

Internet Appendix to “Analyzing the Tax Benefits from Employee Stock Options” *

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Table IA.I
Market Leverage Ratios and Stock Options Use

The dependent variable is the *Market leverage ratio*, defined as the sum of short-term and long-term debt, divided by the market value of total assets. *BS value of options outstanding* is the Black-Scholes value (adjusted for dividends) of stock options outstanding divided by the market value of equity at the fiscal year-end. *Executive wages/assets* are equal to the average bonus and fixed salary of top executives normalized by assets. The regressions are estimated by a Tobit model with year dummies and industry dummies defined by one-digit SIC codes. High-profit (low-profit) firms are firms that have EBIT above (below) the 75th sample percentile. Marginal effects are displayed with the maximum likelihood *p*-values in parentheses.

	Full sample	High profit firms	High profit firms	Low profit firms
BS value of options outstanding	0.154** (0.049)	1.060*** (<0.001)	0.265 (0.459)	-0.129* (0.084)
BS value*Correlation of earnings and deductions			1.682*** (0.001)	
Executive wages/assets	-0.001 (0.537)	0.015 (0.383)	0.013 (0.452)	-0.003 (0.259)
R&D/assets	-0.719*** (<0.001)	-1.476*** (<0.001)	-1.516*** (<0.001)	-0.428** (0.021)
High earnings volatility dummy	-0.015** (0.022)	-0.024 (0.116)	-0.022 (0.151)	-0.009 (0.172)
CAPEX/assets	-0.680*** (<0.001)	-0.255 (0.268)	-0.202 (0.380)	-0.735*** (<0.001)
SG&A/assets	-0.086*** (<0.001)	-0.118* (0.073)	-0.134** (0.043)	-0.050** (0.023)
PPE/assets	0.145*** (<0.001)	-0.041 (0.481)	-0.068 (0.245)	0.204*** (<0.001)
NDTS/assets	0.195** (0.045)	-0.501 (0.222)	-0.480 (0.244)	0.192** (0.030)
Firm size	0.046*** (<0.001)	0.071*** (<0.001)	0.068*** (<0.001)	0.052*** (<0.001)
Serial correlation in earnings	-0.128*** (<0.001)	-0.177*** (<0.001)	-0.176*** (<0.001)	-0.101*** (<0.001)
Correlation of earnings and deductions			-0.033 (0.101)	
Number of observations	2,253	586	582	1,667

Table IA.II
Net Market Leverage Ratios and Stock Options Use

The dependent variable is the *Net market leverage ratio*, defined as the sum of short-term and long-term debt net of cash holdings, divided by the market value of assets. *BS value of options outstanding* is the Black-Scholes value (adjusted for dividends) of stock options outstanding divided by the market value of equity at the fiscal year-end. *Compensation/assets* is equal to labor expense (set to the median industry value if missing for the firm) normalized by assets. The regressions are estimated by OLS with year dummies and industry dummies defined by one-digit SIC codes. High-profit (low-profit) firms are firms that have EBIT above (below) the 75th sample percentile. *p*-values based on robust standard errors, clustered by firm, are displayed in parentheses.

	Full sample	Full sample	High profit firms	Low profit firms
BS value of options outstanding	-0.278 (0.254)	-0.401* (0.088)	0.234 (0.753)	-0.477** (0.047)
BS value*High profit dummy		1.385** (0.039)		
Compensation/assets	-0.447*** (0.004)	-0.412*** (0.006)	-0.684*** (<0.001)	-0.006 (0.977)
R&D/assets	-0.543*** (0.003)	-0.494*** (0.006)	-1.757*** (<0.001)	-0.324** (0.030)
High earnings volatility dummy	-0.035* (0.064)	-0.038** (0.042)	-0.002 (0.962)	-0.037** (0.038)
CAPEX/assets	-0.638*** (<0.001)	-0.594*** (<0.001)	-0.433 (0.209)	-0.733*** (<0.001)
SG&A/assets	-0.184*** (<0.001)	-0.176*** (<0.001)	-0.366 (0.853)	-0.157*** (<0.001)
PPE/assets	0.248*** (<0.001)	0.244*** (<0.001)	0.005 (0.961)	0.343*** (<0.001)
NDTS/assets	-0.023 (0.942)	-0.025 (0.937)	-0.236 (0.749)	-0.032 (0.922)
Firm size	0.040*** (<0.001)	0.048*** (<0.001)	0.061*** (0.003)	0.047*** (<0.001)
Serial correlation in earnings	-0.061** (0.028)	-0.055** (0.041)	-0.072 (0.287)	-0.042 (0.119)
High profit dummy		-0.090*** (<0.001)		
Number of observations	2,369	2,369	593	1,776

Table IA.III
Book Leverage Ratios and Stock Options Use

The dependent variable is the *Book leverage ratio*, defined as the sum of short-term and long-term debt, divided by the book value of assets. *BS value of options outstanding* is the Black-Scholes value (adjusted for dividends) of stock options outstanding divided by the market value of equity at the fiscal year-end. *Compensation/assets* is equal to labor expense (set to the median industry value if missing for the firm) normalized by assets. The regressions are estimated by a Tobit model with year dummies and industry dummies defined by one-digit SIC codes. High-profit (low-profit) firms are firms that have EBIT above (below) the 75th sample percentile. Marginal effects are displayed with the maximum likelihood *p*-values in parentheses.

	Full sample	High profit firms	High profit firms	Low profit firms
BS value of options outstanding	0.024 (0.783)	0.810*** (0.003)	0.139 (0.685)	-0.202** (0.029)
BS value*Correlation of earnings and deductions			1.709*** (0.001)	
Compensation/assets	-0.346*** (<0.001)	-0.506*** (<0.001)	-0.491*** (<0.001)	-0.066 (0.575)
R&D/assets	-0.097 (0.191)	-1.310*** (<0.001)	-1.319*** (<0.001)	0.056 (0.467)
High earnings volatility dummy	-0.036*** (<0.001)	-0.046*** (0.003)	-0.046*** (0.003)	-0.028*** (0.002)
CAPEX/assets	-0.550*** (<0.001)	-0.253 (0.272)	-0.209 (0.364)	-0.653*** (<0.001)
SG&A/assets	-0.068*** (0.008)	-0.012 (0.853)	-0.045 (0.501)	-0.054* (0.052)
PPE/assets	0.073*** (0.006)	-0.073 (0.201)	-0.091 (0.109)	0.123*** (<0.001)
NDTS/assets	0.679*** (<0.001)	0.277 (0.499)	0.397 (0.335)	0.670*** (<0.001)
Firm size	0.018*** (<0.001)	0.018** (0.020)	0.015* (0.056)	0.014*** (0.004)
Serial correlation in earnings	-0.073*** (<0.001)	-0.061** (0.024)	-0.064** (0.016)	-0.077*** (<0.001)
Correlation of earnings and deductions			-0.062*** (0.002)	
Number of observations	2,372	593	589	1,779