	<b>0.13</b>	<b>0.11</b>	<b>-0.16</b>	<b>0.03</b>	<b>0.09</b>	<b>-0.06</b>	0.00	<b>-0.06</b>	<b>-0.03</b>	<b>0.17</b>	<b>0.19</b>		<b>0.07</b>	-0.01	<b>0.03</b>	<b>-0.04</b>	<b>0.22</b>	<b>-0.12</b>	0.16
(14) Profitability	<b>-0.05</b>	<b>0.15</b>	<b>-0.18</b>	<b>0.04</b>	<b>-0.07</b>	<b>0.22</b>	<b>-0.14</b>	-0.10	<b>-0.56</b>	<b>-0.14</b>	<b>0.11</b>	<b>0.14</b>	<b>0.08</b>		<b>-0.03</b>	<b>0.30</b>	<b>0.22</b>	<b>0.30</b>	<b>0.27</b>	<b>-0.03</b>
(15) Restatement	<b>0.02</b>	<b>-0.04</b>	<b>-0.03</b>	<b>0.03</b>	-0.01	<b>-0.05</b>	<b>0.02</b>	0.00	<b>0.02</b>	0.01	<b>-0.02</b>	0.00	-0.01	-0.01		<b>-0.02</b>	<b>0.03</b>	<b>-0.05</b>	-0.02	<b>-0.09</b>
(16) Returns	0.00	0.00	<b>-0.02</b>	0.01	0.00	0.00	0.01	-0.01	<b>-0.16</b>	<b>0.30</b>	-0.01	<b>0.02</b>	0.00	<b>0.14</b>	-0.01		<b>0.18</b>	<b>0.12</b>	<b>0.12</b>	<b>0.03</b>
(17) Sales Growth	<b>0.03</b>	<b>-0.11</b>	<b>0.11</b>	<b>0.14</b>	<b>0.04</b>	<b>-0.10</b>	<b>0.10</b>	<b>0.06</b>	<b>0.02</b>	<b>0.27</b>	0.01	<b>-0.08</b>	<b>-0.07</b>	<b>-0.12</b>	<b>0.02</b>	<b>0.08</b>		<b>0.02</b>	<b>0.10</b>	<b>-0.07</b>
(18) Size	<b>0.05</b>	<b>0.31</b>	<b>0.12</b>	<b>0.07</b>	<b>0.07</b>	<b>0.39</b>	<b>0.24</b>	<b>-0.11</b>	<b>-0.33</b>	<b>-0.07</b>	<b>0.34</b>	<b>0.36</b>	<b>0.22</b>	<b>0.30</b>	<b>-0.05</b>	<b>0.02</b>	<b>-0.06</b>		<b>-0.11</b>	<b>0.40</b>
(19) Special Items	<b>-0.02</b>	<b>0.05</b>	<b>-0.07</b>	<b>0.05</b>	<b>-0.03</b>	<b>0.07</b>	<b>-0.09</b>	<b>-0.02</b>	<b>-0.30</b>	<b>0.02</b>	<b>-0.07</b>	-0.01	<b>-0.02</b>	<b>0.35</b>	<b>-0.02</b>	<b>0.15</b>	-0.01	<b>0.05</b>		<b>-0.14</b>
(20) 10-K Size	<b>0.09</b>	<b>0.13</b>	<b>0.29</b>	-0.01	<b>0.08</b>	<b>0.12</b>	<b>0.18</b>	<b>-0.03</b>	0.01	0.01	<b>0.17</b>	<b>0.13</b>	<b>0.15</b>	<b>-0.02</b>	<b>-0.09</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.36</b>	0.00

As discussed in the literature section, ethics-related language usage in 10-Ks shows cheap talk characteristics. Because stakeholders react positively to ethics-related signals, firms may opportunistically increase direct ethics-related signals in 10-Ks to confuse stakeholders. I expect opportunistic behaviors to happen when firms are under regulatory and financial pressure. Therefore, I investigate restatements and meet or beat analyst EPS forecast behaviors of firms to test whether firms increase cheap direct ethics-related signals in 10-Ks.

Table 5.3 investigates whether restatement firms increase ethics-related language during restatement periods. Column one shows that the coefficient estimate on *the Restatement Period* is highly significant ( $p < 0.01$ ). This finding supports H1a that restatement firms during the restatement periods increase direct ethics-related cheap signals in 10-Ks. In column two, I include *Lagged Ethics* variable in the model to control for structural state dependence in the ethics language in 10-Ks and turn the model into a dynamic model. Again, results are robust to the structural state dependence in the ethics language in 10-Ks.

In column three, I investigate whether firms increase direct corporate social responsibility (CSR)-related language in 10-Ks during the restatement periods. The coefficient estimate on *the Restatement Period* is insignificant. In addition, in column four, I combine direct ethics-related language and direct CSR-related language. The coefficient estimate on the *Restatement Period* is significant ( $p < 0.05$ ); however, the coefficient is smaller than the coefficient in the first column in Table 5.3. These findings show that firms increase direct ethics-related language usage during restatement periods but do not increase CSR-related language during restatement periods. From another perspective, these results support the view that firms' direct ethics-related language contains different information content than CSR-related language in 10-Ks.

Table 5.3: The Effects of Restatement Period on Direct Ethics-Related Language Usage in 10-Ks

This table presents the OLS estimation of Model (1) and test (H1a) the association between the restatement period and direct ethics-related language. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\*p < 0.01, \*p < 0.05, \* p < 0.1). See Appendix A for variable descriptions.

VARIABLES	(1) Ethics	(2) Ethics	(3) CSR	(4) Ethics + CSR
Lagged Ethics		0.854*** (116.698)		
Lagged CSR			0.899*** (56.781)	
Lagged Ethics + CSR				0.855*** (145.455)
Restatement Period	0.456*** (3.978)	0.159** (2.557)	-0.003 (-0.683)	0.152** (2.392)
Age	-0.002 (-0.756)	0.001 (1.075)	-0.000 (-0.004)	0.000 (0.691)
Capital Expenditures	-0.600 (-1.386)	-0.172 (-1.142)	-0.019 (-1.428)	-0.183 (-1.221)
Delaware	-0.203** (-2.670)	-0.051*** (-2.775)	-0.001 (-0.507)	-0.053** (-2.518)
Dividend	-0.035 (-0.255)	-0.011 (-0.542)	0.002 (0.504)	-0.008 (-0.352)
Leverage	-0.059 (-0.364)	-0.063 (-1.421)	0.007 (1.504)	-0.051 (-1.269)
Litigious Industries	0.388* (1.832)	0.092* (1.988)	0.005 (1.445)	0.098*** (3.333)
Loss	-0.086 (-1.480)	-0.004 (-0.219)	-0.003 (-1.050)	-0.008 (-0.301)
Market-to-Book	0.001 (0.098)	-0.009** (-2.365)	0.000 (0.037)	-0.009* (-1.850)
Mergers and Acquisitions	0.041 (0.538)	0.018 (0.738)	-0.001 (-0.342)	0.017 (0.838)
Number of Business Segments	-0.147 (-1.526)	-0.062*** (-3.041)	-0.001 (-0.177)	-0.063*** (-2.785)
Number of Geographic Segments	-0.130 (-1.091)	-0.052*** (-2.891)	0.003 (1.156)	-0.047** (-2.285)
Number of Items in Compustat	-2.411*** (-2.822)	-1.252*** (-7.560)	-0.008 (-0.276)	-1.244*** (-5.414)
Profitability (ROA)	-0.652*** (-3.790)	0.018 (0.298)	-0.000 (-0.040)	0.015 (0.228)
Returns	-0.009 (-0.414)	-0.003 (-0.213)	0.001 (1.066)	-0.003 (-0.153)
Sales Growth	0.085*** (3.687)	0.026 (1.556)	-0.001 (-1.042)	0.026 (1.312)
Size (Log Assets)	0.098***	-0.021***	0.005***	-0.014*



	(3.248)	(-2.810)	(5.500)	(-1.832)
Special Items	-0.116	-0.211	-0.043**	-0.243
	(-0.477)	(-1.112)	(-2.188)	(-1.198)
10-K Size	0.387***	0.319***	0.006***	0.326***
	(12.715)	(17.608)	(3.257)	(18.252)
Constant	11.696**	3.931***	-0.045	3.762***
	(2.362)	(4.327)	(-0.263)	(2.901)
Year and industry FE	Yes	Yes	Yes	Yes
Observations	28,386	28,386	28,386	28,386
Adj.R-squared	0.0557	0.732	0.637	0.729

Table 5.4 investigates whether, during the year of restatement filings, restatement firms use more ethics-related language in 10-Ks. Column one shows a positive and significant ( $p < 0.01$ ) coefficient estimate on *the Year of Restatement Filing*, which means that during the restatement filing years, restatement firms significantly increase ethics-related language usage in 10-Ks, consistent with H1b. In column two, I partition the year of restatement filing into two components to investigate whether restatement firms emphasize direct ethics-related signals if the year of restatement filing happens during the restatement period. I expect restatement firms to increase cheap ethics-related language usage even more if the year of restatement happens during the restatement period. Restatement firms may increase ethics-related cheap talk in this situation since they face even more pressure to alleviate stakeholders' reactions and justify their questionable practices. As I expect, the coefficient estimate on *the year of restatement filing within the restatement period* is positive and significant ( $p < 0.01$ ). These findings show that firms increase direct ethics-related cheap talk in 10-Ks to appear more ethical to alleviate stakeholders' adverse reactions to bad news such as restatement.

Table 5.4: The Effects of Year of Restatement Filing on Direct Ethics-Related Language Usage in 10-Ks

This table presents the OLS estimation of Model (1) and test (H1b) the association between the year of restatement filing and direct ethics-related language. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\*\*)  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ). See Appendix A for variable descriptions.

VARIABLES	(1) Ethics	(2) Ethics
Lagged Ethics	0.854*** (144.573)	0.854*** (144.431)
Year of Restatement Filing	0.246*** (2.645)	
Year of Restatement Filing after Restatement Period		0.102 (1.407)
Year of Restatement Filing within Restatement Period		0.368*** (2.810)
Age	0.000 (0.774)	0.001 (0.788)
Capital Expenditures	-0.172 (-1.156)	-0.173 (-1.167)
Delaware	-0.051** (-2.457)	-0.050** (-2.447)
Dividend	-0.012 (-0.535)	-0.011 (-0.493)
Leverage	-0.061 (-1.545)	-0.062 (-1.567)
Litigious Industries	0.092*** (3.161)	0.092*** (3.172)
Loss	-0.004 (-0.164)	-0.004 (-0.145)
Market-to-Book	-0.009* (-1.842)	-0.009* (-1.875)
Mergers and Acquisitions	0.019 (0.977)	0.018 (0.953)
Number of Business Segments	-0.062*** (-2.803)	-0.063*** (-2.818)
Number of Geographic Segments	-0.051** (-2.508)	-0.052** (-2.527)
Number of Items in Compustat	-1.252*** (-5.541)	-1.256*** (-5.556)
Profitability (ROA)	0.020 (0.297)	0.020 (0.304)
Returns	-0.004 (-0.209)	-0.003 (-0.179)
Sales Growth	0.026 (1.293)	0.026 (1.282)
Size (Log Assets)	-0.021***	-0.021***

	(-2.779)	(-2.734)
Special Items	-0.217	-0.215
	(-1.077)	(-1.062)
10-K Size	0.318***	0.319***
	(18.014)	(18.007)
Constant	3.934***	3.953***
	(3.084)	(3.098)
Year and Industry FE	Yes	Yes
Observations	28,386	28,386
Adj.R-squared	0.732	0.732

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In Table 5.5, I investigate the impact of incentives to meet or beat analyst EPS forecasts (arguably the most scrutinized financial reporting target) on ethics-related language usage in 10-Ks for firms that slightly missed (*Small Missed*) analyst EPS forecasts. *Small Missed* is an indicator variable equal to one if annual EPS misses the final median consensus analyst EPS forecast issued before the annual earnings announcement by less than a cent, two cents, and five cents, and zero otherwise. I expect the coefficient estimate on *Small Missed* to be positive and significant if firms increase ethics-related cheap talk when they slightly miss analyst EPS forecasts.

In column one of Table 5.5, the coefficient estimate on *Small Missed* is insignificant in column one. Even though I expect a positive and significant coefficient in this model, the results may be insignificant because firms may opportunistically beat analyst EPS forecasts by more than one cent, possibly up to five cents. Thus, I expand *the Small Missed* group to two cents in column two and find that the coefficient estimate on *Small Missed* becomes positive and significant ( $p < 0.05$ ), consistent with H2. Again, in column three, I expand the *Small Missed* group to five cents, and the coefficient estimate on *Small Missed* becomes positive and marginally significant ( $p < 0.1$ ).

Table 5.5: The Effects of Meeting or Beating Analyst EPS Forecasts on Direct Ethics-Related Language in 10-Ks

This table presents the OLS estimation of Model (2) and test (H2) the association between marginally missing analyst EPS forecasts and direct ethics-related language. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\*p < 0.01, \*\* p < 0.05, \* p < 0.1). See Appendix A for variable descriptions.

VARIABLES	(1) Ethics [0.01]	(2) Ethics [0.02]	(3) Ethics [0.05]
Lagged Ethics	0.864*** (132.532)	0.864*** (132.590)	0.864*** (132.536)
Small Missed	0.002 (0.052)	0.067** (2.233)	0.041* (1.698)
Age	0.000 (0.701)	0.000 (0.698)	0.000 (0.686)
Capital Expenditures	-0.031 (-0.183)	-0.025 (-0.147)	-0.029 (-0.170)
Delaware	-0.027 (-1.141)	-0.026 (-1.135)	-0.026 (-1.134)
Dividend	-0.019 (-0.723)	-0.019 (-0.745)	-0.019 (-0.737)
Leverage	-0.113** (-2.396)	-0.113** (-2.397)	-0.113** (-2.408)
Litigious Industries	0.116*** (3.423)	0.115*** (3.397)	0.116*** (3.414)
Loss	-0.035 (-1.240)	-0.034 (-1.196)	-0.035 (-1.217)
Market-to-Book	-0.004 (-0.798)	-0.004 (-0.832)	-0.004 (-0.812)
Mergers and Acquisitions	0.004 (0.204)	0.003 (0.154)	0.003 (0.157)
Number of Business Segments	-0.067*** (-2.771)	-0.067*** (-2.772)	-0.067*** (-2.763)
Number of Geographic Segments	-0.064*** (-2.720)	-0.064*** (-2.713)	-0.064*** (-2.718)
Number of Items in Compustat	-1.146*** (-4.579)	-1.137*** (-4.545)	-1.136*** (-4.544)
Profitability (ROA)	-0.017 (-0.240)	-0.018 (-0.255)	-0.017 (-0.246)
Returns	-0.005 (-0.223)	-0.004 (-0.193)	-0.004 (-0.199)
Sales Growth	0.018 (0.818)	0.018 (0.831)	0.018 (0.832)
Size (Log Assets)	-0.009 (-0.986)	-0.008 (-0.946)	-0.008 (-0.924)
Special Items	-0.073 (-0.308)	-0.075 (-0.316)	-0.078 (-0.325)

10-K Size	0.310*** (14.962)	0.310*** (14.977)	0.310*** (14.968)
Constant	3.300** (2.335)	3.238** (2.291)	3.232** (2.290)
Year and Industry FE	Yes	Yes	Yes
Observations	21,484	21,484	21,484
Adj.R-squared	0.754	0.754	0.754

Similar to the coefficient estimate on *Small Missed* in Table 5.5, the coefficient estimate on *Small Missed* in Table 5.6 is positive and insignificant. When I expand the *Small Missed* group to two cents in column two, I find that the coefficient estimate on *Small Missed* becomes positive and highly significant ( $p < 0.01$ ). Again, in column three, I expand the *Small Missed* group to five cents, and the coefficient estimate on *Small Missed* becomes positive and significant ( $p < 0.05$ ). Overall, the results are consistent with the results in Table 5.5, even in finer detail. Firms increase ethics-related cheap talk in 10-Ks to justify their poor financial performance to alleviate stakeholders' adverse reactions to negative news.

Table 5.6: The Effects of Meeting or Beating Analyst EPS Forecasts on Direct Ethics-Related Language in 10-Ks in a Finer Detail

This table presents the OLS estimation of Model (2) and test (H2) the association between marginally missing analyst EPS forecasts and direct ethics-related language. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ ). See Appendix A for variable descriptions.

VARIABLES	(4) Ethics [0.01]	(5) Ethics [0.02]	(6) Ethics [0.05]
Lagged Ethics	0.864*** (99.330)	0.864*** (99.335)	0.864*** (99.170)
Large Missed	0.043 (1.458)	0.034 (0.946)	0.054 (1.439)
Small Missed	0.010 (0.286)	0.082*** (3.401)	0.071** (2.586)
Small Meet or Beat	-0.028 (-0.714)	0.023 (0.981)	0.038* (1.699)
Age	0.000 (0.600)	0.000 (0.627)	0.000 (0.624)
Capital Expenditures	-0.039 (-0.300)	-0.030 (-0.229)	-0.033 (-0.252)
Delaware	-0.026 (-1.463)	-0.026 (-1.446)	-0.026 (-1.450)
Dividend	-0.019	-0.019	-0.019

	(-0.732)	(-0.754)	(-0.764)
Leverage	-0.117**	-0.114**	-0.114**
	(-2.277)	(-2.220)	(-2.219)
Litigious Industries	0.119*	0.116*	0.116*
	(1.908)	(1.863)	(1.861)
Loss	-0.042**	-0.037*	-0.038*
	(-2.198)	(-1.994)	(-1.978)
Market-to-Book	-0.003	-0.004	-0.004
	(-0.640)	(-0.737)	(-0.752)
Mergers and Acquisitions	0.005	0.003	0.003
	(0.281)	(0.151)	(0.146)
Number of Business Segments	-0.068***	-0.067***	-0.067***
	(-2.783)	(-2.760)	(-2.775)
Number of Geographic Segments	-0.064***	-0.064***	-0.064***
	(-3.109)	(-3.005)	(-3.008)
Number of Items in Compustat	-1.129***	-1.128***	-1.130***
	(-6.203)	(-6.116)	(-6.081)
Profitability (ROA)	-0.012	-0.015	-0.014
	(-0.133)	(-0.162)	(-0.153)
Returns	-0.003	-0.003	-0.003
	(-0.158)	(-0.140)	(-0.125)
Sales Growth	0.018	0.019	0.019
	(1.085)	(1.108)	(1.132)
Size (Log Assets)	-0.007	-0.007	-0.007
	(-0.834)	(-0.822)	(-0.839)
Special Items	-0.073	-0.077	-0.080
	(-0.331)	(-0.353)	(-0.364)
10-K Size	0.310***	0.310***	0.311***
	(15.338)	(15.369)	(15.395)
Constant	3.188***	3.168***	3.161***
	(2.959)	(2.890)	(2.866)
Year and Industry FE	Yes	Yes	Yes
Observations	21,484	21,484	21,484
Adj.R-squared	0.754	0.754	0.754

Table 5.7 investigates the decision usefulness of earnings for firms that use more direct ethics-related language in complex firms. In Table 5.7, I partition the sample into two groups, low- and high-complexity, based on the complexity (bog index) of 10-Ks. The first two columns of Table 5.7 investigate earnings persistence. In column one, the coefficient estimate on *Earnings\*Ethics* is insignificant; however, in column two, the coefficient estimate on *Earnings\*Ethics* is negative and significant ( $p < 0.05$ ). Results show that when complex firms use more ethics-related language in 10-Ks, these firms' current earnings persist less in future periods. In other words, the predictive value of current earnings in future earnings is smaller for the firms that employ more direct ethics-related language in complex firms.

Columns three and four of Table 5.7 examine cash flow predictability. In column three, the coefficient estimate on *Earnings\*Ethics* is positive and significant, which means that when low-complexity firms use more ethics-related language in 10-Ks, these firms' current earnings better predict future cash flows. However, in column four, for the high-complexity firms, the coefficient estimate on *Earnings\*Ethics* is negative and highly significant ( $p < 0.01$ ). Results show that when more complex firms use more ethics-related language in 10-Ks, these firms' current earnings less predict future cash flows. In another saying, the predictive value of current earnings in future cash flows is smaller for the firms that use more ethics-related language in complex firms.

Table 5.7: Effects of Ethics-related Language in Earnings Persistence and Cash Flows Predictability Models

This table presents the OLS estimation of Models (3 and 4) and test (H3) the association between decision usefulness of earnings and direct ethics-related language. I separate firms into low- and high-complexity firms by measuring complexity deciles of 10-Ks in each fiscal year. If an observation is higher than the fifth decile of complexity in each fiscal year, I categorize this observation as a high-complexity firm, and low-complexity otherwise. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\* $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ). Control variables are *size*, *book-to-market*, *leverage*, *earnings volatility*, *return volatility*, *number of business segments*, and *number of geographic segments*. See Appendix A for variable descriptions.

VARIABLES	(1) Earnings Low- Complexity	(2) Earnings High- Complexity	(3) Cash Flows Low- Complexity	(4) Cash Flows High- Complexity
Lagged Earnings	0.626*** (6.959)	0.976*** (22.010)	0.538*** (8.199)	0.872*** (19.607)
Ethics	-0.002* (-1.789)	-0.002 (-1.498)	-0.002** (-2.668)	-0.001 (-1.188)
Lagged Earnings*Ethics	0.014 (1.190)	-0.010** (-2.071)	0.010** (2.096)	-0.012*** (-7.541)
Controls + Interactions + Year and Industry FE	Yes	Yes	Yes	Yes
Observations	12,610	10,508	12,610	10,508
Adj.R-squared	0.477	0.484	0.473	0.513

I also investigate concurrent earnings and return association for the complex firms that use more ethics-related language to shed light on whether investors understand ethics-related cheap talk in 10-Ks. Similar to earnings persistence and cash flows predictability models in Table 5.7, I partition the sample into low- and high-complexity in Table 5.8. Since complex firms have higher obfuscation in corporate financial disclosures, I expect a negative coefficient for the coefficient estimate on *Earnings\*Ethics* for the complex firms that use more ethics-related language if firms use more ethics-related language to cheap talk in 10-Ks. In column one of Table 5.8, the coefficient estimate on *Earnings\*Ethics* is insignificant; however, in column two, the coefficient estimate on *Earnings\*Ethics* is negative and highly significant ( $p < 0.01$ ). This finding shows that investors negatively react to the earnings of complex firms with more ethics-related language usage in 10-Ks. In other saying, investors understand that complex firms use more ethics-related language not to inform stakeholders but to obfuscate corporate financial disclosures to confuse stakeholders.

Table 5.8: The Effects of Ethics-related Language on Returns and Earnings Association

This table presents the OLS estimation of Model (5) and test (H3) the association between decision usefulness of earnings (returns and earnings association) and direct ethics-related language. I separate firms into low- and high-complexity firms by measuring complexity deciles of 10-Ks in each fiscal year. If an observation is higher than the fifth decile of complexity in each fiscal year, I categorize this observation as a high-complexity firm, and low-complexity otherwise. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\* $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ). Control variables are *size*, *book-to-market*, *leverage*, *earnings volatility*, *return volatility*, *number of business segments*, and *number of geographic segments*. See Appendix A for variable descriptions.

VARIABLES	(1)	(2)
	Returns Low-Complexity	Returns High-Complexity
Earnings	0.937*** (5.643)	0.368 (1.240)
Ethics	-0.001 (-0.607)	0.002 (0.600)
Earnings*Ethics	-0.016 (-1.166)	-0.044*** (-2.950)
Controls + Interactions + Year and Industry FE	Yes	Yes
Observations	12,610	10,508
Adj.R-squared	0.203	0.166



This study shows that firms increase ethics-related language around financial pressure sources, consistent with H1a, H1b, and H2. This study also documents that the decision usefulness of earnings is significantly lower for the firms that increase direct ethics-related language in complex 10-Ks, consistent with H3. The next step is to investigate mechanisms to explain the reduction in the usefulness of financial information when firms increase ethics-related cheap talk under financial pressure. Thus, I focus on discretionary accruals since accruals are part of earnings, and discretionary accruals are associated with earnings management practices.

Existing literature documents that some firms' characteristics are positively associated with accrual-based earnings management. For example, complexity (e.g., Lo et al., 2017), leverage (Sweeney, 1994; Beatty & Weber, 2003), loss (Dechow et al., 2003), and mergers and acquisitions (e.g., Erickson & Wang, 1999) are significantly associated with income increasing accrual-based earnings management. Therefore, to better understand whether firms cheap talk the ethics-related language, I investigate the interaction effects of ethics and firms' characteristics that positively associate with income-increasing accrual-based earnings management. If the interaction effects are significant and positive, it shows that firms increase ethics-related language not to inform stakeholders but to obfuscate corporate financial disclosures further. On the other hand, if ethics-related language is informative, we should see a negative or at least no association for interaction variables because ethics is less likely to be associated with earnings management.

Table 5.9 investigates the interaction effects of ethics and firms' characteristics that positively associate with income-increasing accrual-based earnings management. In column one, I examine whether complex firms that employ more ethics-related language in 10-Ks increase accrual-based earnings management. The coefficient estimate on *Ethics\*High Complexity* is positive and significant ( $p < 0.01$ ), which means that complex firms with more ethics-related

language significantly increase discretionary accruals. In column two, I investigate the interaction effect of ethics and loss on accrual based-earnings management. The coefficient estimate on *Ethics\*Loss* is positive and significant ( $p<0.05$ ). In column three, I explore the interaction effect of ethics and high leverage on accrual-based earnings management. The coefficient estimate on *Ethics\*High Leverage* is positive and significant ( $p<0.05$ ). Lastly, I investigate the interaction effect of ethics and mergers and acquisition on accrual-based earnings management. Similar to the other interaction models, the coefficient estimate on *Ethics\*Mergers and Acquisitions* is positive and significant ( $p<0.05$ ). These findings further support the idea that ethics-related language in 10-Ks is not informative under different incentives; instead, the ethics-related language is cheap talk and emphasized in 10-Ks to alleviate the adverse reaction of stakeholders to negative news.

I designed the last two models of Table 5.9 for falsification purposes. In these models, instead of using pressure sources, I use good news (e.g., profitability and returns) to understand whether the interaction effect of ethics-related language and profitability or returns show a similar association with discretionary accruals as documented in pressure source models. In column five of Table 5.9, the coefficient estimate on *Ethics\*Profitability*, and in column six of Table 5.9, the coefficient estimate on *Ethics\*Returns* are insignificant. These findings support that ethics-related language is not informative in explaining accrual-based earnings management when the news is positive.

Table 5.9: The Effects of Direct Ethics-Related Language on Discretionary Accruals under Different Incentives

This table presents the OLS estimation model results of direct ethics-related language on discretionary accruals under various incentives. Discretionary accruals are calculated based on the Modified Jones Model (Dechow et al., 1995). Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\*\*)  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ). Control variables are *size*, *book-to-market*, *leverage*, *earnings volatility*, *return volatility*, *number of business segments*, and *number of geographic segments*. See Appendix A for variable descriptions.

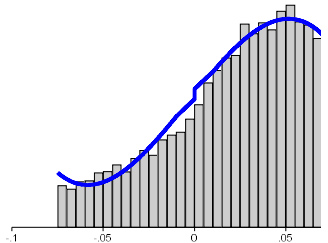
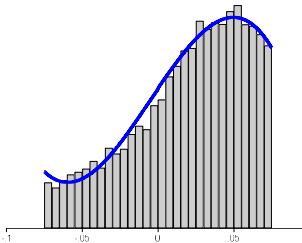
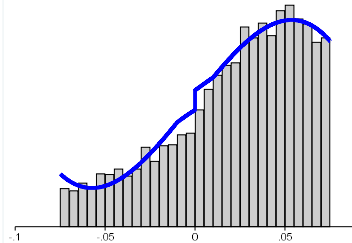
VARIABLES	(1) Discretionary Accruals	(2) Discretionary Accruals	(3) Discretionary Accruals	(4) Discretionary Accruals	(5) Discretionary Accruals	(6) Discretionary Accruals
Ethics	0.009 (1.292)	0.012* (1.695)	0.012 (1.432)	-0.000 (-0.090)	0.018* (1.938)	0.017* (1.851)
High Complexity	0.056 (0.955)					
Ethics*High Complexity	0.017*** (2.918)					
Loss		0.042 (0.977)				
Ethics*Loss		0.017** (2.169)				
High Leverage			-0.118 (-1.660)			
Ethics*High Leverage			0.012** (2.299)			
Mergers and Acquisitions				-0.173 (-1.586)		
Ethics*Mergers and Acquisitions				0.036** (2.068)		
Profitability (ROA)					-0.078 (-0.334)	
Ethics*Profitability					0.003 (0.191)	
Returns						-0.031 (-0.798)
Ethics*Returns						0.006 (1.473)
Constant	-0.927 (-0.479)	-1.102 (-0.566)	-1.042 (-0.529)	-1.064 (-0.535)	-0.651 (-0.387)	-0.664 (-0.387)
Control + First Stage Regressors + Year and Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	27,410	27,410	27,410	27,410	27,410	27,410
Adj.R-squared	0.122	0.122	0.122	0.122	0.122	0.122

## Chapter 6: Robustness Tests

To further test whether financially pressured firms increase ethics-related cheap talk in 10-Ks, I investigate the likelihood of managing small losses to small profits for firms that use more ethics-related language in 10-Ks. Roychowdhury (2006) groups firm-years into intervals based on net income scaled by total assets, truncates firm-years with scaled earnings above 0.075 or below -0.075 and creates the histogram of scaled earnings with widths of 0.005. Following the existing literature, Roychowdhury (2006) argues that firm-years in the interval just right of zero are more likely to manage their earnings to report income marginally above zero. Byzalov and Basu (2019) developed a robust test to investigate earnings management probabilities to manage earnings upward. Table 6.1 shows Byzalov and Basu's (2019) test results for the likelihood of managing small losses to small profits for the low- and high ethics-related language usage in 10-Ks. The results show that the likelihood of managing small losses to small profits is marginally significant ( $p < 0.1$ ) for firms that use more ethics-related language in 10-Ks. However, neither the overall sample nor the sample that uses less ethics-related language in 10-Ks shows such an opportunistic behavior near zero earnings target. In other words, firms that use more ethics-related language in 10-Ks are more likely to manage their earnings.

Table 6.1: The Impacts of Direct Ethics-related Language on Managing Small Losses to Small Profits Behavior

This table shows earnings discontinuity around zero earnings for overall distribution, low-ethics, and high-ethics samples using the methodology developed by Byzalov and Basu (2019). I separate firms into low- and high-ethics firms by measuring direct ethics-related language deciles of each fiscal year. If an observation is higher than the fifth decile of ethics in each fiscal year, I categorize this observation as a high-ethics firm and a low-ethics firm otherwise. In the estimation model, I set the bin width of earnings to be 0.005 between the earnings range of -0.075 to 0.075. The number of small-profit and small-loss bin intervals is four. The "kinky" test statistic is a test if the observed discontinuity is significantly different from the expected smooth average distribution of earnings. Standard errors are clustered at the firm level. Robust t-statistics are in parentheses (\*\* $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ).

			
VARIABLES	(1) Earnings Overall Distribution [0.005]	(2) Earnings Low-Ethics [0.005]	(3) Earnings High-Ethics [0.005]
smooth0	0.035*** (56.996)	0.036*** (38.376)	0.035*** (68.426)
smooth1	0.595*** (21.894)	0.573*** (18.057)	0.619*** (22.465)
smooth2	-0.068** (-2.294)	-0.096** (-2.255)	-0.037 (-1.356)
smooth3	-0.657*** (-13.328)	-0.645*** (-8.926)	-0.671*** (-14.112)
Kinky	0.020 (1.139)	0.002 (0.071)	0.040* (1.855)
Observations	14,233	7,469	6,764
Adj.R-squared	0.009	0.008	0.010

One can easily expect that if firms use more opportunistic direct ethics-related language in the years of restatement filing, these firms should use more pronounced opportunistic direct ethics-related language when the severity of restatement is higher. Therefore, I further investigate whether ethics-related language is significantly associated with the restatement's magnitude (e.g., fraud). In Table 6.2 column one, I document that fraud firms use more direct ethics-related language compared to non-fraud firms. Moreover, column two presents that the coefficient

estimate on fraud-restatement is larger than the non-fraud restatement sample. These results show that the magnitude of restatement is also significantly associated with the opportunistic direct ethics-related language in 10-Ks.

Table 6.2: The Effects of Fraud on Direct Ethics-Related Language Usage in 10-Ks

This table presents the OLS estimation for the association between fraud and direct ethics-related language usage in 10-Ks. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ ). All continuous variables are winsorized at the 1st and 99th percentiles in fiscal years. See Appendix A for variable descriptions.

VARIABLES	(1) Ethics	(2) Ethics
Lagged Ethics	0.854*** (144.546)	0.854*** (144.341)
Fraud	0.838** (2.049)	
Non-Fraud Restatements		0.137** (2.169)
Fraud-Restatements		0.845** (2.071)
Age	0.000 (0.764)	0.001 (0.786)
Capital Expenditures	-0.164 (-1.097)	-0.169 (-1.136)
Delaware	-0.051** (-2.494)	-0.051** (-2.476)
Dividend	-0.013 (-0.556)	-0.011 (-0.485)
Leverage	-0.060 (-1.499)	-0.062 (-1.559)
Litigious Industries	0.093*** (3.218)	0.094*** (3.227)
Loss	-0.004 (-0.158)	-0.005 (-0.178)
Market-to-Book	-0.009* (-1.879)	-0.009* (-1.892)
Mergers and Acquisitions	0.017 (0.890)	0.017 (0.901)
Number of Business Segments	-0.062*** (-2.766)	-0.063*** (-2.812)
Number of Geographic Segments	-0.050** (-2.470)	-0.052** (-2.530)
Number of Items in Compustat	-1.259***	-1.258***

	(-5.530)	(-5.523)
Profitability (ROA)	0.019	0.019
	(0.291)	(0.282)
Returns	-0.004	-0.004
	(-0.265)	(-0.228)
Sales Growth	0.026	0.026
	(1.303)	(1.300)
Size (Log Assets)	-0.022***	-0.021***
	(-2.913)	(-2.837)
Special Items	-0.219	-0.212
	(-1.085)	(-1.051)
10-K Size	0.323***	0.323***
	(18.359)	(18.317)
Constant	3.919***	3.914***
	(3.051)	(3.044)
Year and Industry FE	Yes	Ye
Observations	28,386	28,386
Adj.R-squared	0.732	0.732

An intriguing topic about restatement firms' ethics-related language usage is to understand whether firms only opportunistically increase direct ethics-related language in the year of restatement filings or keep using more ethics-related language after the restatement period or year of restatement filing. Table 6.3 column one shows that the year of restatement filing is significantly positively associated with direct ethics-related language in 10-Ks compared to pre- and post-year of restatement filing. However, in column two, the results show that compared to the year of restatement filing, during the post-year of restatement filing, firms use significantly less direct ethics-related language. In other words, after the year of restatement, restatement firms significantly reduce ethics-related language usage in 10-Ks. Restatement firms are very opportunistic about using more direct ethics-related language usage in 10-Ks during the year of restatement filing.

Table 6.3: Direct Ethics-Related Language Usage in 10-Ks after Restatement Filing

This table presents the OLS estimation between post-year of restatement filing and direct ethics-related language usage in 10-Ks. In column one, pre- and post-year of restatement filing is defined as the based group and in column two, the year-of restatement filings is defined as the based group in regression models. Standard errors are clustered at the firm and industry levels. Robust t-statistics are in parentheses (\*\* $p < 0.01$ , \*\* $p < 0.05$ , \* $p < 0.1$ ). All continuous variables are winsorized at the 1st and 99th percentiles in fiscal years. See Appendix A for variable descriptions.

VARIABLES	(1) Ethics	(2) Ethics
Lagged Ethics	0.817*** (44.916)	0.817*** (44.376)
Pre-Year of Restatement Filing		-0.273** (-2.178)
Year of Restatement Filing	0.243** (2.039)	
Post-Year of Restatement Filing		-0.216* (-1.779)
Age	-0.001 (-0.550)	-0.001 (-0.617)
Capital Expenditures	0.405 (1.239)	0.397 (1.212)
Delaware	-0.152** (-2.357)	-0.151** (-2.349)
Dividend	-0.038 (-0.633)	-0.034 (-0.554)
Leverage	-0.029 (-0.222)	-0.024 (-0.189)
Litigious Industries	0.068 (0.521)	0.071 (0.547)
Loss	0.140 (1.395)	0.139 (1.387)
Market-to-Book	0.000 (0.020)	0.001 (0.077)
Mergers and Acquisitions	0.078 (1.506)	0.079 (1.528)
Number of Business Segments	-0.047 (-0.646)	-0.048 (-0.653)
Number of Geographic Segments	-0.117** (-2.357)	-0.116** (-2.400)
Number of Items in Compustat	-1.734* (-1.702)	-1.764* (-1.720)
Profitability (ROA)	0.100 (0.536)	0.099 (0.525)
Returns	0.002 (0.045)	0.001 (0.022)
Sales Growth	0.031 (0.534)	0.032 (0.566)



Size (Log Assets)	0.022 (0.639)	0.020 (0.599)
Special Items	0.035 (0.049)	0.030 (0.043)
10-K Size	0.319*** (7.615)	0.319*** (7.614)
Constant	6.647 (1.126)	7.066 (1.198)
Year and Industry FE	Yes	Yes
Observations	3,588	3,588
Adj.R-squared	0.697	0.697

Random assignment of observations to treatment conditions or quasi-experimental settings is an important consideration in accounting literature (McMullin & Schonberger, 2022). Entropy balancing helps create a control sample almost identical to the treated sample in terms of observable sample characteristics (McMullin & Schonberger, 2022). Entropy balancing reduces model reliance for the succeeding estimation of treatment effects (Hainmueller, 2012) through determining the distribution of determinants across treatment and control samples by specifying weights for the control sample (Hainmueller, 2012; McMullin & Schonberger, 2020). Therefore, to reduce sample selection bias, I utilize entropy balancing to focus on the effect of restatement on direct ethics-related language in 10-Ks. In Table 6.4 column one and two, I investigate impact of restatement period on direct ethics-related language in 10-Ks. In column one and two, I document consistent results as I documented in Table 5.3 that during the restatement period, firms utilize more direct ethics-related language in 10-Ks. In column three and four, I also show that year of restatement filing is significantly associated with direct ethics-related language in 10-Ks consistent with the results in Table 5.4.

Table 6.4: Entropy Balancing for the Association Between Restatement and Direct Ethics-Related Language Usage in 10-Ks

This table presents the OLS estimation results for restatement (restatement period and year of restatement filing) and direct ethics-related language usage in 10-Ks for entropy balancing. As suggested by Hainmueller (2012) and Hainmueller and Xu (2013), I applied entropy balancing to create balanced samples in control and treatment observations. I use the first moments of the control variables of the models to balance the control and treatment samples. The results are robust for higher moments of the control variables of the models. Standard errors are clustered at the firm level. Robust t-statistics are in parentheses (\*\*\*)  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ). All continuous variables are winsorized at the 1st and 99th percentiles in fiscal years. See Appendix A for variable descriptions.

VARIABLES	(1) Ethics	(2) Ethics	(3) Ethics	(4) Ethics
Lagged Ethics		0.754*** (43.435)		0.771*** (36.593)
Restatement Period	0.451*** (3.579)	0.179*** (2.808)		
Year of Restatement Filing			0.368*** (3.095)	0.238*** (2.714)
Age	0.006 (1.231)	0.007** (2.555)	0.005 (0.849)	0.001 (0.361)
Capital Expenditures	-1.302** (-2.238)	-0.345 (-0.972)	-0.840 (-0.984)	-0.104 (-0.196)
Delaware	-0.212 (-1.484)	-0.099 (-1.406)	-0.244 (-1.547)	-0.026 (-0.271)
Dividend	-0.023 (-0.119)	0.022 (0.236)	0.006 (0.029)	0.081 (0.639)
Leverage	0.197 (1.201)	0.126 (1.336)	0.273 (1.227)	0.101 (0.844)
Litigious Industries	-0.050 (-0.259)	0.035 (0.341)	-0.033 (-0.149)	0.123 (0.876)
Loss	0.078 (0.548)	0.151 (1.642)	0.124 (0.698)	0.017 (0.147)
Market-to-Book	0.018 (0.955)	-0.008 (-0.746)	0.062** (2.279)	0.006 (0.412)
Mergers and Acquisitions	-0.051 (-0.407)	0.016 (0.204)	0.192 (1.229)	0.072 (0.714)
Number of Business Segments	-0.130 (-0.745)	-0.078 (-0.963)	0.055 (0.298)	0.016 (0.151)
Number of Geographic Segments	-0.280** (-2.069)	-0.174** (-2.305)	-0.198 (-1.338)	-0.064 (-0.729)
Number of Items in Compustat	-2.954** (-2.163)	-1.219* (-1.688)	-6.758*** (-3.961)	-3.278*** (-3.176)
Profitability (ROA)	-0.201 (-0.741)	-0.001 (-0.008)	-0.125 (-0.346)	-0.048 (-0.241)
Returns	0.142 (1.414)	0.054 (0.739)	-0.101 (-0.942)	-0.047 (-0.627)
Sales Growth	0.090 (1.486)	0.094* (1.952)	-0.044 (-0.379)	0.085 (1.425)

Size (Log Assets)	0.166*** (2.695)	0.034 (1.177)	0.176*** (2.826)	0.055 (1.599)
Special Items	-1.009 (-1.332)	-0.309 (-0.603)	-1.323 (-1.168)	-0.006 (-0.008)
10-K Size	0.470*** (7.157)	0.437*** (7.224)	0.390*** (4.031)	0.245*** (2.940)
Constant	14.124* (1.832)	2.705 (0.652)	35.588*** (3.703)	16.130*** (2.810)
Year and Industry FE	Yes	Yes	Yes	Yes
Observations	28,386	28,386	28,386	28,386
Adj.R-squared	0.0888	0.598	0.0833	0.609

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## Chapter 7: Conclusion

I investigate whether firms cheap talk their direct ethics-related language in 10-Ks to increase the noisy signals in the corporate financial disclosures under regulatory and financial pressure sources. I find evidence that firms during the restatement periods increase direct ethics-related language in 10-Ks. I also document that the year of restatement filing positively associates with increased direct ethics-related language in 10-Ks. Additionally, I test if firms during fraud periods increase direct ethics-related language in 10-Ks and document a significant increase in the direct ethics-related language in 10-Ks for the fraud sample. For financial pressure source, I document that firms significantly increase direct ethics-related language in 10-Ks during the years they marginally miss analyst EPS forecasts. These results show that firms use direct ethics-related disclosures under pressure to create noise in corporate financial disclosures to confuse stakeholders.

To further test ethics-related cheap talk in 10-Ks, I investigate the decision usefulness of earnings for firms that increase ethics-related language. Cheap talk is more likely to happen when firms report more complex corporate financial disclosures; thus, I separate the sample into low- and high-complexity. I document that the decision usefulness of earnings drops for the firms that increase ethics-related language in high-complexity firms. Besides, I also document that investors react negatively to the earnings of high-complexity firms that use more ethics-related language in 10-Ks. These results show that cheap ethics-related language usage in 10-Ks is negatively associated with the informativeness of earnings.

Lastly, I investigate discretionary accruals to understand why earnings become less informative. For that purpose, I focus on firms more likely to have higher discretionary accruals,

such as complex firms, high-leverage firms, loss firms, and mergers and acquisitions. I document that when complex, high leverage, loss, and mergers and acquisitions firms increase ethics-related language usage in 10-Ks, they also significantly increase discretionary accruals. For the falsification purpose, I investigate whether more profitable and high returns firms also increase discretionary accruals when they increase ethics-related language in 10-Ks. I document that when profitable and high-returns firms increase ethics-related language in 10-Ks, they do not significantly increase discretionary accruals. These results show that ethics-related language is opportunistic under regulatory and financial pressure.

The findings of this study should be of particular interest to financial statement users and standard setters. Financial statement users should be cautious about accepting the face values of corporate financial disclosures; even such disclosures emphasize a highly ethical environment. In addition, information extraction from corporate financial disclosures is costly, and ethics-related noisy signaling is possible through corporate financial disclosures. Standard setters may also use this study's findings to assess the effectiveness of ethics-related disclosures and potential noisy signaling costs that may stem from ethics-related language requirements.

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## Appendix A: Variable Descriptions

<b>Age</b>	The number of years since a firm first appears in the CRSP monthly stock return file.
<b>Bog Index</b>	The Bog Index from Bonsall IV et al., (2017).
<b>Book to Market</b>	The book value of equity scaled by the market value of equity.
<b>Capital Expenditures</b>	Compustat capxv (Capital Expend Property, Plant and Equipment Schd V) variable as a percentage of lagged total assets, measured at the end of the fiscal year.
<b>Cash Flows</b>	(Net Cash Flows from Operating Activities – Extraordinary Items and Discontinued Operations)/lagged Total Assets
<b>Compustat Items</b>	The natural logarithm of number of items in Compustat with non-missing values.
<b>CSR</b>	The number of direct CSR-related keywords in 10-Ks
<b>Delaware</b>	An indicator variable set equal to one if the firm is incorporated in Delaware, and zero otherwise.
<b>Dividend</b>	An indicator equal to one if the firm has dividends during the year, zero otherwise.
<b>Earnings</b>	Income Before Extraordinary Items as a percentage of lagged total assets, measured at the end of the fiscal year.
<b>Earnings Volatility</b>	Standard deviation of net income during the prior five years.
<b>Ethics</b>	The number of direct ethics-related keywords in 10-Ks.
<b>Ethics + CSR</b>	The number of direct ethics- and direct CSR-related keyword in 10-Ks
<b>Fraud</b>	An indicator variable set to one if the restatement is described as “fraud” in Audit Analytics’ non-reliance restatements data, zero otherwise.
<b>Large Beat</b>	An indicator variable equal to one if the annual EPS exceeds the final median consensus analyst EPS forecast issued before the annual earnings announcement by more than a cent, two cents, and five cents, and zero otherwise.
<b>Large Missed</b>	An indicator variable equal to one if annual EPS misses the final median consensus analyst EPS forecast issued before the annual earnings announcement by more than a cent, two cents, and five cents, and zero otherwise.
<b>Leverage</b>	The ratio of total debt-to-assets, measured at the end of the fiscal year.
<b>Litigious Industries</b>	An indicator variable set to one if a firm’s four digit SIC code is in between 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374, and 8731-8734 , zero otherwise (Lafond & Roychowdhury, 2008).
<b>Loss</b>	An indicator variable set equal to one if Income Before Extraordinary Item is negative, and zero otherwise.
<b>Market-to-Book</b>	Calculated as the market value of equity divided by the book value of equity.

<b>Mergers and Acquisitions (M&amp;A)</b>	An indicator variable set equal to one if Compustat acquisition or Acquisition/Merger Pretax is non-zero, and zero otherwise.
<b>NBSEG</b>	The natural logarithm of number of business segments.
<b>NGSEG</b>	The natural logarithm of number of geographic segments.
<b>NITEMS</b>	Number of items in Compustat with non-missing values.
<b>Restatement</b>	Represent re-issuance restatements. An indicator variable equal to one if in Audit Analytics' non-reliance restatements data a restatement is classified under 8-K item 4.02, zero otherwise.
<b>Return Volatility</b>	Standard deviation of annual stock returns in the prior five years.
<b>Returns</b>	The difference between the adjusted end of year share price (Compustat variables: PRCCQ/AJEXQ) plus dividends per share (Compustat variables: DVPSPQ/AJEXQ) and the adjusted beginning of year share price, divided by the adjusted beginning of year share price.
<b>Sales Growth</b>	Sales minus lagged sales as a percentage of lagged sales, measured at the end of the fiscal year.
<b>Size</b>	The natural logarithm of total assets.
<b>Small Meat or Beat</b>	An indicator variable equal to one if annual EPS equals or exceeds the final median consensus analyst EPS forecast issued before the annual earnings announcement by equal or less than a cent, two cents, and five cents, and zero otherwise.
<b>Small Missed</b>	An indicator variable equal to one if annual EPS misses the final median consensus analyst EPS forecast issued before the annual earnings announcement by equal or less than a cent, two cents, and five cents, and zero otherwise.
<b>Special Items</b>	Compustat SPI (special items) as a percentage of lagged total assets, measured at the end of the fiscal year.
<b>10-K Size</b>	The natural logarithm of number of total words in 10-Ks

## Appendix B: Ethics-Related Keywords

Ethics-related Terms	Ethics-related Terms Used in a “code” Context	List of Phrases Excluded from Analysis
ETHIC	CODE OF BUSINESS CONDUCT AND ETHICS	BC ETHIC
ETHICS	CODE OF BUSINESS CONDUCT ETHICS	BIO ETHICS
ETHICAL	CODE OF BUSINESS ETHICS	CONTRACT ETHICAL CORPORATE
ETHICALLY	CODE OF CONDUCT AND ETHICS	ETHIC CLAY LINERS
CORPORATE RESPONSIBILITY	CODE OF ETHICAL BUSINESS CONDUCT	ETHICAL AND GENERIC PHARMACEUTICALS
SOCIAL RESPONSIBILITY	CODE OF ETHICS	ETHICAL APPROVAL
SOCIALLY RESPONSIBLE	CODE OF ETHICS AND BUSINESS CONDUCT	ETHICAL COMMITTEE
	CODE OF PERSONAL AND BUSINESS CONDUCT AND ETHICS	ETHICAL COMPOUNDS
	CODE OF PROFESSIONAL ETHICS	ETHICAL DERMATOLOGY
	CODE OF CONDUCT AND ETHICS	ETHICAL DRUGS
	ETHICS CODE	ETHICAL GENERICS
	PRINCIPLES OF PROFESSIONAL ETHICS	ETHICAL HOLDINGS
		ETHICAL PHARMA
		ETHICAL PHARMACEUTICALS
		ETHICAL SHARE PURCHASE
		ETHICALS
		ETHICS AND RELIGIOUS VALUES FUND
		ETHICS FILINGS
		ETHICS PRESCRIPTION
		ETHICSPPOINT
		HEALTHY INTERNET ETHICS
		HI ETHICS
		PHYSICIANS FOR SOCIAL RESPONSIBILITY
		PRESCRIPTION ETHICAL



## Appendix C: Examples of Ethical Language in 10-Ks in the Year of Restatement Filing

CIK: 30305

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### 8-K Filing Year

..... cluding but not limited to the formation administration and performance of U.S. Government contracts disclosure of cost and pricing data civil penalties for violations or false claims to the U.S. Government for payment define reimbursable costs establish **ETHICAL** standards for the procurement process and control the import and export of defense articles and services. Noncompliance could expose us to liability for penalties including termination of our U.S. Government contracts and subcontracts disqualification ..... n turn could adversely affect the trading price of our common stock. We have concluded that there are material weaknesses in our internal control over financial reporting as 1) the process to communicate educate and measure our employees understanding of **ETHICAL** standards and code of conduct across the company was not maintained 2) the structure authority and responsibilities to ensure the objectives of internal control over financial reporting were adequately achieved was not maintained 3) the design of our i ..... internal control over financial reporting as of December 31,2014 as described below. (1) We did not maintain an effective control environment as we did not effectively implement a process to communicate educate and measure our employees understanding of **ETHICAL** standards and code of conduct across the Company. Additionally we did not maintain an effective program to encourage employees to proactively communicate concerns related to questionable or **UNETHICAL** behaviors and activities. While we had implemented a ..... g termination of employees. Additionally certain other organizational changes have been implemented. Actions to be taken or in process: We have begun the implementation of additional on-going oversight training and communication programs to reinforce our **ETHICAL** standards and code of conduct across the Company. We have plans to enhance the availability of our hotline by more clearly defining its purpose and plan to develop on-going companywide training programs on the purpose and availability of the hotline. W ..... ment is incorporated herein by reference. Compliance with Section 16(a) of the Exchange Act The information under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the 2015 Proxy Statement is incorporated herein by reference. **Code of ETHICS** The information under the caption **Code of ETHICS** in the 2015 Proxy Statement is incorporated herein by reference. Changes to Procedures to Recommend Nominees There have been no material changes to the procedures by which security holders may recommend n ..... nesses in internal control over financial reporting existed as of that date related to the following: i) An ineffective control environment due to i) not effectively implementing a process to communicate educate and measure our employees understanding of **ETHICAL** standards and code of conduct across the Company as well as ii) not effectively establishing structure authority and responsibilities to ensure the objectives of internal control over financial reporting were adequately achieved. These material weaknes .....

### Two Years Before 8-K Filing Year

..... val; the U.S. Government Cost Accounting Standards which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. Government contracts and subcontracts; the Procurement Integrity Act which requires evaluation of **ETHICAL** conflicts surrounding procurement activity and establishing certain employment restrictions for individuals who participate in the procurement process; and the International Traffic in Arms Regulations promulgated under the Arms Export Control Act whic ..... ment is incorporated herein by reference. Compliance With Section 16(a) of the Exchange Act The information under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the 2012 Proxy Statement is incorporated herein by reference. **Code of ETHICS** The information under the caption **Code of ETHICS** in the 2012 Proxy Statement is incorporated herein by reference. Changes to Procedures to Recommend Nominees There have been no material changes to the procedures by which security holders may recommend n .....

### Two Years After 8-K Filing Year

..... cluding but not limited to the formation administration and performance of U.S. Government contracts disclosure of cost and pricing data civil penalties for violations or false claims to the U.S. Government for payment define reimbursable costs establish **ETHICAL** standards for the procurement process and control the import and export of defense articles and services. Noncompliance could expose us to liability for penalties including termination of our U.S. Government contracts and subcontracts disqualification ..... ment is incorporated herein by reference. Compliance with Section 16(a) of the Exchange Act The information under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the 2017 Proxy Statement is incorporated herein by reference. **Code of ETHICS** The information under the caption **Code of ETHICS** in the 2017 Proxy Statement is incorporated herein by reference. Changes to Procedures to Recommend Nominees There have been no material changes to the procedures by which security holders may recommend n .....

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CIK: 316793

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### 8-K Filing Year

..... lly file such material with or furnish it to the SEC. We also make available free of charge through our corporate governance website our corporate charter Bylaws Corporate Governance Guidelines charters of the committees of our Board of Directors **code of ETHICS** and other information and material including information about how to contact our Board of Directors our committees and their members. To find this information and materials visit our corporate governance section of our website at [www.irf.com](http://www.irf.com) . Informat ..... counting or audit matters. In July of 2008 we appointed Timothy Bixler as Vice President General Counsel and Secretary. Our leadership team together with its recent additions is committed to implementing and maintaining a strong control environment high **ETHICAL** standards and financial reporting integrity. During fiscal year 2008 we have trained all employees on our updated **ETHICS** and integrity policy and communicated to all employees regarding the availability of our improved third party administered **ETHICS** H ..... otline through which employees at all levels can anonymously submit information or express concerns regarding accounting financial reporting violations of our **code of ETHICS** or other irregularities. Period End Financial Reporting Process We have continued our efforts to retain personnel with an appropriate level of accounting knowledge experience and training in the application of GAAP commensurate with our financial report ..... lieve we have adequately engaged a sufficient complement of skilled personnel we will continue to supplement our accounting staff with external advisors and technical accounting staff. Training has commenced on new policies and procedures concerning: (i) **ETHICS** and integrity (ii) revenue recognition and sales return and warranty obligations (iii) accounting for asset impairment severance and restructuring charges (iv) accrued liabilities for acquisition of property and equipment along with goods and services r ..... igning for implementation a centralized customer contract master file function to ensure proper handling of creations changes or deletions to customer master file information. We are conducting training on new and revised policies and procedures for: (i) **ETHICS** and integrity (ii) revenue recognition and (iii) order processing. We are currently implementing enhancements to our information technology systems to automate the recognition of revenue according to contractual terms and conditions regarding transfer o ..... B. Cranston to our Board of Directors as an independent outside Director; appointed a Chief Financial Officer (Acting); hired a Vice President of Compliance; and hired a permanent Controller to oversee Japan. In June 2008 we also trained employees on our **ETHICS** and integrity policy and communicated to all employees the importance of high **ETHICAL** standards. Aside from these events there were no additional changes in internal control over financial reporting during the fiscal quarter ended June 30,2008 that have ..... o file on a timely basis by such persons. Based solely upon a review of copies of reports filed with the SEC each person subject to the reporting requirements of Section 16(a) has filed timely all reports required to be filed in fiscal year 2008. **Code of ETHICS** for Chief Executive and Senior Financial Officers. The Board has adopted a **code of ETHICS** that applies to the Company's principal executive officer principal financial officer and principal accounting officer as required by the SEC. The **Code of ETHICS** f ..... m and is also available at no charge upon written request to the Corporate Secretary International Rectifier Corporation 101 North Sepulveda Boulevard El Segundo CA 90245. Policies on Business Conduct. The Board has adopted a **code of business conduct and ETHICS** for directors officers and employees. IR's Policies on Business

Conduct can be found on the Corporate Governance portion of the Investor Relations section of our website <http://www.irf.com> and are also available at no charge upon written request to the ..... on. (Exhibit 10.4) 10(xxx)\* Form of Severance and General Release Agreement dated May 30,2008 between International Rectifier Corporation and Marc Rougee Form 8-K dated June 12,2008 filed with the Securities Exchange Commission. (Exhibit 99.1) 14 **Code of ETHICS** Form 8-K filed with the Securities and Exchange Commission on November 18 2005. (Exhibit 99.1) \* Denotes management contract or compensatory plan or arrangement. 176 Table of Contents Submitted Herewith: See page 58 for an index of Financial Statements .....

#### **Two Years Before 8-K Filing Year**

..... lly file such material with or furnish it to the SEC. We also make available free of charge through our corporate governance website our corporate charter bylaws Corporate Governance Guidelines charters of the committees of our Board of Directors **code of ETHICS** and other information and material including information about how to contact our Board of Directors its committees and their members. To find this information and materials visit our corporate governance section of our website at [www.irf.com](http://www.irf.com). 15 Item 1 ..... rities Exchange Commission. (Exhibit 10.1) 10(dd) Guaranty dated June 27,2006 executed by International Rectifier Corporation in favor of Bank of America N.A. Form 8-K dated July 3,2006 filed with Securities Exchange Commission. (Exhibit 10.2) 14 **Code of ETHICS** Form 8-K filed with the Securities and Exchange Commission on November 18 2005. (Exhibit 99.1) \* Denotes management contract or compensatory plan or arrangement. Submitted Herewith: See page 59 for an index of Financial Statements and Financial Statemen .....

#### **Two Years After 8-K Filing Year**

..... lly file such material with or furnish it to the SEC. We also make available free of charge through our corporate governance website our corporate charter Bylaws Corporate Governance Guidelines charters of the committees of our Board of Directors **code of ETHICS** and other information and material including information about how to contact our Board of Directors our committees and their members. To find this information and materials visit our corporate governance section of our website at [www.irf.com](http://www.irf.com) . Informat ..... Form 8-K filed August 24,2010 with the Securities Exchange Commission. (Exhibit 10.1) 10(www)\* Form of Non-Employee Director Restricted Stock Unit Agreement Form 8-K filed August 24,2010 with the Securities Exchange Commission. (Exhibit 10.2) 14 **Code of ETHICS** Form 8-K filed with the Securities and Exchange Commission on November 18 2005. (Exhibit 99.1) \* Denotes management contract or compensatory plan or arrangement. Submitted Herewith: See page 49 for an index of Financial Statements and Financial Statemen .....

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**CIK: 1007800**

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#### **8-K Filing Year**

..... mand of certain employees and the implementation of certain internal control procedures. These procedures included restructuring the customer marketing function to require that our finance related activities are performed by the finance department annual **ETHICS** training for all employees annual compliance confirmations for all employees certifications from the appropriate sales and marketing personnel and staff increases to upgrade the finance function. The board of directors unanimously approved the audit com ..... C website as soon as reasonably practicable after we electronically file such material with or furnish such material to the SEC. We intend to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendment to or waiver from our **code of ETHICS** by posting such information on our website at [www.sipex.com](http://www.sipex.com) provided such method of disclosure is then in compliance with the rules of the Nasdaq Global Market and the rules of the SEC. Company Overview We were incorporated in May 1965 under the laws of ..... adequate communication regarding appropriate internal control for all aspects of its operations. Specifically our management concluded that we did not have adequate controls with respect to: (i) effective and continuous communication of our commitment to **ETHICAL** business practices and standards (ii) establishment and monitoring of the structure and controls over foreign subsidiaries and locations and (iii) monitoring and communication of agreements with third parties due to ineffective delegation of authority ..... s these material weaknesses; however the nature and significance of the material weaknesses may prevent successful remediation of all material weaknesses during the fiscal year 2005. Our new CEO Ralph Schmitt was hired

in June 2005; We implemented annual **ETHICS** training for all employees and we have engaged a compliance firm to ensure that all employees read understand and confirm critical accounting and **ETHICS** policies. All employees must now annually reaffirm our Code of Conduct legal compliance policy and w .....  
..... ate communication regarding appropriate internal control for all aspects of its operations. Specifically management concluded that the Company did not have adequate controls with respect to: (i) effective and continuous communication of its commitment to **ETHICAL** business practices and standards (ii) establishment and monitoring of the structure and controls over foreign subsidiaries and locations and (iii) monitoring and communication of agreements with third parties due to ineffective delegation of authority .....  
..... rm 3 for each Edward Lam and Richard Hawron one late filing of Form 4 for Alonim Investments Kevin Plouse Joseph Rauschmayer and Clyde Wallin and two late filings of Form 4 for Richard Hawron due to our administrative errors. **Code of Business Conduct and ETHICS** Our board of directors has adopted a Code of Business Conduct and **ETHICS** that is applicable to all of our employees officers and directors including senior executive and financial officers. In addition the board of directors adopted a Code of **ETHICS** for .....  
..... principal executive officer and senior financial officers. Each code is intended to deter wrongdoing and promote **ETHICAL** conduct among our directors executive officers and employees. Each code is available on our corporate website at [www.sipex.com](http://www.sipex.com). We intend to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendment to or waiver from each code

#### Two Years Before 8-K Filing Year

..... cticable after we electronically file such material with or furnish such material to the Securities and Exchange Commission. Sipex intends to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendment to or waiver from our **code of ETHICS** by posting such information on our website at [www.sipex.com](http://www.sipex.com) provided such method of disclosure is then in compliance with the rules of the NASDAQ National Market and the rules of the Securities and Exchange Commission. Company Overview Sipex was incorpo .....

#### Two Years After 8-K Filing Year

..... C website as soon as reasonably practicable after we electronically file such material with or furnish such material to the SEC. We intend to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendment to or waiver from our **code of ETHICS** by posting such information on our website at [www.sipex.com](http://www.sipex.com) provided such method of disclosure is then in compliance with the rules of the Nasdaq Global Market and the rules of the SEC. Our common stock is currently traded on the Pink Sheets electronic .....  
..... ys after the close of the fiscal year ended December 30,2006 in the table under the captions Election of Directors and Compliance with Section 16(a) of the Securities Exchange Act of 1934. The board of directors has adopted a **Code of Business Conduct and ETHICS** that is applicable to all of our employees officers and directors including our senior executive and financial officers. In addition the board of directors adopted a **Code of ETHICS** for our principal executive officer and senior financial officers. Each .....  
..... code is intended to deter wrongdoing and promote **ETHICAL** conduct among our directors executive officers and employees. Each code is available on our corporate website at [www.sipex.com](http://www.sipex.com). We intend to satisfy the disclosure requirements under Item 10 of Form 10-K regarding amendment to or waiver from each code .....

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CIK: 1030471

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#### 8-K Filing Year

..... cts in a timely manner or at all; new and unproven markets for our products and the telecommunications services that our products enable; lack of a large highly trained workforce; difficulty in controlling local operations from our headquarters; variable **ETHICAL** standards and an increased potential for fraud; unstable political and economic environments; and lack of a secure environment for our personnel facilities and equipment. 39 In particular these factors create the potential for physical loss of inventor .....  
..... for additional information. Throughout the course of this 211 investigation the Company has taken and plans to continue to take all appropriate actions including changes to its training processes and procedures related to its **code of business conduct and ETHICS** its payment controls particularly in outlying regions and its due diligence evaluation of business partnerships. Upon conclusion of this investigation the Company will review and as necessary

further enhance its procedures to reduce the risk of ongoing .....  
 ..... ng and in the utilization of the Oracle financial system modules. The Company believes the addition of these personnel improves and strengthens the capabilities of this function. ii. In April 2007 the Company created the position of and hired a new chief **ETHICS** officer to provide focused executive leadership in the area of corporate **ETHICS** and integrity. iii. The Company retained and intends to continue to retain the services of outside consultants with relevant accounting experience skills and knowledge in th .....  
 ..... rate objectives. The goal setting monitoring and evaluation process will incorporate capturing employee's training and development requirements including training to stay current with the application of GAAP and the company's **code of business conduct and ETHICS**. vi. In the first quarter of 2007 the Company's CFO with assistance from senior financial staff and outside consultants reviewed and in the remainder of 2007 will continue to review and adapt the overall design of the Company's financial reporting organ .....  
 ..... offices. The Company believes that these changes will enable effective management of the China western sales region's sales operations and enhance compliance with the Company's policies and procedures including the Company's **Code of Business Conduct and ETHICS**. ii. The Company plans to revise its policies and procedures related to entering into sales contracts document retention as well the **Code of Business Conduct and ETHICS** to provide for details around the standards for entering into sales agreements and b .....  
 ..... reaches to the **Code of Business Conduct and ETHICS**. iii. The Company plans to implement mandatory training to employees in China's sales organization around control consciousness and ongoing training to Sales Contract Management and Finance in China around the Company's policies and procedures including .....  
 ..... ew of the accounting records and equity awards grant process. iv. Relevant personnel at the Company will be provided training in the equity awards granting and accounting process. v. In April 2007 the Company created the position of and hired a new chief **ETHICS** officer to provide focused executive leadership in the area of corporate **ETHICS** and integrity. vi. During 2007 the Company will update its record retention policy to specify retention of equity award records. d) To remediate the material weaknesses desc .....  
 ..... s of management and other personnel in which the Company's internal and outside legal counsel finance compliance and internal audit personnel and members of the Audit Committee reviewed certain key objectives of the Company's **code of business conduct and ETHICS** including the identification recognition and disclosure of related party transactions. b) Revising the Company's internal certification process concerning identification recognition and disclosure of related party transactions and expanding in the third .....  
 ..... to senior management with respect to the identification recognition and disclosure of related party relationships and transactions for SEC reporting purposes. c) Requiring all employees globally to sign annually the Company's **code of business conduct and ETHICS** which includes the definition of and the Company's policy requiring disclosure of related party relationships and transactions. d) Interviewing as part of the risk assessment process certain of the Company's Audit Committee senior executives key members .....  
 ..... ations that no other reports were required during the fiscal year ended December 31,2006 all Section 16 Filers complied with all Section 16(a) filing requirements except that Mr. Horner filed a Form 4 on May 2,2006 reporting one transaction late. **CODE OF ETHICS** We have adopted a **Code of Business Conduct and ETHICS ( Code of ETHICS )** which applies to all employees including our principal executive officers. The **Code of ETHICS** is designed to promote: (i) honest and **ETHICAL** conduct including the **ETHICAL** handling .....

..... and understandable disclosure in reports and documents that we are required to file to the SEC and in other public communications (iii) compliance with applicable laws rules and regulations (iv) the prompt internal reporting of violations of the Code of **ETHICS** to an appropriate person or entity and (v) accountability for adherence to the **Code of ETHICS**. 225 As a supplement to the **Code of ETHICS** we have also adopted a **Code of ETHICS** for Chief Executive Officer and Senior Financial Officers ( **Code of ETHICS** for .....  
 ..... Financial Officers ) which is designed to highlight the legal and **ETHICAL** obligations of the Chief Executive Officer and financial officers. The Code of **ETHICS** for Financial Officers imposes upon applicable officers certain additional internal reporting requirements for acts committed in violation of the Code of **ETHICS** and/or the securities laws. Copies of the **Code of ETHICS** and the **Code of ETHICS** for Financia .....  
 ..... l Officers are available on our website at <http://investorrelations.utstar.com/governance>. Any waiver of the **Code of ETHICS** or **Code of ETHICS** for Financial Officers pertaining to a member of our Board or one of our executive officers will be disclosed on our website at <http://investorrelations.utstar.com/governance> .

### Two Year Before 8-K Filing Year

..... and unproven markets for our products and the telecommunications services that our products enable; inconsistent infrastructure support; lack of a large highly trained workforce; difficulty in controlling local operations from our headquarters; variable **ETHICAL** standards and an increased potential for fraud; unstable political and economic environments; and a lack of a secure environment for our personnel facilities and equipment. In particular these factors create the potential for physical loss of inventory .....  
..... required by Section 16 of the Exchange Act. This disclosure is contained in the section entitled Management Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement and is incorporated herein by reference. We have adopted a **code of ETHICS** that applies to our principal executive officer and all members of our finance department including the principal financial officer and principal accounting officer. Such **code of ETHICS** is available free of charge to any stockholder who sends a request .....  
..... for a paper copy to: UTStarcom Inc. 1275 Harbor Bay Parkway Alameda California 94502 Attn: Legal Department. We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to or waiver from a provision of this **code of ETHICS** by posting such information on our website at [www.utstar.com](http://www.utstar.com) .  
ITEM 11 EXECUTIVE COMPENSATION The information required by this section is incorporated by reference from the information in the sections entitled Board of Directors Directors Compensation M .....

### Two Year After 8-K Filing Year

..... ows: Name Age Position Hong Liang Lu 54 Chairman Peter Blackmore 61 Chief Executive Officer and President Mark Green 40 Senior Vice President Global Human Resources and Real Estate Susan Marsch 52 Senior Vice President General Counsel Secretary and Chief **ETHICS** Officer Viraj Patel 46 Interim Chief Financial Officer Vice President Corporate Controller and Chief Accounting Officer Our executive officers are appointed by and serve at the discretion of our board of directors. Each executive officer is a full-time .....  
..... anagement and Industrial Relations from the London School of Economics. He is also a graduate of the Institute of Personnel and Development U.K. 18 Table of Contents Susan Marsch has served as our Senior Vice President General Counsel Secretary and Chief **ETHICS** Officer since April 2007. Prior to joining us Ms. Marsch was the General Counsel Corporate Secretary and Vice President of Firefly Mobile Inc. from January 2006 to July 2006. From September 2003 to December 2005 she was the General Counsel Corporate Sec .....  
..... cts in a timely manner or at all; new and unproven markets for our products and the telecommunications services that our products enable; lack of a large highly trained workforce; difficulty in controlling local operations from our headquarters; variable **ETHICAL** standards and an increased potential for fraud; unstable political and economic environments; and lack of a secure environment for our personnel facilities and equipment. In particular these factors create the potential for physical loss of inventory a .....  
..... nvestigations " under "ITEM 3 LEGAL PROCEEDINGS" for additional information. Throughout the course of this investigation the Company has taken actions including changes to its training policies and procedures including to its **code of business conduct and ETHICS** its payment controls particularly in outlying regions and its due diligence evaluation of business partnerships. In the third and fourth quarters of 2007 and throughout 2008 the Company provided training to personnel in offices in various regions includ .....  
..... t 162 Table of Contents Committee members and "audit committee financial experts" is incorporated by reference to the information contained in our Proxy Statement for the 2009 Annual Meeting of Stockholders. We have adopted a **Code of Business Conduct and ETHICS** ("Code of **ETHICS**") that applies to all employees including our principal executive officers. The **Code of ETHICS** is designed to promote: (i) honest and **ETHICAL** conduct including the **ETHICAL** handling of actual or apparent conflicts of interest between per .....  
..... and understandable disclosure in reports and documents that we are required to file to the SEC and in other public communications (iii) compliance with applicable laws rules and regulations (iv) the prompt internal reporting of violations of the **Code of ETHICS** to an appropriate person or entity and (v) accountability for adherence to the **Code of ETHICS**. As a supplement to the **Code of ETHICS** we have also adopted a **Code of ETHICS** for Chief Executive Officer and Senior Financial Officers ("**Code of ETHICS** for Fin .....  
..... ancial Officers") which is designed to highlight the legal and **ETHICAL** obligations of the Chief Executive Officer and financial officers. The Code of **ETHICS** for Financial Officers imposes upon applicable officers certain additional internal reporting requirements for acts committed in violation of the Code of **ETHICS** and/or the securities laws. Copies of the **Code of ETHICS** and the **Code of ETHICS** for Financia .....  
..... l Officers are available on our website at <http://investorrelations.utstar.com/governance.cfm>. Any waiver of the **Code of ETHICS** or **Code of ETHICS** for Financial Officers pertaining....

## **Curriculum Vita**

Sedat Erdogan received his bachelor's in business administration and international relations (double-major) from Karadeniz Technical University. He has a Master of Accountancy from the University of Arkansas at Fayetteville and A Ph.D. in business administration from Bulent Ecevit University. He is a PhD Candidate at the University of Texas at El Paso. His research interests range from earnings attributes, earnings management, and corporate financial disclosures to international accounting and ethics. He has taught several courses of accounting as an instructor at the University of Texas at El Paso. He will be joining the University of Texas Rio Grande Valley as a tenure-track Assistant Professor in the Summer of 2023.