

# SHARE REPURCHASES AND EARNINGS MANAGEMENT

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In the first essay, I examine whether firms use share repurchases to manage earnings per share (EPS) and what role corporate governance plays in mitigating this EPS management behavior. Results suggest that firms do use share repurchases for the purpose of managing EPS upwards. Results also show that the relation between repurchases and EPS management affects not only the likelihood of repurchases, but also the level of repurchases. Examining EPS management through repurchases and the role of corporate governance, I find that CEO share ownership and unexercisable option holdings restrain managers from manipulating EPS through repurchases. A firm's board does not play a significant role in explaining firms' EPS management through repurchases.

In the second essay, I investigate whether firms use accruals management and EPS management through repurchases as substitutes or complements, while controlling for firms' real earnings management activities. Results suggest a substitutive relation between these two types of earnings management mechanisms, and this substitutive relation becomes stronger after the enactment of Sarbanes-Oxley Act (SOX). Examining the impact of SOX on the relation between accruals management and earnings management through real activities, I find a negative and significant relation between accruals management and both real earnings management through sales manipulation and

overproduction prior to and after SOX, and this negative relation is strengthened in the post-SOX era. Results also show a positive relation between accruals management and earnings management through reduction of research and development (R&D) expenses, and this positive relation becomes weaker in the post-SOX era. Overall, results suggest a substitutive relation between accruals management and both EPS management through repurchases and real earnings management activities.