

SESSION 1: FINANCIAL ACCOUNTING AND REPORTING

DATE: FRIDAY, FEBRUARY 23

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Determinants of Firms Managing EPS through Share Repurchases*

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ABSTRACT: This paper examines the determinants of firms that are able to manage earnings per share (EPS) through share repurchases as compared to firms that are not able to manage EPS through share repurchases. To run the test, I utilize Univariate analysis based on the relation between cost of debt capital (CODC) and cost of equity (E/P ratio). Prior research reports that firms with higher (lower) cost of equity are (not) able to manage EPS through share repurchase (Khaledi and Balsam, 2003). I identify determinants of repurchasing firms based on firms' ability to manage EPS upward. Prior research identifies motivations of share repurchasing firms (Dittmar, 2000). However, Khaledi and Balsam (2003) partition their sample based on the relationship between the cost of debt capital (CODC) and the earnings-price ratio (E/P) to examine whether firms are able to manage EPS through share repurchases. I report that managing firms have higher leverage, are larger, and have a higher E/P ratio. Non-managing firms repurchase more shares, have a higher value of share repurchases, have higher market-to-book values, and pay higher interest rates.

* The full text of this paper is available online by going to http://aaahq.org/meetings/2007SW_program.htm and clicking on the link.