

Effects of Non-Reliance Disclosures in Form 8-K Filings on Stock Prices

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Abstract

We analyze market reactions to 8,006 non-reliance disclosures filed under Item 4.02 in SEC Form 8-K filings (2004–2023). These disclosures result in cumulative abnormal returns of -2.6% to -5.4% , with revenue recognition errors triggering 114% more severe reactions than net income errors. Disclosures expressing uncertainty about the impact of identified errors face three times harsher market responses than those with clearly stated effects, while SEC-identified issues do not amplify negative price reactions. As Item 4.02 disclosures precede financial restatements, they serve as a significant and robust early risk signal for investors, analysts and stakeholders.

Keywords: Non-Reliance Disclosures, SEC Form 8-K Filings, Item 4.02, Event Study, Market Reactions

JEL Classification: G14, M41, G38

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Highlights

- Non-reliance disclosures in SEC Form 8-K, Item 4.02 trigger significant negative stock price reactions, with effects robust from 2007 to 2023.
- Revenue recognition errors lead to 114% more severe market reactions compared to net income errors.
- Disclosures expressing uncertainty about the impact of identified errors experience three times harsher market reactions than those with clearly stated effects.
- Auditor reputation does not mitigate the negative impact of non-reliance disclosures, with Big 4 involvement showing no protective effect.
- SEC-identified issues do not amplify negative stock price reactions, suggesting regulatory involvement does not inherently worsen investor sentiment.

1 Introduction

The reliability of financial statements is fundamental to investment decisions and risk management. When companies file Item 4.02 disclosures in SEC Form 8-K, they publicly acknowledge that previously issued financial statements can no longer be relied upon. These non-reliance disclosures act as early warning signals, typically preceding formal financial restatements, yet their market impact has received limited empirical attention due to the unstructured nature of the disclosure text.

Our study examines the stock price impact of Item 4.02 filings, leveraging a newly available, structured dataset of 8,006 disclosures from 2004 to 2023. In contrast to prior research, which has focused on the market effects of formal restatements disclosed in Forms 10-K/A and 10-Q/A (Kravet & Shevlin, 2009; Files et al., 2009; Umar et al., 2023), we isolate the market response to the initial disclosure of unreliability. While it is well established that restatements can trigger abnormal returns of -4% to -12% (Dechow et al., 1996; Anderson & Yohn, 2002; Kinney & McDaniel, 1989; Scholz, 2008; Robbani et al., 2006), there is little understanding of the investor response to the earlier 8-K filings that first signal the need for such restatements (Palmrose et al., 2004; Scholz, 2008). Feldman et al. (2008) remain the only study to analyze Item 4.02 disclosures directly, based on a limited sample of 182 filings.

Item 4.02 disclosures are legally required to be published within four business days of identifying a material misstatement, as mandated by Section 13(a) of the Securities Exchange Act and introduced by the Sarbanes–Oxley Act (SOX)¹ in 2004. These filings provide qualitative information on the nature of the error, affected line items and periods, and whether the issue was identified by the company, its auditor, or the SEC. Unlike amended filings, Item 4.02 disclosures do not contain all corrected figures, but serve as the first formal acknowledgment of a reliability breach, often weeks or months before a restatement is filed.

Despite the absence of revised financials, these disclosures frequently trigger immediate stock price adjustments. We find that Item 4.02 filings are associated with cumulative abnormal returns (CARs) ranging from -2.6% to -5.4% , reflecting the materiality and informational content investors extract from them.

We contribute to the literature on financial restatements and disclosure-driven price reactions in several ways. First, we provide the most comprehensive empirical analysis of Item 4.02 disclosures to date, based on a large-scale dataset spanning two decades.

¹Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. § 78m(a))

Second, we shift the focus from restatement outcomes to the signaling effects of the initial disclosure event. Third, we analyze how specific content features—such as stated uncertainty, bundling with other material events, and disclosure timing—shape investor responses. Finally, our findings offer actionable insights for investors, regulators, and corporate decision-makers seeking to understand the informational value and market impact of reliability-related disclosures.

The remainder of this paper is structured as follows: Section 2 describes the dataset and methodology. Section 3 presents the empirical findings and discussion. Section 4 concludes with key takeaways, practical implications, and directions for future research.

2 Data & Methods

Item 4.02 is one of 33 material events that require disclosure in SEC Form 8-K filings within four business days of occurrence. It provides a narrative summary of material financial reporting errors, identifying instances in which a company, its auditor, or the SEC has determined that previously issued financial statements can no longer be relied upon. These disclosures often detail the nature and discovery of the error, its financial implications and the presence of material weaknesses in internal controls, among others.

Item 4.02 is one of only two Form 8-K items (alongside Item 4.01) that the SEC prohibits from being embedded in periodic filings such as Forms 10-K or 10-Q. It must be filed as a standalone Form 8-K within four business days of a determination by the board, audit committee, or authorized officer. Failure to do so constitutes a technical violation of Exchange Act Rule 13a-11 and Section 13(a), potentially triggering SEC enforcement actions (e.g., Accounting and Auditing Enforcement Releases), civil penalties, and shareholder litigation. While a single violation may not lead to delisting, repeated violations may threaten listing eligibility.

Illustrative examples include Squarespace (SQSP), which disclosed on November 15, 2021, that earnings per share had been overstated by 100% due to a miscalculation in weighted average shares (Figure 1). The stock declined by -37.4% within 20 trading days. Similarly, Exela Technologies (XELA) reported long-term debt misclassification and going concern uncertainties (Figure 2), resulting in a -68% decline and eventual delisting from NASDAQ.

Item 4.02. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

On November 10, 2021, the Audit Committee of the Board of Directors of Squarespace, Inc. (the “Company”), in consultation with management and Ernst & Young LLP, the Company’s independent registered public accounting firm, concluded that the Company’s previously issued unaudited interim consolidated financial statements for the interim period ended September 30, 2021 included in its quarterly report on Form 10-Q for the quarter ended September 30, 2021, as originally filed with the Securities and Exchange Commission on November 8, 2021, should no longer be relied upon due to the identification of an error in the calculation of its weighted-average shares used in computing net income/(loss) per share attributable to Class A, Class B, and Class C stockholders, basic and diluted (“WASO”) for the three months ended September 30, 2021. Due to this error, the Company’s WASO, the net income/(loss) per share attributable to Class A, Class B, and Class C stockholders, basic and dilutive for the three months ended September 30, 2021 was also incorrectly calculated as \$0.04 per share instead of \$0.02 per share.

As a result of the error, the Company determined that it must restate the unaudited interim consolidated financial statements for the interim period ended September 30, 2021 and will file an amendment to the Company’s Form 10-Q for the three months ended September 30, 2021, on or around November 15, 2021.

Figure 1: Squarespace (ticker: SQSP) announced on November 15, 2021 (since taken private) under Item 4.02 in a Form 8-K filing² that its earnings per share were overstated by 100% due to an error in calculation of its weighted average shares and experienced a –37.4% stock price collapse 20-days post disclosure.

Item 4.02. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

Subsequent to the filing of its Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the “Original 10-K”), Exela Technologies, Inc. (the “Company”) re-evaluated its application of ASC Subtopic 205-40, *Presentation of Financial Statements—Going Concern* (“ASC 205-40”) as of March 16, 2022, the date of the Original 10-K. Under ASC 205-40, the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its obligations as they become due within one year after the date that the financial statements are issued. In re-performing this evaluation as of the date of the Original 10-K, the Company determined the need to take into account the potential impact of certain true-up guaranties that the Company had issued in connection with the Revolving Loan Exchange and Prepayment Agreement, dated March 7, 2022, that had not previously been taken into account in its assessment. If the Company had taken the true-up guaranties into account in addition to other existing factors, the Company may not have had sufficient liquidity under its financial model to fund payment of this true-up obligation in addition to its other commitments for the twelve months following the date of the Original 10-K.

Based on this evaluation, management has determined that if that contingent liability created by the true up guaranty were to settle within one year from March 16, 2022, there was substantial doubt about the Company’s ability to continue as a going concern for the twelve months following the date of the Original 10-K, which determination should have been disclosed in the Company’s previously issued audited financial statements included in the Original 10-K (the “audited financial statements”).

As a result of the foregoing, on November 9, 2022, the audit committee of the Company’s board of directors concluded, after discussion with the Company’s management, that the audited financial statements included within the Original 10-K should be restated and should no longer be relied upon. As such, the Company intends to restate the audited financial statements and related notes in Amendment No. 2 to the Original 10-K, to be filed with the SEC (the “Amendment”) to restate management’s conclusion that substantial doubt exists and to include appropriate related disclosures and to reclassify certain long-term debt from noncurrent to current, as discussed below (the “Restatement”).

The Amendment includes reissued audit reports from KPMG LLP (“KPMG”), the Company’s independent registered public accounting firm, due to the Restatement and other limited related changes to Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 9A. Controls and Procedures. As result of issuance of an amended audit report including a going concern explanatory paragraph, the Company determined that the amount owed under a credit facility which is no longer existing as of the date of this report would become current, and accordingly restated it from noncurrent to current classification in the restated balance sheet as of December 31, 2021. The above changes did not have an effect on retained earnings, or other components of equity or net assets of the Company and result from management’s conclusion that substantial doubt exists and the amended audit reports issued by KPMG to reflect such conclusion.

The Company has discussed with KPMG the matters described herein.

The Amendment is being filed concurrently with this report.

Figure 2: Item 4.02 disclosure³ by Exela Technologies (ticker: XELA) on November 14, 2022 (since moved from NASDAQ to OTC), announcing that the company misclassified long-term debt and concerns about going concern assumptions, resulting in a –68% stock price decline over the following 20 days.

²Squarespace’ Form 8-K, Item 4.02 disclosure: <https://www.sec.gov/Archives/edgar/data/1496963/000110465921139150/tm2132787d1.8k.htm>

³Exela Tech. Form 8-K, Item 4.02 disclosure: <https://www.sec.gov/Archives/edgar/data/1620179/000110465922118697/tm2230425d1.8k.htm>

Historically, the unstructured nature of Item 4.02 disclosures has made large-scale empirical analysis difficult. To address this, we utilize a new structured dataset of 8,006 Item 4.02 filings from 2004 to 2023, sourced from the commercially available SEC-API.io database.⁴ The structured data allow us to extract content features for systematic analysis. The variables used in this study are described in Table 1.

We conduct an event study to measure cumulative abnormal returns (CARs) following disclosure. CARs are calculated using the market model, with the S&P 500 ETF (SPY) as the benchmark. Event windows span 1 to 20 trading days post-disclosure to capture immediate and delayed investor responses. Stock price data are sourced from AlgoSeek, while quarterly fundamentals are obtained via Capital IQ on WRDS. The sample is survivorship-bias free, including both listed and delisted firms.

To examine how specific disclosure features influence market reactions, we apply three empirical strategies: Binary Variable Comparison: Disclosures are split by the True/False outcome of each variable (e.g., “Impact yet to be determined”), and the mean and median CARs are compared across groups. Quintile-Based Analysis: Disclosures are sorted into quintiles based on 20-day CARs (Group A: most negative; Group E: most positive). For binary variables, we compare the share marked “True” in the top vs. bottom quintiles. For continuous variables, we compare mean/median values between Groups A and E. OLS Regression: We estimate six ordinary least squares models using 5-day CAR as the dependent variable. Each model includes different combinations of fixed effects (firm, auditor, sector, and year) to control for unobserved heterogeneity.

To test whether average CARs significantly differ from zero, we apply Wilcoxon signed-rank and one-sample t -tests, depending on normality (checked via Shapiro–Wilk tests). To evaluate whether price reactions evolve over time, we apply Mann–Kendall tests to assess the presence of monotonic trends in CARs across event windows and quintiles.

Of the 8,006 disclosures, 2,390 were included in the event study, covering the period from 2007 to 2023 for firms listed on NYSE, NASDAQ, or AMEX. Disclosures were excluded if the firm was not publicly traded, was listed only on OTC markets, or the event occurred prior to 2007, outside the period for which pricing data was available to us. In total, our sample spans 5,028 unique filers and 856 distinct auditors.

⁴See: <https://sec-api.io/docs/form-8k-data-search-api>

Variable Name	Description
<code>identifiedIssues</code>	List of all identified issues as disclosed in an Item 4.02 filings, e.g. "Unexplained reconciling differences in inventory balances", "Misstated inventory by a former employee"
<code>identifiedBy</code>	The entity or entities that discovered the issue. Possible values: <code>Company</code> , <code>Auditor</code> , <code>SEC</code> . For example, the audit committee of the company might have identified a material accounting error (<code>Company</code>), or the company's external auditors might have discovered the issue (<code>Auditor</code>). The SEC might have also identified the error during a routine review and requested the company to disclose the issue using a SEC comment letter or other means.
<code>restatementIsNecessary</code>	<code>true</code> if the Item 4.02 disclosure informs stakeholders that a restatement of previously disclosed financial statements is necessary, <code>false</code> otherwise.
<code>reasonsForRestatement</code>	Reasons for the restatement, e.g. "Misstated inventory", "Inaccurate and unsupported manual journal entries"
<code>affectedReportingPeriods</code>	List of affected reporting periods that potentially require restatement, including quarters or financial years, e.g. "Q1 2023", "FY 2022".
<code>affectedLineItems</code>	The line items of the respective income statement, balance sheet, or cash flow statement that are affected by the identified errors , e.g. "Inventory", "COGS", "Income Before Income Taxes"
<code>impactYetToBeDetermined</code>	<code>true</code> if the company explicitly states that the impact of the error is yet to be determined, <code>false</code> otherwise.
<code>impactOfError</code>	Impact of the error, e.g. "Income before income taxes was overstated by approximately \$5 to \$7 million for FY 2023. The total overstatement is approximately \$26 to \$29 million."
<code>impactIsMaterial</code>	<code>true</code> if the company explicitly states that the impact of the error is material, <code>false</code> otherwise.
<code>materialWeaknessIdentified</code>	<code>true</code> if the company discloses a material weakness in its internal financial controls, <code>false</code> otherwise.
<code>auditors</code>	List of auditors involved in the restatement process. Typically the auditor employed by the company at the time of disclosure.
<code>netIncomeDecreased</code>	<code>true</code> if the company explicitly states that net income has been overstated and will require a downward adjustment in a subsequent restatement; <code>false</code> otherwise.
<code>netIncomeIncreased</code>	<code>true</code> if the company explicitly states that net income has been understated and will require an upward adjustment in a subsequent restatement, <code>false</code> otherwise. Note, this field is not mutually exclusive with <code>netIncomeDecreased</code> as both can be <code>true</code> if the restatement affects different periods.
<code>netIncomeAdjustment</code>	If explicitly disclosed, the magnitude of the net income adjustment, e.g. "\$348.0 million".
<code>revenueDecreased</code>	<code>true</code> if the company explicitly states that revenue has been overstated and will require a downward adjustment as a result of a restatement, <code>false</code> .
<code>revenueIncreased</code>	<code>true</code> if the company explicitly states that revenue has been understated and it will have to be increased as a result of a restatement, <code>false</code> otherwise. Note, this field is not mutually exclusive with <code>revenueDecreased</code> as both can be <code>true</code> if the restatement affected different periods.
<code>revenueAdjustment</code>	If explicitly disclosed, the magnitude of the revenue adjustment, e.g. "\$1.2 billion".
<code>reportedWithOtherItems</code>	<code>true</code> if the filing reports additional material events other than Item 4.02, <code>false</code> otherwise. Source: SEC filing metadata.
<code>reportedWithEarnings</code>	<code>true</code> if the filing includes quarterly or annual operating results disclosed under Item 2.02 or 9.01, <code>false</code> otherwise. Source: SEC filing metadata.

Table 1: Variables describing content features capturing different parts of information disclosed in Item 4.02 filings.

3 Results & Discussion

Our analysis of Item 4.02 disclosures from 2004 to 2023 reveals a clear downward trend in the number of non-reliance filings over time (Figure 3, left, Table 2). Annual volumes peaked in 2005 (962 disclosures) and 2006 (1,004 disclosures), but have declined steadily since, reaching lows of 98 and 96 disclosures in 2019 and 2020, respectively. A sharp anomaly occurred in 2021, with 864 disclosures—largely driven by equity and warrant misclassification errors involving Marcum and WithumSmith+Brown (Table 2, Table 3).

This decline suggests a sustained improvement in financial reporting quality following the implementation of SOX. Enhanced regulatory oversight and strengthened internal controls appear to have contributed to the reduced frequency of non-reliance events.

We also observe a consistent seasonal pattern in disclosure timing (Figure 3, right; Table 2). March and November show elevated filing activity, averaging 55 and 52 disclosures per month, respectively, compared to a baseline monthly average of 34. These peaks align with key reporting deadlines—10-K filings in February and March, and final 10-Qs in November—indicating that most errors are identified during year-end audits and quarterly reviews.

In contrast, July and September have the lowest disclosure activity, averaging just 21 filings per month. The July-October period generally sees fewer disclosures, with the exception of August, which aligns with the Q2 filing cycle. The clustering of Item 4.02 filings around key reporting periods underscores the role of audit procedures in uncovering financial misstatements.

Auditor involvement in Item 4.02 disclosures reveals distinct patterns over time (Figure 4, Table 3). The surge in filings during 2005 and 2006 was largely driven by companies audited by Big 4 firms, reflecting the heightened regulatory scrutiny following SOX. In 2005 alone, PwC was associated with 159 disclosures, KPMG with 116, Deloitte with 103, and EY with 87 (Figure 4, Table 3). By contrast, the 2021 spike in non-reliance filings marks a sharp departure from this pattern. That year, two non-Big 4 firms—Marcum and WithumSmith+Brown—accounted for 340 and 237 disclosures, respectively, comprising 74% of all Item 4.02 events. This concentration is notable given their historically minimal involvement (typically under 1% annually) and highlights firm-specific issues related to widespread misclassification errors of equity and warrants⁵ ⁶.

⁵<https://pcaobus.org/news-events/news-releases/news-release-detail/imposing-3-million-fine-and-requiring-first-ever-changes-to-supervisory-structure-pcaob-sanctions-marcum-llp-for-significant-quality-control-violations>

⁶<https://pcaobus.org/news-events/news-releases/news-release-detail/imposing-2-million-fines-pcaob-sanctions-withumsmith-brown-pc-pervasive-quality-control-violations-involving-spac-audits>

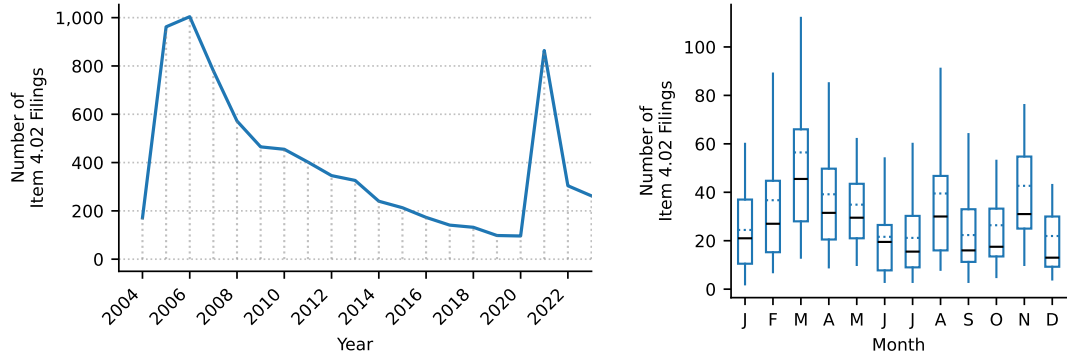


Figure 3: Item 4.02 disclosures per year from 2004 to 2023 (left) and box plot of Item 4.02 disclosures per month for January through December over the same period, 2004 to 2023, excluding 2021 (right).

	Months												Statistics			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Mean	Std. Dev.	Median
2005	37	89	175	85	91	45	46	91	53	63	123	64	962	80.2	39.0	74.5
2006	45	84	152	81	78	63	60	115	64	76	109	77	1,004	83.7	29.1	77.5
2007	60	67	112	85	62	54	41	91	36	53	76	43	780	65.0	22.6	61.0
2008	40	74	73	63	45	24	32	62	36	31	60	32	572	47.7	17.7	42.5
2009	33	40	45	50	33	22	31	46	47	36	58	24	465	38.8	10.8	38.0
2010	37	41	54	49	48	34	23	47	24	34	32	32	455	37.9	10.0	35.5
2011	24	26	70	49	39	27	28	31	17	30	45	16	402	33.5	15.2	29.0
2012	26	28	45	39	31	25	26	35	18	26	38	9	346	28.8	9.7	27.0
2013	18	40	48	41	36	20	11	29	14	15	39	15	326	27.2	13.1	24.5
2014	16	25	31	22	26	19	11	24	12	17	26	11	240	20.0	6.7	20.5
2015	10	19	28	24	21	4	20	19	15	18	25	10	213	17.8	7.0	19.0
2016	17	14	28	15	21	6	9	11	11	5	25	11	173	14.4	7.2	12.5
2017	10	9	15	20	11	10	7	15	6	10	21	7	141	11.8	5.0	10.0
2018	12	14	15	14	13	7	3	11	6	16	15	6	132	11.0	4.4	12.5
2019	6	7	14	12	10	6	9	8	3	8	10	5	98	8.2	3.1	8.0
2020	2	13	13	9	12	3	8	10	4	7	11	4	96	8.0	4.0	8.5
2021	4	10	15	54	264	52	20	11	8	6	271	149	864	72.0	99.9	17.5
2022	38	46	52	23	23	10	6	38	15	13	30	10	304	25.3	15.4	23.0
2023	9	25	46	24	28	10	10	28	21	17	25	19	262	21.8	10.3	22.5
Statistics																
Total	444	671	1,031	759	892	441	401	722	410	481	1,039	544	7,835	653.1	330.2	563.5
Mean	23.4	35.3	54.3	39.9	46.9	23.2	21.1	38.0	21.6	25.3	54.7	28.6	412.4	34.4	17.4	29.7
Std. Dev.	16.2	25.9	46.1	25.0	57.1	18.5	15.6	31.1	17.6	20.0	60.9	35.4	293.0	24.4	22.0	21.0
Median	18.0	26.0	45.0	39.0	31.0	20.0	20.0	29.0	15.0	17.0	32.0	15.0	326.0	27.2	10.3	23.0

Table 2: Item 4.02 disclosures per year and month with descriptive statistics per year and month from 2005 to 2023. To avoid distortion of statistics, 2004 is excluded because of SOX reporting requirements taking effect mid-year through.

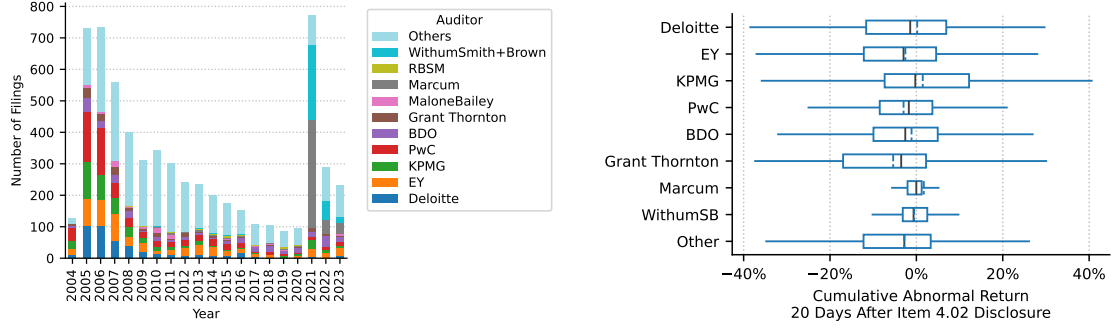


Figure 4: Auditor involvement in Item 4.02 disclosures from 2004 to 2023 (left) and corresponding stock price reactions (right) from 2007–2023. The right panel presents a box plot of 20-day cumulative abnormal returns (CARs) following disclosure, grouped by auditor.

	Years																							Statistics				
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total	(%)	Mean	Std.	Median			
Auditors																												
Deloitte	11	103	104	54	38	20	13	10	8	11	7	9	16	5	3	0	1	6	2	9	430	6.9	22	31	10			
EY	20	87	83	85	31	31	12	18	25	31	28	14	14	8	7	3	7	24	16	26	570	9.2	28	26	22			
KPMG	24	116	78	54	30	13	11	10	7	15	5	3	4	3	0	4	5	29	10	4	425	6.9	21	30	10			
PwC	42	159	149	48	28	21	20	14	18	17	22	20	16	5	11	6	6	9	10	13	634	10.2	32	43	18			
BDO	8	44	23	26	24	2	12	6	11	7	4	11	15	15	17	11	13	18	33	17	317	5.1	16	10	14			
Grant Thornton	4	34	20	23	10	7	14	3	11	3	4	1	3	0	3	1	3	10	6	3	163	2.6	8	9	4			
MaloneBailey	0	8	9	19	3	4	14	15	2	1	0	5	1	2	6	1	0	2	2	5	99	1.6	5	6	2			
Marcum	0	0	0	0	0	3	5	5	1	4	3	1	3	2	1	5	5	340	45	36	459	7.4	23	76	3			
WithumSmith+Brown	0	0	0	0	0	0	1	0	0	2	2	1	4	0	0	0	0	237	58	17	322	5.2	16	54	0			
Other	19	181	267	251	234	211	240	219	158	143	124	109	77	67	58	54	56	97	105	101	2,771	44.8	139	77	116			
Statistics																												
Total	128	732	733	560	398	312	342	300	241	234	199	174	153	107	106	85	96	772	287	231	6,190	100.0	310	360	199			
Mean	13	73	73	56	40	31	34	30	24	23	20	17	15	11	11	8	10	77	29	23	619		31	36	20			
Std.	14	66	85	74	70	64	72	67	48	43	38	33	22	20	18	16	17	117	33	29	774		39	26	35			
Median	10	66	50	37	26	10	12	10	10	9	4	7	9	4	4	4	5	21	13	15	428		21	30	10			

Table 3: Number of Item 4.02 disclosures by auditor per year and descriptive statistics (2004 to 2023).

Auditor	Samples	Mean	Std. Dev.	Min	25th	Median	75th	Max
Deloitte	129	0.19%	30.35	-55.36%	-11.63%	-1.43%	6.91%	248.35%
EY	267	-2.55%***	20.08	-54.58%	-12.17%	-2.98%	4.57%	116.50%
KPMG	126	1.47%	21.99	-68.31%	-7.35%	-0.25%	12.20%	110.61%
PwC	179	-2.97%**	15.98	-61.87%	-8.49%	-1.75%	3.71%	41.31%
BDO	157	-1.12%*	21.24	-45.08%	-9.94%	-2.57%	4.94%	144.06%
Grant Thornton	59	-5.37%**	17.64	-37.55%	-16.97%	-3.52%	2.24%	57.99%
Marcum	334	1.72%	36.18	-37.21%	-2.05%	-0.02%	1.22%	631.01%
WithumSmith+Brown	263	-0.51%	7.56	-45.26%	-3.16%	-0.65%	2.52%	35.53%
Other	955	-2.89%***	23.33	-63.97%	-12.24%	-2.80%	3.32%	353.09%

Table 4: Statistics of cumulative abnormal returns 20 days post Item 4.02 disclosure by auditor (2007–2023). Significance levels are marked with * ($p < 0.05$), ** ($p < 0.01$) and *** ($p < 0.001$).

Our event study reveals a significant negative market reaction to Item 4.02 disclosures, with cumulative abnormal returns (CARs) declining steadily over the 20-day post-disclosure window (Tables 5, 6 and 7). On day +1, the mean CAR is -0.87% for the full sample and -1.10% when excluding 2021, indicating an immediate adverse investor response. This effect deepens over time, reaching -1.54% and -2.00% , respectively, by day +20. The persistent decline suggests that the market continues to process and reassess the implications of these disclosures well beyond the initial announcement.

Median CARs are statistically significant across all event windows ($p < 0.001$), underscoring the robustness of the effect. Excluding 2021 strengthens the observed impact: by day +20, the median CAR is -2.64% , compared to -1.31% in the full sample. This suggests that the 2021 spike—dominated by Marcum and WithumSmith+Brown related disclosures—was perceived as less material by investors.

Importantly, the dispersion in CARs widens over time. While some firms face sharp declines (as much as -90%), others experience gains exceeding $+320\%$, pointing to a highly heterogeneous market response. Positive outliers likely reflect disclosures involving upward adjustments or effective corrective messaging that reassures investors.

The pattern of returns also supports the notion of gradual information diffusion. Rather than fully pricing in the implications on day +1, investors appear to adjust their valuations over time, consistent with prior studies on restatement-related disclosures (Gleason et al., 2008; He et al., 2018; Myers et al., 2011).

Further insights come from our quintile-based analysis (Figure 5; Tables 9). Disclosures in the bottom three quintiles generate negative price reactions, while those in the top two yield positive returns. The contrast is stark: the top quintile posts a median 20-day CAR of $+13.4\%$, while the bottom quintile sees a decline of -21.4% . This variation reinforces the idea that market responses are shaped not just by the existence of an error, but by its nature, framing, and surrounding context.

Disclosures stating that the identified issue is material are nearly universal across all quintiles, ranging from 78.3% in Group A to 81.6% in Group E (Table 10). Similarly, 97% of disclosures indicate that a restatement of prior financial statements will be required. These minimal differences suggest that while these attributes are essential for compliance, they do little to differentiate investor responses. Instead, factors related to uncertainty and context appear far more influential.

CAR:	$t_0 + 1$ Day	+2	+3	+4	+5	+10	+20
Statistics:							
Samples	2,398	2,395	2,397	2,397	2,396	2,378	2,341
Mean	-0.87%	-1.05%	-1.12%	-1.12%	-1.15%	-1.17%	-1.54%
Median	-0.26%***	-0.38%***	-0.34%***	-0.38%***	-0.46%***	-0.71%***	-1.31%***
Std. Dev.	10.93	11.49	12.52	13.77	14.06	17.34	23.89
Min	-81.45%	-71.77%	-78.38%	-78.38%	-93.13%	-94.19%	-68.31%
Max	320.62%	335.13%	335.13%	333.76%	341.79%	363.04%	631.01%

Table 5: Statistics of cumulative abnormal returns (CAR) for 1 to 20 business days post Item 4.02 disclosures between 2007 and 2023. Significance levels are marked with * ($p < 0.05$), ** ($p < 0.01$) and *** ($p < 0.001$).

CAR:	$t_0 + 1$ Day	+2	+3	+4	+5	+10	+20
Statistics:							
Samples	1,712	1,709	1,712	1,712	1,712	1,694	1,664
Mean	-1.10%	-1.34%	-1.45%	-1.41%	-1.54%	-1.58%	-2.00%
Median	-0.50%***	-0.73%***	-0.78%***	-0.81%***	-1.07%***	-1.40%***	-2.64%***
Std. Dev.	12.82	13.39	14.58	16.01	16.23	19.69	27.36
Min	-81.45%	-71.77%	-78.38%	-78.38%	-93.13%	-94.19%	-68.31%
Max	320.62%	335.13%	335.13%	333.76%	341.79%	363.04%	631.01%

Table 6: Statistics of cumulative abnormal returns (CAR) for 1 to 20 business days post Item 4.02 disclosures between 2007 and 2023, excluding 2021. Significance levels are marked with * ($p < 0.05$), ** ($p < 0.01$) and *** ($p < 0.001$).

Year	Samples	Mean	Median	Std. Dev.	Min	25th	75th	Max
2007	135	-2.65%	-2.32%**	10.07	-41.88%	-7.64%	2.25%	24.29%
2008	176	-1.37%	-1.21%	18.35	-54.58%	-12.55%	8.09%	57.60%
2009	140	2.13%	-4.76%*	45.28	-61.87%	-16.42%	5.20%	353.09%
2010	120	0.02%	-1.70%	22.37	-60.23%	-11.01%	5.97%	110.61%
2011	96	-4.15%	-5.12%***	19.71	-52.69%	-11.42%	1.80%	118.12%
2012	98	-2.85%	-1.80%*	13.89	-37.42%	-11.02%	4.28%	34.93%
2013	109	-1.32%	-2.57%	18.21	-47.25%	-7.90%	4.60%	98.84%
2014	68	-4.22%	-2.47%**	12.61	-38.16%	-9.53%	1.67%	26.31%
2015	81	-2.77%	-3.64%*	21.84	-54.93%	-13.24%	4.63%	109.39%
2016	61	0.43%	0.39%	18.23	-41.66%	-7.39%	8.53%	59.67%
2017	49	13.35%	-1.70%	92.93	-43.21%	-8.62%	6.68%	631.01%
2018	53	-7.82%	-6.26%***	18.7	-53.52%	-16.24%	0.27%	53.23%
2019	47	-1.34%	-2.79%	22.46	-53.84%	-13.16%	8.51%	58.85%
2020	48	-2.53%	-4.24%	26.75	-52.00%	-19.80%	5.76%	90.19%
2021	677	-0.40%	-0.57%***	11.49	-45.26%	-2.73%	1.13%	112.30%
2022	224	-3.70%	-0.79%*	18.7	-68.31%	-8.80%	4.87%	144.06%
2023	159	-5.97%	-3.05%***	22.42	-59.96%	-17.52%	1.25%	108.10%

Table 7: Statistics of cumulative abnormal returns (CARs) 20 days post Item 4.02 disclosures per year from 2007 to 2023. Significance levels are marked with * ($p < 0.05$), ** ($p < 0.01$) and *** ($p < 0.001$).

Uncertainty surrounding the financial impact of the error significantly amplifies negative market reactions. Disclosures indicating that the impact is “yet to be determined” are associated with a mean CAR of -3.19% , compared to -1.05% when the impact is known (Table 8). This uncertainty is present in 33.7% of Group A disclosures but only 25.0% in Group E, a statistically significant gap ($p < 0.01$) (Table 10). OLS regressions further confirm this effect, with consistently negative and significant coefficients ranging from -1.8 to -4.0 percentage points (Table 12).

Disclosures bundled with other material events also trigger stronger negative reactions. Filings accompanied by additional 8-K items, such as executive departures or impairments, show a mean CAR of -2.76% , compared to -0.66% when disclosed alone (Table 8). These bundled disclosures appear in 58.6% of Group A cases but only 47.6% in Group E ($p < 0.001$) (Table 10). Regression models reinforce this finding, with significant negative coefficients between -5.5 and -6.4 percentage points (Table 12).

Revenue recognition errors are particularly damaging. Firms disclosing a need to decrease previously reported revenue face mean CARs of -5.47% (Table 8). Similarly, when net income must be adjusted downward, mean CARs drop to -2.55% , versus -1.23% when no adjustment is required.

Firm size also matters. While Group A firms have a lower median market cap (\$195M) than those in Group E (\$328M) (Table 11), regression results offer clearer evidence: market capitalization is significantly negatively associated with 5-day CARs in five of six models, with coefficients from -2.4 to -4.4 percentage points (Table 12). This suggests that larger firms face steeper penalties, possibly due to heightened expectations of reporting reliability.

Timing plays a role as well. Disclosures released during trading hours are more frequent in Group E (11.5%) than Group A (7.5%), and Monday disclosures—often viewed as opportunistic—are more common in Group A (25.6%) than Group E (20.1%). By contrast, Tuesday disclosures are more prevalent in Group E (23.3%) than in Group A (17.3%) (Table 10). These patterns may reflect strategic timing or investor sensitivity to perceived disclosure transparency.

The “Reported with earnings” variable presents a more complex picture. Descriptively, these filings yield a mean CAR of -2.49% , compared to -0.96% when not reported with earnings (Table 8). They also appear more frequently in Group A (Table 10). However, regression analysis suggests the opposite: the variable is significantly positive in five models, with coefficients ranging from $+4.2\%$ to $+6.6\%$ (Table 12), indicating that concurrent earnings releases may help offset investor concern by providing broader financial

context.

Interestingly, SEC involvement does not lead to more negative reactions. Disclosures identified by the SEC are slightly more common in Group E (12.8%) than in Group A (10.7%) (Table 10). The regression results support this, with significantly positive coefficients in four of six models (Table 12), suggesting that regulatory oversight may reduce uncertainty and reassure investors.

Auditor reputation also shows limited influence. Mean CARs are nearly identical between firms audited by Big 4 firms (-1.51%) and those without (-1.55%) (Table 7). A more granular look reveals variation: disclosures involving EY, PwC, Grant Thornton, and “Other” auditors yield significantly negative returns (-2.55% to -5.37%), while Marcum and KPMG are associated with neutral or positive returns (Table 4). These results imply that audit firm affiliation may shape investor perceptions, though not uniformly.

Overall, the empirical findings align with signaling theory (Akerlof, 1970; Ross, 1977): non-reliance disclosures act as negative signals that challenge prior financial credibility. Investors interpret these signals as indicators of governance quality, internal control weaknesses, and potential future risk. Market responses reflect not just the existence of an error but what that error signals about the firm’s underlying financial integrity.

While our study focuses on short-term cumulative abnormal returns (1–20 trading days) to isolate immediate investor reactions to Item 4.02 disclosures, it does not capture longer-term consequences. Future research could explore reputational effects, litigation risk, and changes in financing costs. Additionally, broader firm responses—such as SEC enforcement actions (e.g., AAERs), executive turnover, shifts in auditor opinion language, and institutional ownership behavior—remain outside the scope of this analysis but offer promising directions for deeper investigation.

We also do not examine the tone or linguistic framing of the disclosures, though these factors likely influence how investors interpret and respond to such filings. Applying natural language processing (NLP) techniques could help quantify sentiment, specificity, and perceived uncertainty. Another important avenue for future research is identifying firms that restate financials without a prior Item 4.02 disclosure, which could reveal potential gaps in compliance and regulatory enforcement.

In summary, our findings show that investor reactions to non-reliance disclosures are most strongly shaped by uncertainty around financial impact, the presence of additional material events, and specific firm characteristics. In contrast, SEC involvement does not appear to amplify negative reactions and may instead reduce perceived risk. The near-universal presence of disclosures stating that the issue is material or will result in a formal

restatement offers little explanatory power in distinguishing investor responses. Likewise, Big 4 auditor affiliation offers limited protection against adverse market responses.

Variable	Value	Samples	Pct.	Mean	Std. Dev.	25th	Median	75th
Impact is Material	True	1,865	79.7	−1.64%***	19.78	−8.12%	−1.16%	2.98%
	False	476	20.3	−1.15%***	35.72	−9.13%	−1.85%	3.06%
Restatement Necessary	True	2,298	98.2	−1.56%***	23.99	−8.34%	−1.31%	2.86%
	False	43	1.8	−0.20%	18.31	−11.92%	−1.00%	7.27%
Impact yet to be determined	True	531	22.7	−3.19%***	24.16	−13.62%	−3.37%	3.28%
	False	1,810	77.3	−1.05%***	23.80	−6.84%	−0.95%	2.97%
Material Weakness Identified	True	1,057	45.2	−2.06%***	26.18	−7.62%	−0.76%	2.64%
	False	1,284	54.8	−1.11%***	21.83	−8.70%	−1.74%	3.34%
Reported with Other Items	True	976	41.7	−2.76%***	28.88	−13.27%	−3.14%	3.93%
	False	1,365	58.3	−0.66%***	19.53	−5.18%	−0.69%	2.60%
Reported with Earnings	True	886	37.8	−2.49%***	29.51	−12.76%	−3.04%	3.87%
	False	1,455	62.2	−0.96%***	19.65	−5.44%	−0.76%	2.67%
Net Income Decreased	True	542	23.2	−2.55%***	18.70	−11.14%	−2.90%	5.05%
	False	1,799	76.8	−1.23%***	25.24	−7.36%	−1.02%	2.54%
Net Income Increased	True	213	9.1	−1.79%***	18.99	−10.42%	−0.96%	6.14%
	False	2,128	90.9	−1.51%***	24.33	−8.11%	−1.32%	2.96%
Revenue Decreased	True	166	7.1	−5.47%***	19.51	−16.31%	−4.74%	4.55%
	False	2,175	92.9	−1.24%***	24.17	−7.90%	−1.19%	2.77%
Revenue Increased	True	64	2.7	0.36%	22.29	−8.78%	−0.51%	4.62%
	False	2,277	97.3	−1.59%***	23.94	−8.35%	−1.32%	2.92%
Has Big 4 Auditor	True	685	29.3	−1.51%***	21.43	−10.26%	−1.90%	5.51%
	False	1,656	70.7	−1.55%***	24.84	−7.64%	−1.17%	2.09%
Revenue Adj. contains ‘million’	True	71	3.0	−4.40%**	23.84	−14.72%	−5.40%	2.95%
	False	2,270	97.0	−1.45%***	23.89	−8.10%	−1.21%	2.95%
Net Income Adj. contains ‘million’	True	177	7.6	−2.63%***	15.81	−10.95%	−3.12%	3.31%
	False	2,164	92.4	−1.45%***	24.43	−8.11%	−1.19%	2.95%
Identified by Company	True	2,150	91.8	−1.84%***	20.15	−8.14%	−1.24%	2.86%
	False	191	8.2	−1.88%**	20.49	−9.87%	−1.26%	2.98%
Identified by Auditor	True	548	23.4	0.18%	32.24	−7.44%	−0.91%	4.01%
	False	1,793	76.6	−2.06%***	20.57	−8.54%	−1.45%	2.58%
Identified by SEC	True	427	18.2	1.08%	25.17	−8.19%	−1.32%	3.99%
	False	1,914	81.8	−1.90%***	24.87	−9.53%	−1.33%	3.59%

Table 8: Statistics of cumulative abnormal returns 20 days post Item 4.02 disclosure by content feature (2007–2023). Significance levels are marked with * ($p < 0.05$), ** ($p < 0.01$) and *** ($p < 0.001$).

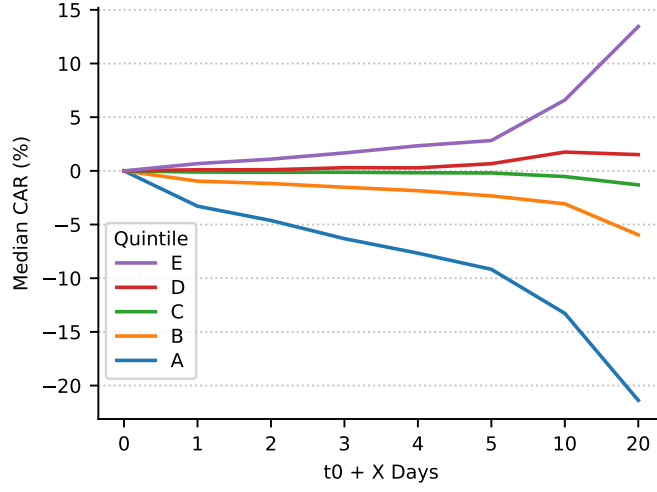


Figure 5: Median cumulative abnormal returns (CARs) over 20 days post-disclosure, segmented by market reaction quintile for Item 4.02 disclosures (2007–2023), illustrating the evolution of median CARs across different quintiles, where Group A (— — —) represents the most negative market reactions and Group E (++) represents the most positive reactions.

Quintile		Samples	Mean	Std. Dev.	Min	25th	Median	75th	Max
A	(— — —)	469	−24.6%	11.4	−68.3%	−30.5%	−21.4%	−15.7%	−11.2%
B	(— —)	468	−6.5%	2.3	−11.2%	−8.3%	−6.0%	−4.6%	−3.3%
C	(—)	468	−1.4%	1.0	−3.3%	−2.3%	−1.3%	−0.6%	0.0%
D	(+)	468	1.9%	1.4	0.1%	0.7%	1.5%	3.0%	5.0%
E	(++)	468	23.0%	39.3	5.0%	8.1%	13.4%	25.3%	631.0%

Table 9: Summary statistics of 20-day cumulative abnormal returns by market reaction quintile for Item 4.02 disclosures (2007–2023).

	A (---)	B (--)	C (-)	D (+)	E (++)	Diff(E, A)
Impact is Material	78.3	79.3	79.9	79.3	81.6	-4.0
Impact yet to be determined	33.7	23.5	16.0	15.2	25.0	34.8**
Revenue Decreased	11.9	6.8	3.0	4.9	8.8	35.2
Revenue Increased	3.0	2.4	1.7	3.4	3.2	-6.3
Net Income Increased	11.1	9.2	5.3	7.5	12.4	-10.5
Net Income Decreased	28.6	27.8	14.3	15.4	29.7	-3.7
Restatement Necessary	97.7	98.1	99.6	98.3	97.2	0.5
Material Weakness Identified	45.4	43.6	39.1	55.1	42.5	6.8
Identified by SEC	10.7	16.7	33.3	17.7	12.8	-16.4
Identified by Auditor	21.7	20.7	24.8	23.5	26.3	-17.5
Identified by Company	90.6	90.8	93.4	93.8	90.6	0.0
Has Big 4 Auditor	33.5	31.2	19.9	22.9	38.9	-13.9
Revenue Adj. contains 'million'	4.9	3.8	1.7	1.5	3.2	53.1
Net Income Adj. contains 'million'	8.7	10.0	5.1	5.6	8.3	4.8
Reported with Other Items	58.6	44.7	29.9	27.6	47.6	23.1***
Reported with Earnings	52.2	41.0	27.6	25.4	42.9	21.7**
Published: Pre-Market (6:00 am-9:30 am)	21.1	16.2	13.5	13.0	19.2	9.9
Published: Regular Hours (9:30 am-4:00 pm)	7.5	10.0	11.5	10.0	11.5	-34.8*
Published: After Hours (4:00 pm-10:00 pm)	71.4	73.7	75.0	76.9	69.2	3.2
Published: Monday	25.6	20.1	23.9	23.1	20.1	27.4*
Published: Tuesday	17.3	19.0	16.9	22.9	23.3	-25.8*
Published: Wednesday	19.6	17.7	15.6	16.7	15.8	24.1
Published: Thursday	19.0	22.9	20.9	15.0	21.4	-11.2
Published: Friday	18.6	20.3	22.6	22.4	19.4	-4.1

Table 10: Proportions of Item 4.02 disclosures (in %) that include specific content features, segmented into quintile groups based on the cumulative abnormal return (CAR) impact. Group A (---) represents disclosures with the strongest negative market reaction, while Group E (++) consists of disclosures associated with the strongest positive stock price movements. Diff(E, A), indicates the percentage difference between the most positive (E) and most negative (A) quintiles. Significance levels are marked with * ($p < 0.05$), ** ($p < 0.01$) and *** ($p < 0.001$).

	A (---)		B (--)		C (-)		D (+)		E (++)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Income Statement										
Revenue	365.4	109.5	784.8	70.8	434.0	132.3	938.7	115.2	408.5	128.2
Cost of Goods Sold	280.3	54.9	463.2	45.6	290.1	77.5	710.7	76.0	229.9	57.2
R&D	14.1	7.4	35.8	2.4	35.8	9.8	17.5	3.5	28.6	9.0
Operating Income After Depreciation	-6.3	-4.3	85.4	-0.2	14.5	2.1	53.6	5.7	15.0	0.8
Net Income	-29.0	-6.3	43.7	-0.1	5.3	-0.8	20.5	3.1	-58.6	-3.7
Balance Sheet										
Cash & Equivalents	74.6	37.8	166.0	19.1	79.7	34.6	92.2	35.6	107.3	32.9
Current Assets	211.3	116.0	542.3	74.7	350.5	113.9	350.3	155.9	347.0	145.8
Total Assets	438.5	190.6	1,337.8	162.6	558.8	205.1	972.9	380.2	986.9	225.4
Current Liabilities	114.0	51.0	287.1	38.5	162.2	46.8	229.8	53.1	185.1	43.6
Long-Term Debt	94.7	12.4	345.9	7.9	73.6	9.9	359.2	11.4	310.8	12.9
Total Liabilities	236.5	80.4	732.6	82.8	262.8	90.2	691.5	121.6	571.3	81.4
Cash Flow Statement										
Free Cash Flow	-15.9	-7.1	50.2	-1.7	9.1	2.2	32.7	3.0	8.8	-0.4
Operating Activities - Net Cash Flow	-0.9	-1.2	84.0	-0.4	22.9	6.6	65.2	6.5	25.3	3.8
Financial Ratios										
Price to Earnings	-257.3	-2.5	36.3	-0.3	-1.8	-2.3	27.0	8.8	-0.9	-5.0
Debt to Equity	-1.5	0.5	-0.1	0.8	25.2	0.7	2.9	1.0	0.0	0.8
Others										
Market Cap	616.6	195.6	1,728.1	280.4	814.0	180.5	702.8	305.7	907.2	328.7
Years Since IPO	14.1	15.0	17.0	17.0	13.3	13.0	12.8	13.5	14.5	13.0

Table 11: Summary statistics of financial statement metrics and ratios for companies disclosing Item 4.02, segmented by market reaction quintiles. The table presents the mean and median values of key financial indicators, including income statement, balance sheet, cash flow statement, and financial ratios, for firms in each quintile. Income statement figures represent annual data, with all financial values (e.g., revenue, net income, assets) reported in millions of USD.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	2.060 (0.92)	-2.640 (-0.21)	3.333 (0.23)	2.708 (0.91)	3.290 (1.32)	-2.760 (-0.42)
Impact is Material	0.407 (0.53)	-0.347 (-0.26)	0.679 (0.83)	0.510 (0.62)	0.230 (0.29)	0.679 (0.43)
Impact yet to be determined	-2.043*** (-2.76)	-4.038*** (-2.98)	-1.821** (-2.33)	-1.943** (-2.49)	-1.922*** (-2.58)	-3.470** (-2.17)
Revenue Decreased	-1.178 (-0.86)	-0.061 (-0.03)	-0.757 (-0.51)	-1.165 (-0.81)	-0.944 (-0.69)	0.009 (0.00)
Revenue Increased	-1.360 (-0.72)	-1.970 (-0.62)	-1.735 (-0.87)	-1.489 (-0.76)	-1.114 (-0.59)	-0.847 (-0.23)
Net Income Increased	1.364 (1.27)	0.232 (0.11)	1.546 (1.34)	1.338 (1.19)	1.545 (1.42)	0.428 (0.18)
Net Income Decreased	-0.478 (-0.61)	1.428 (0.96)	-0.114 (-0.13)	-0.234 (-0.28)	-0.513 (-0.64)	1.316 (0.73)
Restatement Necessary	-2.861 (-1.22)	-1.744 (-0.51)	-2.901 (-1.14)	-3.345 (-1.35)	-2.732 (-1.16)	-0.547 (-0.12)
Material Weakness Identified	-0.289 (-0.47)	-0.812 (-0.69)	-0.317 (-0.48)	-0.553 (-0.84)	0.249 (0.39)	-1.299 (-0.93)
Identified by SEC	1.860** (2.30)	0.546 (0.38)	1.849** (2.18)	1.663* (1.90)	1.500* (1.69)	-0.587 (-0.32)
Identified by Auditor	0.740 (1.09)	2.330** (2.06)	1.043 (1.44)	0.778 (1.07)	0.931 (1.35)	2.170 (1.59)
Identified by Company	-0.548 (-0.47)	-0.758 (-0.37)	-0.822 (-0.64)	-0.677 (-0.55)	-0.638 (-0.54)	-0.592 (-0.24)
Has Big 4 Auditor	1.297* (1.84)	-1.025 (-0.51)	2.687 (0.90)	1.185 (1.58)	1.042 (1.44)	-11.242 (-1.26)
Revenue Adj. contains 'million'	-1.041 (-0.52)	-4.290 (-1.24)	-0.004 (0.00)	-1.495 (-0.71)	-1.123 (-0.56)	-3.416 (-0.87)
Net Income Adj. contains 'million'	0.096 (0.08)	-0.846 (-0.37)	0.627 (0.49)	-0.212 (-0.17)	0.298 (0.25)	2.467 (0.90)
Reported with Other Material Events	-5.593*** (-3.81)	-4.496 (-1.62)	-6.399*** (-4.13)	-5.655*** (-3.64)	-5.500*** (-3.72)	-5.809* (-1.76)
Reported with Earnings	4.155*** (2.81)	4.436 (1.57)	4.943*** (3.18)	4.349*** (2.79)	4.166*** (2.80)	6.625* (1.96)
Affected Years	0.095 (0.43)	0.383 (0.88)	0.084 (0.36)	0.090 (0.38)	0.052 (0.22)	0.027 (0.05)
Market Cap (log)	-2.626*** (-3.17)	-4.424* (-1.69)	-2.821*** (-3.16)	-3.785*** (-3.97)	-2.365*** (-2.83)	-5.274 (-1.56)
Revenue (log)	0.298 (1.20)	0.388 (0.33)	0.152 (0.56)	-0.086 (-0.30)	0.246 (0.98)	-1.869 (-1.17)
Operating Income After Depreciation (log)	0.516 (1.45)	0.512 (0.54)	0.553 (1.46)	0.561 (1.51)	0.606* (1.69)	0.528 (0.46)
Net Income (log)	-1.762** (-2.19)	-0.862 (-0.53)	-2.294*** (-2.73)	-1.754** (-2.10)	-1.533* (-1.90)	-1.141 (-0.60)
Goodwill (log)	-0.156 (-0.67)	0.916 (1.11)	-0.136 (-0.56)	-0.065 (-0.26)	-0.098 (-0.42)	1.481 (1.47)
Operating Activities - Net Cash Flow (log)	-1.247*** (-2.62)	0.591 (0.53)	-1.108** (-2.25)	-1.128** (-2.22)	-1.269*** (-2.66)	0.684 (0.50)
Free Cash Flow (log)	1.076** (2.41)	-0.504 (-0.50)	0.848* (1.85)	0.976** (2.04)	0.986** (2.20)	-1.490 (-1.18)
Total Debt (log)	1.035 (0.75)	-3.365 (-0.91)	1.656 (1.07)	0.916 (0.63)	0.939 (0.67)	-2.209 (-0.49)
Total Assets (log)	0.746 (1.06)	1.876 (0.97)	0.824 (1.06)	1.520** (1.98)	0.692 (0.96)	3.296 (1.34)
Firm FE	No	Yes	No	No	No	Yes
Auditor FE	No	No	Yes	No	No	Yes
Sector FE	No	No	No	Yes	No	Yes
Year FE	No	No	No	No	Yes	Yes
R-squared	0.033	0.804	0.105	0.051	0.045	0.835
Adjusted R-squared	0.022	0.292	0.022	0.036	0.028	0.298
Number of observations	2,396	2,396	2,396	2,229	2,396	2,229

Table 12: OLS regression results for 5-day cumulative abnormal returns (CAR) following Form 8-K Item 4.02 disclosures from 2007 to 2023, with CAR as the dependent variable. Statistical significance is denoted by * ($p < 0.1$), ** ($p < 0.05$), *** ($p < 0.01$).

4 Conclusion

We provide new insights into the market impact of Item 4.02 non-reliance disclosures, analyzing 8,006 filings from 2004 to 2023. Our findings confirm that these disclosures act as robust early risk signals, often triggering significant negative stock price reactions, with cumulative abnormal returns (CARs) ranging from -2.6% to -5.4% . Investors react most severely to revenue recognition errors, which lead to 114% stronger negative returns than net income misstatements. Furthermore, disclosures explicitly stating that the financial impact is yet to be determined experience three times harsher market reactions than those where the full impact is specified, reinforcing the importance of transparency and clarity in financial reporting.

The results carry important implications for stakeholders and financial professionals. Market participants should closely monitor Item 4.02 disclosures as early indicators of financial restatements which follow 97% of such disclosures, incorporating them into risk models and investment decision frameworks. Given that SEC-identified issues do not exacerbate price reactions, investors should focus more on the nature of the reported error rather than regulatory involvement. Additionally, the declining role of Big 4 auditors in these disclosures (from 61% in 2004–2006 to 12% in 2021–2023) suggests that auditor reputation alone does not mitigate financial reporting risks, making due diligence on non-Big 4 auditors increasingly critical. We find that March and November consistently experience the highest volume of Item 4.02 disclosures, aligning with key reporting cycles of audited annual reports (Form 10-K) in February and March and year-end quarterly reports (Form 10-Q) in November.

Regulators, such as the SEC, can view the results as evidence that Item 4.02 disclosure requirements enhance market efficiency by providing timely and material information to stakeholders. Corporate executives should recognize the potential stock price impact of non-reliance disclosures and prioritize clear, immediate communication of financial errors to minimize uncertainty-driven volatility.

Future research could examine insider trading, institutional ownership shifts, and enforcement actions following Item 4.02 disclosures. Reputational effects, litigation risk, and financing costs also warrant exploration. Additionally, analyzing disclosure tone using NLP and identifying restatements without prior 4.02 filings could uncover important patterns in investor response and regulatory compliance.

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