Dividend Resumptions, Future Profitability and Stock Returns

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ABSTRACT

We present a new approach to examining the dividend signalling hypothesis by investigating dividend resumptions by former payers. Evidence regarding the signalling hypothesis has been mixed to date. In support of previous work, we find that dividend policy is sticky, whereby the achievement of profitability does not necessarily lead to the resumption of dividend payment. We find no evidence of future growth in profitability following the resumption of dividend payment, but some evidence of a negative effect in the following two years, which is clearly inconsistent with dividend signalling theory. Firms resuming dividend payment fail to achieve significant excess stock returns in the three years after the dividend decision.

Under the dividend signalling hypothesis, dividend initiations and omissions are generally considered to be important events. When a firm initiates a dividend payment, it creates a benchmark against which investors can clearly measure subsequent performance. This can be viewed in contrast to reported earnings, which are widely regarded as being subject to management (e.g. see Burgstahler and Dichev, 1997). It is often concluded that when managers make a commitment to initiate a dividend (with the exception of special payments), they intend to make the distribution not for just one year but rather for the foreseeable future. Therefore, we suggest that managers initiating dividend payment view the firm's outlook to be positive, since to reverse the decision later would almost certainly attract negative reactions from shareholders and other interested parties. This is consistent with Lintner (1956) who reports that managers believe that firms should avoid raising dividend payments that may have to be rescinded in the future. Following this logic further, a dividend omission is a clear acknowledgement by a firm's management that the financial condition of the firm is not in the best of order. Since some investors rely on income as a way of meeting their ongoing liabilities, this is unlikely to be well received. Indeed, Lintner (1956) suggests that firms drop their dividend only as a 'last resort'.

What makes dividend initiations and omissions particularly interesting from the perspective of a financial researcher is the binary nature of the decision. A monetary dividend change can be more ambiguous. For example, consider a firm that pays a dividend of £10.00 in year 0, £11.00 in year 1 and £12.05 in year 2. It would be possible to make a case for differing signals in year 2 depending on one's viewpoint. Firstly the dividend is increased in year 2 which is positive; secondly the percentage

change from years 1 to 2 is lower than from years 0 to 1, which is negative, and finally the actual pound sterling increase is more in year 2 than year 1 which is positive. Whilst in practice most observers would conclude this was a net positive decision for the firm, it illustrates the difference between a simple initiation or omission compared to a nominal pecuniary change. It suggests intuitively that a binary decision may reasonably be considered to be a stronger signal from managers to the market.

Given the clear-cut nature of initiations and omissions, there have been a number of studies investigating various aspects of financial performance surrounding these signals. Dividend initiations have been investigated by, amongst others, Asquith and Mullins (1983), Dyl and Weigand (1988), Healy and Palepu (1988), Michaely et al (1995) and Lipson et al (1998). Dividend omissions have been examined by, amongst others, Healy and Palepu (1988), DeAngelo et al (1992) and Michaely et al (1995). Despite this body of research there is one area that has received comparatively little attention, namely that of exclusively examining dividend resumptions by former payers (for a notable exception see Boehme and Sorescu, 2002, who study long-run stock returns of dividend resuming firms).

There are reasons to believe that a resumption of dividends by a former payer may have a different implication for future performance than an initiation by a firm that has never previously paid a dividend. Benito and Young (2001) find that UK firms that were former payers have exhibited historically low returns on capital employed, high levels of interest gearing and less investment opportunities and actual investment than firms that have never paid a dividend. Fama and French (2001) find that US

firms that were former payers tended to be distressed, have low earnings and few investments whereas firms that had never paid were more profitable and with greater growth opportunities. In addition to the financial characteristics, former payers have a label of having previously failed to maintain dividend payments. This may affect the actions of the managers of such firms, compared to firms that have never paid dividends and thus have an unblemished record regarding dividend cuts. Further, firms make specific mention of dividend resumptions in their annual reports. For example, "As a demonstration of the Board's confidence in the company's future we are pleased to announce a dividend for the year of 0.25p" (Corporate Services Plc Annual Report 1994) and, "To reflect not only the improved performance in 1994 but also confidence in the future, the directors recommend a dividend of 1.0p for the year" (Fisher (James) Plc Annual Report 1994). Here we investigate whether firms that were former payers use a dividend resumption to signal to investors that future profitability will be favourable. It is hypothesized that the recommencement of dividend payments should be a powerful signal to investors since we anticipate that managers would only resume distributions again if they were especially confident about future earnings.

We find that for a former payer to resume dividend payments it generally has to be a profitable year; however, the level of profitability is only of secondary consideration. This is comparable with the findings of DeAngelo et al (1992) that firms with a sustained period of positive earnings and dividends typically require a loss in order to cut dividends, and almost exclusively so to omit dividends. A loss year does not automatically equate to a dividend reduction, though, just as we find a profitable year

for a former payer does not immediately lead to a return to dividend payment. This highlights the 'stickiness' observed by others in dividend policy.

To examine the future profitability of dividend resuming firms we utilize the dual approach of earnings changes and levels proposed by Nissim and Ziv (2002). We find no significant evidence of positive future profitability for dividend resuming firms; indeed, surprisingly, there is evidence of *lower* earnings in the two years *after* a recommencement. Indeed, over a quarter of firms in our sample report a loss in the second financial year following dividend resumption. In contrast, we find evidence of positive changes in profitability for dividend omitting firms in the year after omission, consistent with previous work by Healy and Palepu (1988) and Bernatzi et al (1997) for dividend reducing firms. This supports the 'big bath' theory, whereby firms sink all of the bad news into the year of the dividend omission making it easier to report improved performance in following periods.

Finally, we study the longer-run stock returns of dividend resuming firms. On an equally weighted basis we find a small, insignificant positive excess return for post-announcement horizons of one to three-years. When a value-weighted portfolio approach is used, we observe a larger negative excess return although this too is statistically insignificant. The lower return to a value-weighted portfolio is consistent with Boehme and Sorescu's (2002) findings for a combined sample of dividend initiating and resuming firms.

The remainder of the paper is organized as follows. Section 1 outlines the data and methodology. Section 2 considers the decision to resume paying dividends. Section 3

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investigates the future profitability of the dividend signal. Section 4 studies the long-run stock returns. Section 5 concludes.

1. Data & Methodology

We investigate UK companies that were former payers of dividends, over the sample period 1992-2000. A firm was categorized as a former payer if it had paid a regular (i.e. interim or final but not special payments) dividend at some time during 1988-2000 and then in subsequent financial year(s) omitted to pay a regular dividend for the entire year. Firms were initially identified using the London Share Price Database (LSPD) and then individual firm data was collected from FAME and LexisNexis. Throughout the study we use annual data since, according to Watts (1973), dividends are set based on yearly earnings rather than interim periods.

Firm years of former dividend paying stocks were also additionally classified as being a dividend omission year if a dividend was paid at some point during the previous financial year. A firm year was classified as a dividend resumption year if payments were initiated with a *final* dividend after paying no dividend in the previous financial year. We ignore firms that began paying dividends again with an interim payment since the FAME database does not report interim accounts. It is therefore difficult to sensibly examine changes to a company's financial characteristics when the dividend change is not contemporaneous with the accounting data.

Consistent with other studies in this area, such as DeAngelo et al (1996) and Nissim and Ziv (2002), we only consider industrial firms (i.e. non-financial, non-utility

firms). Furthermore, we exclude companies that have irregular accounting periods and those with incomplete data available[1]. A total of 528 firm years are found to satisfy our criteria of which 74 are dividend resumption years and 134 are dividend omission years.

Table I presents summary statistics for the dividend resuming firms in our sample. Panel A displays the profile of resumptions of dividends for the sample companies. There is clearly a bias towards the earlier years of the study period; this is probably attributable to the recession of the early 1990s that caused the proportion of dividend paying firms to drop markedly (see ap Gwilym et al, 2004). By the mid-1990s a number of firms were able to repair their balance sheets and commence payments again. Panel B shows the distribution of firms by market capitalization decile in the month of the announcement that dividends are to recommence. There are very few large firms that resume payments, whilst over two-thirds of our sample firms are in the lower half of the market deciles. Larger firms would be expected to have sufficient financial strength to withstand a couple of difficult trading years without omitting payments, and thus they have no need to make dividend resumptions.

2. The Dividend Resumption Decision

To establish the conditions necessary for a resumption in dividend payments by former payers it is worth considering the reasons why these companies became former payers in the first place. DeAngelo and DeAngelo (1990) study firms with three or more loss-making years in succession and find a high level of dividend cuts. DeAngelo et al (1992) investigate the dividend policy of firms with a history of

positive earnings and dividends. They observe that half of the firms that suffer a loss year cut dividends and 15% go further and omit payments entirely. Amongst firms that did not post a loss, only 1% cut dividends whilst a negligible number omitted dividends. The essence of the findings is that a loss year does not guarantee a dividend cut but a loss is a virtual necessity for a dividend reduction to take place, and even more so for an omission.

Table II reports the level of profitability in the form of return on equity for former payers and the number of corresponding dividend resumptions. This sample contains 329 firm years. The number of profitable years (171) is roughly equal to the number of loss making years (158); however there are just 7 incidences of dividend resumptions in unprofitable years compared to 67 resumptions in profitable periods. Furthermore there is a general trend that the greater the level of profitability, the greater the incidence of dividend recommencement. In much the same way as DeAngelo et al (1992) find that a loss does not guarantee a dividend cut for current payers, we observe comparable evidence for former payers. A profitable year does not guarantee a dividend resumption; however a profitable year is a major factor in the decision to resume payments. This serves to reinforce the notion of 'stickiness' in dividend policy.

We further investigate the behaviour of former payers by estimating a logit regression relating dividend resumptions or non-resumptions to key financial variables. The same pooled sample of firm years is used as in Table II, with the dependent variable taking the value of one if payments were resumed and zero otherwise. Independent variables used include profitability, a loss dummy and the

number of financial years the firm has spent as a former payer (*YAFP*). We hypothesize that if dividends are sticky then firms that have recently omitted payments may be more inclined to recommence more rapidly than firms that have a long history of non-payment and whose shareholders have grown accustomed to this policy.

The results in Table III show that the level of profitability is an important factor in the resumption of dividends; however when the specification also includes a loss dummy it is the latter that has the greater statistical significance. This suggests the overriding factor in the dividend decision is whether the firm was profitable rather than the rate of return on assets. Again, this finding is consistent with DeAngelo et al (1992) who report that a loss is the dominant factor in dividend reductions rather than the magnitude of the loss. The *YAFP* variable has the negative coefficient expected for a sticky dividend policy in most specifications; however it is not significant in any equation and in the single explanatory variable model it has the 'wrong' sign. We conclude that this is not an important factor in the dividend decision.

3. Dividend Resumptions & Future Profitability

A key question regarding the information content of dividends and dividend resumptions concerns the extent to which the latter signals future profitability. The premise that dividend changes convey information about companies' future profitability has received support from, amongst others, Nissim and Ziv (2002) using dividend changes, Healy and Palepu (1988) for dividend initiating firms, and Joos and Plesko (2004) for loss-making firms with negative cash flows. However other studies

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such as those by DeAngelo et al (1996) for firms where sustained earnings growth has ended, Bernatzi et al (1997) for dividend changes, and Dyl and Weigand (1998) and Lipson et al (1998) for dividend initiating firms, have found evidence inconsistent with the signalling hypothesis. Our contribution to this body of work is to examine the relationship between dividend resuming firms and future profitability.

Nissim and Ziv (2002) observe that in order to gauge whether dividend policy conveys information, future profitability has to be estimated from values available in the dividend decision year. These estimates usually consist of a random-walk or growth-adjusted model with unexpected earnings being recorded as the difference between actual and anticipated earnings. Nissim and Ziv (2002) show that no evidence of signalling is found using these models; however, the introduction of previously omitted correlated variables leads to a positive relationship between dividend changes and subsequent earnings changes. They also find a significant positive relationship between dividends and future earnings when the *levels* of earnings are used rather than the *changes* used in many previous studies.

The resumption of dividend payments would appear to be a potentially powerful signal under the dividend information hypothesis. Former payers have typically experienced losses in the past that have caused the original omission and thus it could reasonably be expected that a dividend recommencement reflects managers' views that these firms are destined to be profitable for the foreseeable future. Certainly there seems little incentive for managers to begin making payments if they believe they are unsustainable since Kaplan and Reishus (1990) find that managers that cut dividends

by at least 25% face a higher probability of losing their jobs compared to those who do not.

We investigate the value of dividend resumptions as a signal using models based on those proposed by Nissim and Ziv (2002). Instead of using dividend change variables however, we utilize a dummy variable, DR_0, to represent the decision to recommence payments and also a separate dummy variable, DO_0, to denote if a dividend omission took place. The return on equity, ROE, is also included as an explanatory variable since previous research has shown it to be positively correlated with dividend changes but negatively correlated with future earnings[2]. Specifically, Panel A of Table IV displays the results of estimating Equation 1:

$$(E_\tau - E_{\tau-1})/B_{-1} = \alpha_0 + \alpha_1 DR_0 + \alpha_2 DO_0 + \alpha_3 ROE_{\tau-1} + \varepsilon_\tau \qquad \text{Equation 1}$$

for $\tau = 1$, 2 and 3, where τ is the number of financial years after the dividend decision in year 0, $ROE_{\tau-1}$ is calculated as $E_{\tau-1}/B_{\tau-1}$ where E denotes earnings after exceptional items, interest, taxation, extraordinary items and minority interests but excluding dividends and B is the value of shareholders' funds[3]. All test statistics reported are heteroskedasticity-robust White (1980) t-statistics.

The results in Panel A show that in year 1, there is a positive coefficient on α_1 consistent with the signalling hypothesis; however in years 2 and 3 the coefficients are negative. None of these coefficients are statistically significant. The coefficient on the dividend omission variable, α_2, is also positive in year 1 but negative in years 2 and 3. The positive change in earnings in the year after omission is consistent with the

results of Jensen and Johnson (1995) for dividend cutting firms; however they find the earnings growth continues into year 2 also.

Panel B reports the results of the estimation of the same model as in Panel A except a term is also included to control for the earnings change in year 0, $(E_0 - E_{-1})/B_{-1}$. The addition of this variable adds materially to the explanatory power of the regressions. As before though, both α_1 and α_2 are positive in the year immediately after the dividend decision and negative in year 2. In year 3, α_1 is almost zero whilst α_2 remains negative. The positive relationship between earnings changes and both the resumption and omission variables in year 1 are consistent with Nissim and Ziv (2002) although they find a higher level of significance for their dividend increase/decrease variables. In year 2 however they find a positive coefficient for earnings increases and a weak negative relationship for the dividend decrease variable.

To further investigate the information content of dividend payments we also consider the levels of earnings as opposed to changes from one year to the next. Similar variables are used in Equation 2 as in Equation 1 but the market value of equity one-year prior to the dividend decision, P_{-1}, is also included. This attempts to control for information that is available to the market but that is not encompassed within the accounting data for whatever reason. The earnings variables and the market capitalization variable are all deflated by shareholders' funds in year -1 (not shown in Equation 2 for brevity).

$$E_\tau = \alpha_0 + \alpha_1 DR_0 + \alpha_2 DO_0 + \alpha_3 E_0 + \alpha_4 P_{-1} + \varepsilon_\tau \qquad \text{Equation 2}$$

Table V reports the results of the estimation of Equation 2. The dividend resumption coefficient, α_1, is now significantly negative in years 1 and 2 compared to positive and negative signs respectively in the earnings change model. In year 3 α_1 is also negative but this is not statistically significant. The dividend omission coefficient, α_2, has a positive value in all three years and is significant in year 1.

The results of this section suggest that dividend resumptions do not signal future profitability for firms. Indeed the suggestion is that these firms tend to underperform in terms of profitability in the years subsequent to a dividend recommencement. In fact, of the 74 dividend resuming companies 13 report losses one year after the resumption, 20 report a loss in the second year after the resumption, and 30 firms fail to be profitable in the third year after recommencement. These observations are clearly not consistent with Lintner's (1956) finding that managers believe that dividend increases should be accompanied by permanent, non-transitory increases in earnings. If managers' attitudes have changed and they no longer adopt this belief then perhaps they are more willing to gamble with dividend policy than in the past. This may be particularly true of former dividend payers where additional pressures could exist to quickly restore credibility following the prior omission.

A further possible explanation for these results is that managers are too optimistic for the future of their firms. They see that profitability has improved since the time when the dividend was initially omitted and attribute this change in fortune to their own skill. To highlight this improved performance to investors, dividend payments are resumed. If however the firm simply recovered due to greatly enhanced industry

conditions then management skill may have been a relatively small factor in the turnaround of company profitability (this may be particularly true for commodity type businesses). When industry conditions decline again, management is unable to maintain profitability levels thus explaining the results reported earlier.

An alternative view is that many of the firms in our sample are relatively small and as such are less likely to market leaders in their chosen field. This may entail less pricing power and an inability to maintain a consistent level of profitability compared to a larger rival with an associated history of continuous dividend payments. The evidence presented for dividend omissions does suggest that the year when dividends are initially foregone may be the worst the firm has to endure. This is consistent with the accounting notion that bad news should be reflected in earnings when it is anticipated. It also supports the findings of Healy and Palepu (1988) and Bernatzi et al (1997) who observe earnings increases in the years after a dividend reduction.

4. Stock Returns and Dividend Resumptions

A number of different studies have considered the impact of dividend policy on stock returns. These have included, amongst others, dividend changes and stock returns around announcement days (e.g. Aharony and Swary, 1980), long-run returns for dividend initiating firms (e.g. Michaely et al, 1995 and Boehme and Sorescu, 2002), and returns to dividend reducing/omitting firms (e.g. Woolridge and Ghosh, 1986 and Jensen and Johnson, 1995).

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In recent years a number of papers have questioned past methods of estimating long-run returns. A general consensus has emerged that calculating this type of return is fraught with difficulties. For example, Barber and Lyon (1997) find that calculating returns relative to a benchmark index leads to misspecified test statistics. Fama (1998) considers the evidence for a large number of long-run pricing anomalies and argues that many are unreliable due to being reported using equally weighted portfolios rather than value-weighted or alternatively are very dependent on the time frame chosen for the study. Indeed one of those anomalies that is referred to is pertinent to this study, namely that of dividend initiations.

In this paper we examine whether there is a historical pattern of excess returns following dividend resumptions similar to that observed by others in the US for dividend initiations. We follow an approach suggested by Lyon et al (1999) and subsequently used by Boehme and Sorescu (2002) for a sample of combined dividend initiating and resuming firms. For each sample firm, a control firm is also selected based on size and momentum in the month prior to the dividend announcement in year 0. Matched firms first have to be between 60% and 140% of the market capitalization of the sample firm with the control firm then selected as that with the closest 12-month pre-event momentum to the sample firm (see Mitchell and Stafford, 2000). Controlling for momentum may be important as Chan et al (1996) find these effects can persist for 6 months after the momentum measuring period; in addition, momentum is one of those anomalies that Fama (1998) points to having not been rejected. For each sample firm a buy-and-hold abnormal return (BHAR) is calculated using Equation 3:

$$BHAR_{i\theta} = \prod_{t=1}^{\vartheta}[1+R_{it}] - \prod_{t=1}^{\vartheta}[1+E(R_{it})]$$ Equation 3

where R_{it} is the month t return of the sample firm, $E(R_{it})$ is the expected return from the sample firm based on the control benchmark and θ is the number of months. All calculations are made assuming both equally weighted portfolios and value weighted[4] portfolios. This is important given the number of small firms highlighted in Table I in this sample. All t-statistics are adjusted for skewness whilst the statistical significance of the test statistics are calculated using the bootstrapping methodology of Lyon et al (1999) using a resample size of $n/2$.

Table VI reports the results of the long-run returns for the dividend resuming firms. From the equally weighted portfolio we find a positive return for post-announcement horizons of 1, 2 and 3-years; however none of these is significant at the 95% level. In contrast, from the value-weighted portfolio there is a negative return in all three horizons, again though none are significant at the 95% level. The lower returns for value weighted-portfolios are consistent with Boehme and Sorescu (2002) although they do not report negative returns.

5. Conclusion

This paper has investigated the 'information content of dividends hypothesis' by examining firms that are resuming dividend payments after an interruption. We hypothesized that a resumption of dividend payment should be a powerful positive signal to investors since managers would only commence payments again if they were

particularly confident about the outlook for future profitability. We find that the decision to resume dividends by former payers is largely dependent on whether the firm has a profitable year or not, but that the level of profitability is of secondary importance. However, a profitable year does not guarantee the recommencement of dividends. This is consistent with the observations made by DeAngelo et al (1992) that a loss is a virtual necessity for a dividend cut or omission but that a loss does not guarantee a dividend cut. It confirms the existence of 'stickiness' within firms' dividend policies.

Using earnings changes, we find no significant evidence that dividend resumptions lead to higher future profitability. When earnings levels are used, we find future earnings are actually *lower* after a dividend resumption for the following two years. Dividend omitting firms do experience a rebound in earnings in the year subsequent to the end of payments consistent with the 'big bath' theory and the evidence of Healy and Palepu (1988) and Bernatzi et al (1997). A study of the post-announcement stock returns of dividend resuming firms finds no evidence of significant outperformance of control firms matched on size and momentum, either on an equally weighted or value weighted basis.

Notes

1. Consistent with Nissim and Ziv (2002), we also exclude firm years from the sample if the value of shareholders' funds is less than 10% of total assets in the year prior to the dividend decision in year 0. This is done because the paper utilises many variables that are standardized by the book value in this year, and thus negative or small positive values are likely to lead to erroneous results.

2. See Freeman et al (1982) and Fama and French (2000) for more information.

3. Shareholders' funds are set at the actual level reported by the company or 10% of total assets, whichever is the greater, consistent with Nissim and Ziv (2002).

4. Value-weighted portfolios are calculated by standardizing the sample firms by the total value of firms by market capitalization quoted on the LSPD at the end of the particular announcement month.

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Table I
Summary Statistics for Dividend Resuming Firms

Dividend resuming firms are classified into the year that the dividend announcement was made. Size deciles are allocated on the market capitalization of the firms at the end of the announcement month relative to all firms listed in the LSPD in the same month.

Panel A: Resumptions of Dividends by Calendar Year					
Year	No. of Resumptions	% of Sample	Year	No. of Resumptions	% of Sample
1992	6	8.1%	1997	4	5.4%
1993	8	10.8%	1998	6	8.1%
1994	14	18.9%	1999	5	6.8%
1995	17	23.0%	2000	1	1.4%
1996	13	17.6%			

Panel B: Dividend Resumptions by Market Capitalization Decile (whole sample 1992-2000)					
Size Decile	No. of Resumptions	% of Sample	Size Decile	No. of Resumptions	% of Sample
1 (Large)	1	1.4%	6	12	16.2%
2	2	2.7%	7	11	14.9%
3	5	6.8%	8	15	20.3%
4	7	9.5%	9	10	13.5%
5	5	6.8%	10 (Small)	6	8.1%

Table II
Incidences of Resumptions of Dividend Payments by Former Payers Ranked According to Return on Equity during 1992-2000

Return on equity is calculated as the profit for the period divided by shareholders' funds in the previous year. The profit for the period is earnings after exceptional items, interest, taxation, extraordinary items and minority interests but excluding dividends. All dividend resumptions were verified using the annual report service from LexisNexis. Firm years were only included in the sample if no dividends were paid during the previous financial year.

Profitability	Firm Years	Number of Resumptions	Percentage of Firm Years
< –30%	79	2	2.5%
–30% to –20%	21	0	0.0%
–20% to –10%	24	2	8.3%
–10% to 0%	34	3	8.8%
0% to 10%	71	19	26.8%
10% to 20%	51	24	47.1%
20% to 30%	16	11	68.8%
> 30%	33	13	39.4%
TOTAL	**329**	**74**	**22.5%**

Table III
Logit Analysis of the Decision to Resume Dividend Payments for Former Payers During 1992-2000

Firm years were only included in the sample if no dividends were paid during the previous financial year. The independent variable takes the value of zero if the firm did not recommence paying dividends, and one otherwise. Years as former payers (YAFP) are calculated as the number of full financial years since the last dividend payment was made, excluding the dividend omission year itself. The profit for the period is standardized by shareholders' funds in the prior year. The loss dummy takes the value of zero if the firm was profitable, and one otherwise. Pseudo R^2 values are calculated using the method of Estella (1998).

	Coefficient (*t*-statistic)						
Constant	-0.358	-1.032	-0.182	-1.260	-0.641	-0.440	-1.262
	(-1.22)	(-4.12)	(-0.66)	(-5.46)	(-3.27)	(-2.81)	(-8.40)
YAFP	-0.104	-0.088	-0.090	0.009	-	-	-
	(-1.28)	(-1.11)	(-1.12)	(0.12)			
Profit for	1.097	3.115	-	-	1.026	-	2.989
Period	(1.79)	(5.25)			(1.71)		(5.22)
Loss	-2.046	-	-2.689	-	-2.013	-2.632	-
Dummy	(-3.99)		(-6.38)		(-3.94)	(-6.31)	
Pseudo R^2	21.2%	15.7%	19.9%	0.0%	20.7%	19.5%	15.3%

Table IV
Regressions of Future Earnings Changes for Former Payers, Dividend Omitting Firms and Dividend Resuming Firms

E_τ denotes earnings in Year τ relative to the dividend event year (Year 0). B_τ is the value of shareholders' funds in Year τ. DR_0 is a dummy variable that equals one if the firm resumes payment of dividends in Year 0, and zero otherwise. DO_0 is a dummy variable that equals one if the firm omits payment of dividends entirely in Year 0, and zero otherwise. ROE_τ is calculated as E_τ/B_τ. For each of the regressions, the first row reports the coefficient with White's (1980) t-statistic reported in parentheses below.

Panel A: $(E_\tau - E_{\tau-1})/B_{-1} = \alpha_0 + \alpha_1 DR_0 + \alpha_2 DO_0 + \alpha_3 ROE_{\tau-1} + \varepsilon_\tau$					
	α_0	α_1	α_2	α_3	Adj. R^2
$\tau = 1$	-0.711	0.740	0.893	-0.105	0.1%
	(-1.06)	(1.10)	(1.38)	(-3.34)	
$\tau = 2$	0.161	-0.278	-0.408	-0.097	3.0%
	(1.04)	(-1.65)	(-1.84)	(-2.56)	
$\tau = 3$	0.480	-0.601	-0.599	-0.243	1.0%
	(0.76)	(-0.94)	(-0.83)	(-2.36)	

Panel B: $(E_\tau - E_{\tau-1})/B_{-1} = \alpha_0 + \alpha_1 DR_0 + \alpha_2 DO_0 + \alpha_3 ROE_{\tau-1} + \alpha_4(E_0 - E_{-1})/B_{-1} + \varepsilon_\tau$						
	α_0	α_1	α_2	α_3	α_4	Adj. R^2
$\tau = 1$	-1.392	0.111	2.211	-0.367	3.024	42.8%
	(-1.78)	(0.22)	(1.91)	(-2.02)	(1.70)	
$\tau = 2$	0.261	-0.123	-0.693	-0.064	-0.588	27.2%
	(1.61)	(-0.86)	(-2.24)	(-1.29)	(-1.63)	
$\tau = 3$	0.846	0.015	-1.766	-0.163	-2.664	40.7%
	(1.36)	(0.03)	(-1.55)	(-1.32)	(-1.64)	

Table V
Regressions of Future Earnings Levels for Former Payers, Dividend Omitting Firms and Dividend Resuming Firms

E_τ denotes earnings in Year τ relative to the dividend event year (Year 0). B_τ is the value of shareholders' funds in Year τ. DR_0 is a dummy variable that equals one if the firm resumes payment of dividends in Year 0, and zero otherwise. DO_0 is a dummy variable that equals one if the firm omits payment of dividends entirely in Year 0, and zero otherwise. P_{-1} is the market value of equity in Year -1. All values of E_τ, E_0 and P_{-1} are standardized by B_{-1}. For each of the regressions, the first row reports the coefficient with White's (1980) t-statistic reported in parentheses below.

	α_0	α_1	α_2	α_3	α_4	Adj. R^2
$E_\tau = \alpha_0 + \alpha_1 DR_0 + \alpha_2 DO_0 + \alpha_3 E_0 + \alpha_4 P_{-1} + \varepsilon_\tau$						
$\tau = 1$	1.600	-1.599	1.144	4.330	-0.320	81.9%
	(4.09)	(-3.81)	(2.36)	(5.32)	(-3.58)	
$\tau = 2$	1.422	-1.573	0.649	3.605	-0.237	79.3%
	(3.89)	(-4.15)	(1.40)	(5.18)	(-2.19)	
$\tau = 3$	0.070	-0.130	0.147	0.439	-0.024	21.8%
	(0.50)	(-0.83)	(0.98)	(6.15)	(-0.26)	

Table VI
Post-Announcement Buy-and-Hold Abnormal Returns for Dividend Resuming Firms

Buy-and-hold returns (BHAR) are calculated by subtracting the BHAR of the control firm from the BHAR of the sample event firm. The control firm is selected on the basis of similar size and pre-event momentum. BHARs are calculated on either an equally weighted basis, or a value-weighted basis, beginning at the end of the event month. *T*-statistics are shown in parentheses and are calculated adjusted for skewness. The significance levels are calculated following the bootstrapping methodology described by Lyon, Barber and Tsai (1999).

Post-Announcement Horizon	Average Cross-Sectional Abnormal Return	
	Equally Weighted	Value Weighted
1-Year	0.053	-0.122
	(0.58)	(-1.68)
2-Years	0.176	-0.242
	(1.02)	(-1.82)
3-Years	0.120	-0.024
	(0.61)	(-0.04)