Appendix

Definition of variables

- Cost of new debt: Three different specifications are used: Offer Yield, Net Interest Cost and Spread to Treasury.

  – Offer Yield: The yield offered to investors at the time of bond issuance.

  – Net Interest Cost: The overall interest expense that is associated with the bond and is based on the average coupon rate weighted to years of maturity adjusted for any associated discounts or premiums.

  – Spread to Treasury: The difference between the bond yield and a risk-free treasury security yield with similar maturity.

VIOLATION

- VIOLATION: This is a binary variable measured by: VIOL, [$Viol_t$, $Viol_{t-1}$], and [Viol =1, Viol >1].

  – $Viol_t$: Incidence of violation occurred in the bond-issue quarter

  – $Viol_{t-1}$: Incidence of violation occurred in the quarter preceding the bond-issue quarter

  – Viol =1: Firm reported exactly one violation

  – Viol >1: Firm reported more than one violation

  – Viol = n: total number of violations reported by the firm

BORROWER CHARACTERISTICS

- Z-SCORE: The z-score for the issuer calculated separately for manufacturing and non-manufacturing firms.

- SIZE: The natural log of the book value of the assets of the borrower adjusted for inflation in year-2000 dollars. This controls for the cross-sectional variation in issuer size in the sample.

- LEVERAGE: Ratio of book value of long-term debt plus the long-term debt in current liabilities to the book value of total assets.

- COVERAGE RATIO: Calculated as $(\frac{EBITDA}{Interest\ Expenses})$.

- TANGIBILITY: Ratio of property, plants and equipment to total assets.

- MARKET-to-BOOK: Ratio of market value of the firm to the book value of the firm.

- CURRENT RATIO: Ratio of current assets to current liabilities.

BOND CHARACTERISTICS

- S&P RATING: The Standard & Poor's ratings of the new bond issue converted to a numerical value using the following scheme. S&P Rating = 22 if S&P Rating ="AAA"; S&P Rating =21 if S&P Rating ="AA+"; S&P Rating =20 if S&P Rating ="AA"; S&P Rating =19 if S&P Rating ="AA-"; S&P Rating =18 if S&P Rating ="A+"; S&P Rating =17 if S&P Rating ="A"; S&P Rating =16 if S&P Rating ="A-"; S&P Rating =15 if S&P Rating ="BBB+"; S&P Rating =14 if S&P Rating ="BBB"; S&P Rating =13 if S&P Rating ="BBB-"; S&P Rating =12 if S&P Rating ="BB+"; S&P Rating =11 if S&P Rating ="BB"; S&P Rating =10 if S&P Rating ="BB-"; S&P Rating =9 if S&P Rating ="B+"; S&P Rating =8 if S&P Rating ="B"; S&P Rating =7 if S&P Rating ="B-"; S&P Rating =6 if S&P Rating ="CCC+"; S&P Rating =5 if S&P Rating ="CCC"; S&P Rating =4 if S&P Rating ="CCC-"; S&P Rating =3 if S&P Rating ="CC"; S&P Rating =2 if S&P Rating ="C"; S&P Rating =1 if S&P Rating ="D";

- LOG MATURITY: The natural log of the maturity of the bond issue in months.

- LOG AMOUNT: The natural log of the loan issue value.

CONTROL

- Control$_k$: These are other control variables and include dummy variables for the year- quarter of the bond issue and the industry of the borrower.