# Trust and Debt Contracting:
# Evidence from the Backdating Scandal

## Internet Appendix

Table A. Univariate differences between backdaters and non-backdaters prior to the revelation

Table B. The impact of option backdating on corporate trust

**Appendix Table A. Univariate differences between backdaters and non-backdaters prior to the revelation**

This table compares means of variables related to firm characteristics between all backdaters and non-backdaters of our sample in year 2006. Tests for significance of mean differences are implemented as paired *t*-tests with standard errors clustered at the borrower level; tests of significance are two-sided. All variables are defined in Appendix. Firm characteristics of backdaters are compared to firm characteristics of non-backdaters. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

| | Backdaters | Non-backdaters | Difference |
|---|---|---|---|
| *Total assets* (in $ millions) | 3,729.60 | 3,730.60 | 1.03 |
| | | | (0.00) |
| *Coverage* | 52.69 | 64.85 | 12.16 |
| | | | (0.89) |
| *Leverage* | 0.24 | 0.25 | 0.02 |
| | | | (1.35) |
| *Profitability* | 0.15 | 0.15 | 0.00 |
| | | | (0.33) |
| *Tobin's Q* | 1.90 | 1.85 | −0.05 |
| | | | (1.00) |
| *Altman Z* | 1.66 | 1.67 | 0.01 |
| | | | (0.12) |
| Observations | 485 | 976 | |

**Appendix Table B. The impact of option backdating on corporate trust**

**Table B1. Univariate analysis on firm-level trust**

This table presents means of corporate trust measures for non-backdaters, backdaters that are not listed in WSJ or Glass-Lewis report, and the backdaters that are listed in WSJ or Glass-Lewis report. In column 1 and 2, The *proxy for corporate trust* is measured by adding strengths and subtracting concerns for the categories including community, diversity, employee relations, environment, human rights, and corporate governance. In column 3 and 4, *Reporting quality & accounting concern* is used as the proxy for corporate trust measured by adding the reporting quality category and subtracting the accounting concern category. Tests for significance of mean differences between groups are implemented as two-sided t-tests. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

| | *Proxy for corporate trust* | | | | *Reporting quality & accounting concern* | | | |
|---|---|---|---|---|---|---|---|---|
| | Obs | Pre revelation (2005) | Obs | Post revelation (2007) | Obs | Pre revelation (2005) | Obs | Post revelation (2007) |
| Non-backdaters | 1,168 | −0.251 | 1,012 | −0.265 | 1,168 | 0.000 | 1,012 | −0.015 |
| Backdaters (neither WSJ nor Glass-Lewis) | 446 | −0.226 | 402 | −0.277 | 446 | 0.002 | 402 | −0.010 |
| Backdater (WSJ or Glass-Lewis) | 78 | −0.316 | 62 | −0.414 | 78 | 0.000 | 62 | −0.258 |
| **Differences:** | | | | | | | | |
| Backdaters (not WSJ or Glass-Lewis) − Non-backdaters | | 0.025 | | −0.012 | | 0.002 | | 0.005 |
| | | (0.86) | | (0.38) | | (0.15) | | (0.28) |
| Backdaters (WSJ or Glass-Lewis) − Non-backdaters | | −0.065 | | −0.149** | | 0.000 | | −0.243*** |
| | | (1.08) | | (2.19) | | (0.00) | | (6.13) |
| Backdaters (WSJ or Glass-Lewis) − Backdaters (neither WSJ nor Glass-Lewis) | | −0.090 | | −0.137* | | −0.002 | | −0.248*** |
| | | (1.48) | | (1.88) | | (0.07) | | (5.65) |

**Table B2. State level trust**

This table reports results from regression analyses. The response variable is the state-wise trust on big businesses, computed as the number of individuals with high confidence on the big businesses in their own state scaled by the total number of respondents. The main variables of interest include *States with large number of backdaters* and *Number of backdaters in a state*. The respondent characteristics include *College education*, *High income*, *Male*, *Protestant/Jewish*, *Republican*, *White/black/Hispanic*. *State GDP growth* and *State stock return* are included as economic control variables. The model includes fixed effects for state and year. *t*-statistics from two-sided tests of significance are reported under the parameter estimates, in parentheses with standard errors clustered by firm. *, **, and *** denote statistical significance at the 0.10, 0.05, and 0.01 levels, respectively.

| | *Trust in Big Business* | |
|---|---|---|
| *State with large number of backdaters* (binary) × *Post revelation* | −0.06** | |
| | (2.47) | |
| *Number of backdaters in a state* (ratio) × *Post revelation* | | −0.98*** |
| | | (3.06) |
| *College education* | 0.06 | 0.06 |
| | (1.04) | (1.02) |
| *High income* | −0.08 | −0.08 |
| | (1.05) | (1.08) |
| *Male* | 0.08** | 0.09 |
| | (1.52) | (1.60) |
| *Protestant/Jewish* | −0.02 | −0.02 |
| | (0.28) | (0.34) |
| *Republican* | 0.18*** | 0.19*** |
| | (3.14) | (3.33) |
| *White/black/hispanic* | −0.28** | −0.29** |
| | (2.25) | (2.22) |
| *State GDP growth* | −0.29 | −0.29** |
| | (0.87) | (0.89) |
| *State stock return* | 0.83 | 0.80 |
| | (1.64) | (1.55) |
| Intercept | Yes | Yes |
| State, Year FE | Yes | Yes |
| Observations | 387 | 387 |
| Adjusted $R^2$ | 0.155 | 0.155 |