## Online Appendix: Additional information and sensitivity analyses

This file provides supporting information for the paper "Development costs capitalization and debt financing". It includes tables providing additional information on our sample structure as well as tables demonstrating that the results reported in the main text are robust to a number of alternative specifications. It is structured as follows:

SuppInfo\_I: Sample composition by country and year – Choice of source of debt financing (H1)

SuppInfo\_II: Sample composition by country and year – Cost of public (H2) and private debt (H3)

SuppInfo\_III: Sensitivity analyses for Hypothesis 1

SuppInfo\_IV: Sensitivity analyses for Hypotheses 2 and 3

SuppInfo\_V: Sensitivity analyses for the effect of R&D Capitalization on future benefits and audit fees

SuppInfo\_VI: Sensitivity analyses for the expected and discretionary R&D Capitalization analyses

SuppInfo\_I: Sample composition by country and year – Choice of source of debt financing (H1)

	SuppInfo_I: Sample composition by country and year - Choice of source debt financing																				
	200	08	200	09	20	10	201	1	201	12	20	13	201	14	201	15	201	.6		Full sample	e
	В	L	В	L	В	L	В	L	В	L	В	L	В	L	В	L	В	L	Sum B	Sum L	Total
Australia	5	6	0	3	3	0	4	2	2	1	7	2	1	4	2	1	2	1	26	20	46
Austria	2	1	2	0	2	0	5	0	6	0	2	0	1	1	1	0	0	2	21	4	25
Belgium	2	1	4	2	3	2	2	2	2	1	2	0	3	1	4	2	1	2	23	13	36
Brazil	0	0	0	0	0	0	0	0	0	0	0	1	4	4	2	2	1	0	7	7	14
Canada	0	0	0	0	0	0	0	0	0	0	0	0	5	8	1	7	2	9	8	24	32
China	0	0	0	0	10	1	15	2	10	3	66	6	92	6	97	5	112	3	402	26	428
Finland	0	1	5	5	3	1	2	5	8	1	4	2	8	0	2	1	2	2	34	18	52
France	15	11	16	5	17	4	14	7	26	4	18	8	19	10	17	3	17	5	159	57	216
Germany	4	4	11	6	8	7	9	9	16	6	14	12	11	11	11	5	9	3	93	63	156
Hong Kong	1	2	0	4	0	4	2	2	0	4	2	6	1	6	1	2	3	5	10	35	45
Italy	0	2	4	2	3	2	1	3	3	3	8	4	4	3	5	4	2	0	30	23	53
Netherlands	3	1	5	3	2	1	5	3	3	1	2	2	3	4	3	2	3	0	29	17	46
New Zealand	0	0	0	0	0	1	1	2	0	0	0	2	1	1	2	2	2	1	6	9	15
Norway	0	0	1	0	1	0	1	0	1	2	1	2	0	1	1	1	1	0	7	6	13
Singapore	1	0	2	0	2	0	1	1	3	0	2	0	1	1	2	1	3	1	17	4	21
Spain	0	1	1	2	0	3	0	2	0	8	0	3	4	6	3	4	1	4	9	33	42
Sweden	0	3	5	0	2	0	6	1	10	1	9	0	6	0	7	1	5	1	50	7	57
Switzerland	2	0	6	1	5	1	7	1	6	2	5	0	9	2	6	0	6	1	52	8	60
Turkey	0	0	0	0	0	0	0	1	0	1	3	1	2	1	0	3	0	2	5	9	14
UK	12	5	15	7	7	6	12	6	11	4	10	7	8	24	13	15	11	10	99	84	183
Total	47	38	77	40	68	33	87	49	107	42	155	58	183	94	180	61	183	52	1,087	467	1,554

Notes: This table reports the number of Bonds ("B") and Syndicated Loans ("L") issued in countries which adopted IFRS or fully converged their local GAAP towards IFRS in the period from 2005 to 2013. To reduce the potential of any misreporting due to low familiarity with IFRS, we start collecting syndicated loan and bond issues three years after IFRS were adopted or local GAAP was fully converged to IFRS in a country, resulting in a sample period from 2008 to 2016. In line with prior literature (Dhaliwal et al., 2011; Florou & Kosi, 2015; Ball et al., 2017), we delete multiple bonds issued by the same firm within the same year and apply the same procedure for syndicated loans.

SuppInfo\_II: Sample composition by country and year – Cost of public (H2) and private debt (H3)

	200		201		ppInfo				1		r i				<del></del>				l -		
	200	)8	200	)9	20	10	201	1	201	12	201	13	20	14	20	15	201	16		full sample	
	В	L	В	L	В	L	В	L	В	L	В	L	В	L	В	L	В	L	Sum B	Sum L	Total
Australia	10	13	0	9	5	0	6	4	3	1	7	5	3	4	3	1	1	0	38	37	75
Austria	2	0	5	0	2	0	5	0	7	0	2	0	1	0	1	0	0	0	25	0	25
Belgium	2	5	20	6	3	5	1	2	6	1	8	0	8	1	6	6	5	2	59	28	87
Canada	0	0	0	0	0	0	0	0	0	0	0	0	7	12	1	6	3	3	11	21	32
China	0	0	0	0	18	3	19	3	10	3	83	7	113	5	147	6	92	1	482	28	510
Finland	0	2	9	5	3	1	2	5	10	1	4	5	8	0	2	1	2	3	40	23	63
France	48	23	52	9	34	4	22	10	72	7	37	10	34	9	36	3	28	5	363	80	443
Germany	7	10	36	14	13	9	23	13	52	10	46	17	30	18	26	12	39	3	272	106	378
Hong Kong	3	3	0	6	0	6	2	3	0	5	1	9	1	7	1	2	3	9	11	50	61
Italy	0	4	7	4	4	2	4	3	5	3	7	5	5	4	4	6	3	0	39	31	70
Malaysia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6	0	6	0	12	0	12
Netherlands	4	4	12	10	4	3	5	3	9	1	2	2	6	6	4	4	4	0	50	33	83
New Zealand	0	0	0	0	0	0	1	0	0	0	0	0	5	0	5	0	7	0	18	0	18
Norway	0	0	0	0	0	0	0	0	0	4	0	3	0	2	0	5	0	0	0	14	14
Philippines	0	0	4	0	0	0	1	0	3	0	2	0	3	0	3	0	0	0	16	0	16
Singapore	1	0	5	0	2	0	5	0	3	0	3	0	2	0	2	0	3	0	26	0	26
South Africa	0	1	0	3	0	0	0	1	0	2	0	4	0	0	0	0	0	0	0	11	11
Spain	0	2	0	3	0	13	0	3	0	25	0	4	0	12	0	7	0	6	0	75	75
Sweden	0	3	8	0	4	0	12	1	23	1	10	0	12	0	12	3	4	3	85	11	96
Switzerland	2	0	8	1	12	1	12	4	12	4	6	0	15	2	13	0	9	6	89	18	107
Turkey	0	0	0	0	0	0	0	1	0	2	0	1	0	2	0	4	0	5	0	15	15
UK	35	10	46	9	11	12	26	12	21	8	26	9	18	37	25	30	22	14	230	141	371
Total	114	80	212	79	115	59	146	68	236	<b>78</b>	244	81	271	121	297	96	231	60	1,866	722	2,588

Notes: This table reports the number of Bonds ("B") and Syndicated Loans ("L") issued in countries which adopted IFRS or fully converged their local GAAP towards IFRS in the period from 2005 to 2013. To reduce the potential of any misreporting due to low familiarity with IFRS, we start collecting syndicated loan and bond issues three years after IFRS were adopted or local GAAP was fully converged to IFRS in a country, resulting in a sample period from 2008 to 2016. Following prior literature (Shi, 2003; Eberhart et al., 2008; Florou & Kosi, 2015; Ciftci & Darrough, 2016; Francis et al., 2017; De Franco et al., 2017), we test the effect of the amount of R&D a firm capitalizes during a year on the cost of debt on an issue-level. We therefore retain multiple syndicated loans and bonds issued by the same firm within the same year, as debt issues differ in their contractual terms.

 ${\bf SuppInfo\_III: Sensitivity \ analyses \ for \ Hypothesis \ 1}$ 

		Suj	ppInfo_III: Se	nsitivity analy	ses for Hypothesis	s 1			
		В	ond_Issue as a	lependent varid	able	%_o	f_Bond_Debt	as dependent ve	ariable
		Full	IV	Expensers	Capitalizers	Full	IV	Expensers	Capitalizers
		Sample				Sample			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Alternative control variables									
(1) Additional firm controls									
	RDCap	21.590***	21.016***		23.300**	5.385***	5.005***		5.478***
		(2.98)	(2.84)		(2.50)	(3.04)	(2.58)		(2.69)
	RDExp	0.118	0.120	-1.116	-0.316	0.016	0.030	-0.195	0.004
		(0.07)	(0.07)	(-0.47)	(-0.09)	(0.03)	(0.06)	(-0.35)	(0.00)
(2) Country fixed effects									
	RDCap	20.376***	20.472***		28.750***	4.311***	4.041**		5.493***
		(2.74)	(2.73)		(2.72)	(2.71)	(2.19)		(2.74)
	RDExp	-2.046	-2.046	-2.312	-3.769	-0.383	-0.373	-0.427	-0.664
		(-1.01)	(-1.01)	(-0.90)	(-0.93)	(-0.85)	(-0.84)	(-0.87)	(-0.71)
(3) Alternative measure for issue- specific variables									
	RDCap	20.004***	19.465***		24.212***	4.991***	4.489**		5.496***
	•	(2.92)	(2.74)		(2.59)	(2.84)	(2.45)		(2.75)
	RDExp	-0.173	-0.168	-1.608	-1.096	0.018	0.036	-0.196	-0.218
	•	(-0.10)	(-0.10)	(-0.76)	(-0.31)	(0.04)	(0.08)	(-0.39)	(-0.26)
Alternative sample composition (4) Exclusion of privately placed		` '	, ,		, ,	, ,	, ,	, ,	, ,
bonds									
	RDCap	28.229***	27.207***		34.433***	6.435***	5.783***		7.443***
		(3.67)	(3.38)		(3.34)	(3.42)	(2.78)		(3.40)
	RDExp	-0.368	-0.360	-1.535	-1.640	-0.129	-0.105	-0.214	-0.478
		(-0.19)	(-0.19)	(-0.65)	(-0.45)	(-0.26)	(-0.21)	(-0.40)	(-0.53)
(5) Only 150 debt issues from China									
	RDCap	19.830**	19.445**		20.664**	5.260***	4.844**		5.363***
	•	(2.53)	(2.57)		(2.20)	(2.82)	(2.43)		(2.65)
	RDExp	0.080	0.082	-1.693	0.030	0.089	0.106	-0.335	0.005
	•	(0.04)	(0.04)	(-0.67)	(0.01)	(0.17)	(0.20)	(-0.52)	(0.01)

SuppInfo\_III continued:

		B	ond_Issue as a	lependent varid	able	%_o	f_Bond_Debt	as dependent v	ariable
		Full	IV	Expensers	Capitalizers	Full	IV	Expensers	Capitalizers
		Sample		-	-	Sample		-	_
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(6) Exclusion of financial crisis									
years									
	RDCap	22.897***	20.535***		23.846**	5.612***	4.569**		5.743***
		(3.08)	(2.74)		(2.43)	(3.01)	(2.22)		(2.75)
	RDExp	-1.229	-1.215	-2.098	-2.677	-0.223	-0.185	-0.357	-0.333
	•	(-0.61)	(-0.60)	(-0.83)	(-0.71)	(-0.44)	(-0.37)	(-0.65)	(-0.37)
Sample selection bias									
(7) Including Inverse Mills Ratio									
. ,	RDCap	21.566***	20.511***		24.744***	5.308***	4.857**		5.796***
	1	(3.00)	(2.84)		(2.65)	(3.03)	(2.55)		(2.88)
	RDExp	-0.235	-0.227	-1.508	-1.401	-0.004	0.012	-0.164	-0.224
		(-0.13)	(-0.12)	(-0.65)	(-0.39)	(-0.01)	(0.03)	(-0.30)	(-0.26)
Alternative estimation models		( /	( /	( /	( )	( )	()	( )	( /
(8) Tobit model									
(-)	RDCap					67.816***	68.041***		49.432**
						(2.99)	(2.81)		(2.49)
	RDExp					-2.004	-2.005	-6.467	-2.403
	112 2.0					(-0.37)	(-0.37)	(-0.81)	(-0.33)
(9) Logit model						( 0.07)	( 3.2.)	( 0.01)	( 0.00)
(2) = 0.00	RDCap					40.043***	30.909*	45.884**	
	T					(2.82)	(1.66)	(2.47)	
	RDExp					-1.540	-0.894	-3.200	
						(-0.46)	(-0.24)	(-0.44)	

Notes: This table summarizes various sensitivity analyses for hypothesis 1. We include the same control variables and fixed effects as in the respective original models. For parsimony reasons, however, we only report the coefficients and corresponding z-statitics/t-statistics for the variables *RDCap* and *RDExp*. Models 1 to 4 are estimated using a probit model, with *Bond\_Issue* as the dependent variable. Models 4 to 8 are estimated with %\_of\_Bond\_Debt as the dependent variable. Models 2 and 6 control for the endogeneity of R&D capitalization and document results from a two-stage-model (IV Probit/2SLS) estimation. \*, \*\* and \*\*\* denote significance at the 10%, 5% and 1% (two-tailed) level, respectively.

SuppInfo\_IV: Sensitivity analyses for Hypotheses 2 and 3:

		Suppl	nfo_IV: Sensi	tivity analyses	for Hypotheses 2	and 3			
			H2 – Cost	of public debt			H3 – Cost	of private debt	
		Full	IV	Expensers	Capitalizers	Full	IV	Expensers	Capitalizers
		Sample				Sample			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Alternative control variables									
(1) Additional firm controls									
	RDCap	-151.435	-634.472		-1168.280**	-916.958	-74.287		-2611.477**
		(-0.27)	(-1.04)		(-2.31)	(-0.88)	(-0.05)		(-2.04)
	RDExp	-168.287	-149.572	-450.589***	400.460	-217.670	-233.969	-370.081	367.160
		(-1.33)	(-1.20)	(-2.73)	(1.58)	(-1.00)	(-1.08)	(-1.23)	(0.78)
(2) Additional country controls									
	RDCap	-66.699	-499.809		-1232.820**	-1001.782	-120.164		-2629.051**
	_	(-0.11)	(-0.74)		(-2.16)	(-0.99)	(-0.08)		(-2.18)
	RDExp	-196.586	-180.438	-465.051***	429.089	-141.725	-154.000	-372.125	433.527
	•	(-1.51)	(-1.40)	(-2.92)	(1.43)	(-0.66)	(-0.72)	(-1.22)	(0.96)
(3) Country fixed effects									
	RDCap	-622.944	-1112.605**		-1240.066***	-832.052	251.480		-2219.409*
	•	(-1.20)	(-1.98)		(-2.67)	(-0.80)	(0.16)		(-1.74)
	RDExp	-202.430	-185.441	-412.532***	111.823	-124.160	-142.665	-221.779	319.530
	•	(-1.53)	(-1.41)	(-2.61)	(0.38)	(-0.54)	(-0.63)	(-0.67)	(0.61)
Alternative sample composition									
(4) Exclusion of privately placed bonds									
	RDCap	-197.361	-679.560		-1692.273**				
	1	(-0.30)	(-1.04)		(-2.49)				
	RDExp	-317.034**	-299.134**	-585.634***	258.866				
	•	(-2.36)	(-2.28)	(-3.48)	(1.21)				
(5) Only 150 debt issues from China		, ,	` ,	,	,				
	<i>RDCap</i>	11.620	-406.185		-1127.097**	-840.188	-131.088		-2485.419**
	•	(0.02)	(-0.65)		(-2.02)	(-0.81)	(-0.09)		(-2.05)
	RDExp	-245.517*	-228.689	-586.266***	451.113	-134.470	-142.215	-378.110	534.637
		(-1.71)	(-1.61)	(-2.89)	(1.41)	(-0.63)	(-0.67)	(-1.26)	(1.15)

SuppInfo_I	V continued:
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			H2 – Cost	of public debt			H3 – Cost	of private debt	
		Full Sample	IV	Expensers	Capitalizers	Full Sample	IV	Expensers	Capitalizers
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(6) Exclusion of financial crisis years		, ,	. ,		,	. ,	. ,		
<b>V</b> • • • • • • • • • • • • • • • • • • •	RDCap	234.505	-188.149		-1200.614*	-1674.228	-922.246		-2980.790**
	•	(0.31)	(-0.22)		(-1.79)	(-1.52)	(-0.59)		(-2.25)
	RDExp	-49.583	-33.550	-391.353**	685.839**	-29.414	-38.254	-225.359	544.758
	·	(-0.34)	(-0.23)	(-2.15)	(1.99)	(-0.13)	(-0.17)	(-0.76)	(1.08)
Sample selection bias (7) Including Inverse Mills Ratio									
· ·	RDCap	-158.430 (-0.26)	-549.626 (-0.79)		-1208.041** (-2.09)	-1113.910 (-1.08)	-225.821 (-0.15)		-2627.198** (-2.02)
	RDExp	-180.266	-165.337	-458.494***	427.463	-162.885	-178.970	-323.763	421.793
		(-1.39)	(-1.29)	(-2.79)	(1.44)	(-0.77)	(-0.85)	(-1.06)	(0.95)
Alternative separation of signaling and earn. mgmt. firms (8) Abnormal working capital accruals as a proxy for earn. mgmt.		` '	` ,	` '	` ,	` ,	` '	` ,	` '
are and a Freedy Jer can anguing	RDCap	(Signaling)			-1296.658**				-3678.417***
	1	\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \			(-2.13)				(-2.82)
	RDExp	(Signaling)			191.907				363.861
					(0.71)				(0.98)
	RDCap	(Earn. Mgmt.)			-885.904				1213.679
					(-0.94)				(0.73)
	RDExp	(Earn. Mgmt.)			619.652				-349.731
					(1.32)				(-0.81)

Notes: This table summarizes various sensitivity analyses for hypotheses 2 and 3. We include the same control variables and fixed effects as in the respective original models. For parsimony reasons, however, we only report the coefficients and corresponding t-statistics for the variables *RDCap* and *RDExp*. Models 1 to 4 report results regarding the effect of capitalized R&D on the cost of public debt (H2). Models 4 to 8 report results regarding the effect of capitalized R&D on the cost of private debt (H3). Models 2 and 6 control for the endogeneity of R&D capitalization and document results from a two-stage-model (2SLS) estimation. \*, \*\* and \*\*\* denote significance at the 10%, 5% and 1% (two-tailed) level, respectively.

SuppInfo\_V: Sensitivity analyses for the effect of R&D Capitalization on future benefits and audit fees

		Future	Future	Future	Audit fees	Audit fees	Audit fees
		benefits	benefits –	benefits –	_	_	_
			Signaling	Earn. Mgmt.			
		(1)	(2)	(3)	(4)	(5)	(6)
(1) Alternative dependent variable							
	RDCap	19.834***	24.609**	16.399			
		(2.61)	(2.30)	(1.63)			
	RDExp	-1.948	-2.284	-0.735			
		(-1.21)	(-0.96)	(-0.34)			
(2) Alternative dependent variable							
*	<i>RDCap</i>	9.230**	12.610*	6.729			
	•	(2.17)	(1.81)	(1.50)			
	RDExp	0.876	-0.048	1.868			
	•	(0.86)	(-0.03)	(1.54)			
(3) Additional firm controls							
	RDCap	10.410**	19.790**	4.734	6.291*	-3.758	
		(2.06)	(2.44)	(1.08)	(1.81)	(-0.85)	
	RDExp	0.122	-1.159	1.092	-1.260	-1.024	
		(0.10)	(-0.58)	(0.86)	(-1.23)	(-0.97)	
	CAP					0.222**	0.184***
						(2.51)	(2.63)
(4) Additional country controls							
	RDCap	11.363**	20.075**	5.292	0.667	-5.892	
		(2.08)	(2.53)	(1.01)	(0.19)	(-1.35)	
	RDExp	-0.649	-2.113	0.752	-0.606	-0.677	
		(-0.53)	(-1.20)	(0.50)	(-0.57)	(-0.66)	
	CAP					0.193**	0.171**
						(2.29)	(2.52)

Notes: This table summarizes various sensitivity analyses for the effect of capitalized R&D on firms' future benefits and audit fees. While models 1 to 3 report results regarding the effect of capitalized R&D on future benefits (recall that these tests relate only to Capitalizers), models 3 to 6 report results regarding the effect of R&D capitalization on audit fees. We include the same control variables and fixed effects as in the respective original models. For parsimony reasons, however, we only report the

coefficients and corresponding t-statistics for the variables *RDCap*, *RDExp* and *CAP*. \*, \*\* and \*\*\* denote significance at the 10%, 5% and 1% (two-tailed) level, respectively.

## SuppInfo\_VI: Sensitivity analyses for the effect of expected and discretionary R&D Capitalisation

SuppInfo\_VI Panel A: Alternative design choice to estimate the expected and discretionary components of R&D Capitalisation – less control variables

Expected and Discretionary R&D Capitalization and the Access to the Public Debt Market

	Bond_Issue	Bond_Issue	%_of_Bond_Debt	%_of_Bond_Debt
VARIABLES	Model 1 –	Model 2 –	Model 3 –	Model 4 –
	Full Sample	Capitalizers	Full Sample	Capitalizers
RDCap_Over	-5.848	24.546	0.577	5.272
	(-0.25)	(0.95)	(0.12)	(0.90)
RDCap_Exp	21.686***	24.064**	5.531***	5.612***
	(3.09)	(2.52)	(3.10)	(2.75)
RDCap_Under	15.546	17.638	4.384	2.445
	(0.74)	(0.74)	(0.66)	(0.36)
RDExp	-0.490	-1.201	-0.062	-0.216
	(-0.27)	(-0.34)	(-0.13)	(-0.24)
CAP	-0.231		-0.064*	
	(-1.55)		(-1.78)	

Expected and Discretionary R&D Capitalization and the Cost of Public Debt

	Cost of public debt	Cost of public debt	Cost of public debt
VARIABLES	Model 1 –	Model 2 –	Model 3 –
	Capitalizers	Signaling	Earn. Mgmt.
RDCap_Over	-2344.647	-4507.758	-1546.927
	(-1.05)	(-1.17)	(-0.59)
RDCap_Exp	-1116.496**	-2568.199***	-813.148
	(-2.02)	(-2.79)	(-1.24)
RDCap_Under	-494.410	2819.607	-1284.359
-	(-0.32)	(0.27)	(-0.65)
RDExp	405.494	950.605	96.090
•	(1.36)	(1.61)	(0.29)

Expected and Discretionary R&D Capitalization and the Cost of Private Debt

	2	v	
	Cost of private	Cost of private	Cost of private
	debt	debt	debt
VARIABLES	Model 1 –	Model 2 –	Model 3–
	Capitalizers	Signaling	Earn. Mgmt.
RDCap_Over	-1647.160	-906.850	-2249.064
	(-1.02)	(-0.42)	(-0.55)
RDCap_Exp	-2873.177**	-6084.702**	-1116.721
	(-2.12)	(-2.00)	(-0.62)
RDCap_Under	-699.076	-9230.553	746.729
	(-0.23)	(-0.34)	(0.29)
RDExp	312.851	769.210	-243.401
	(0.88)	(1.31)	(-0.49)

Expected and Discretionary R&D Capitalization and its effect on Future benefits and audit fees

	NI	NI	NI	Audit fees
VARIABLES	Model 1 –	Model 2 –	Model 3 –	Model 4 –
	Capitalizers	Signaling	Earn. Mgmt.	Full Sample
RDCap_Over	9.580	16.363	-0.228	-15.977
	(0.82)	(1.21)	(-0.01)	(-1.24)
RDCap_Exp	11.537**	20.338**	6.538	-3.131
	(2.07)	(2.33)	(1.25)	(-0.74)
RDCap_Under	8.689	46.003	4.815	-8.523
	(0.84)	(0.44)	(0.46)	(-0.65)
RDExp	-0.747	-2.204	0.583	-0.693
	(-0.59)	(-1.21)	(0.40)	(-0.62)
CAP				0.294***
				(3.16)

SuppInfo\_VI Panel B: Alternative design choice to estimate the expected and discretionary components of R&D Capitalisation – additional control variables

 $\label{lem:expected} \textit{Expected and Discretionary R\&D Capitalization and the Access to the Public Debt Market}$ 

	Bond_Issue	Bond_Issue	%_of_Bond_Debt	%_of_Bond_Debt
VARIABLES	Model 1 –	Model 2 –	Model 3 –	Model 4 –
	Full Sample	Capitalizers	Full Sample	Capitalizers
RDCap_Over	-3.160	28.472	1.066	6.145
	(-0.14)	(1.08)	(0.21)	(1.04)
RDCap_Exp	21.673***	23.937**	5.521***	5.573***
	(3.09)	(2.51)	(3.09)	(2.72)
RDCap_Under	15.292	17.270	4.264	2.317
	(0.73)	(0.73)	(0.65)	(0.34)
RDExp	-0.481	-1.138	-0.061	-0.202
	(-0.26)	(-0.32)	(-0.13)	(-0.23)
CAP	-0.240		-0.066*	
	(-1.60)		(-1.84)	

Expected and Discretionary R&D Capitalization and the Cost of Public Debt

	Cost of public debt	Cost of public debt	Cost of public debt
VARIABLES	Model 1 –	Model 2 –	Model 3 –
	Capitalizers	Signaling	Earn. Mgmt.
RDCap_Over	-2124.634	-4854.961	-1061.455
	(-0.97)	(-1.24)	(-0.41)
RDCap_Exp	-1124.691**	-2545.138***	-847.082
	(-2.03)	(-2.75)	(-1.29)
RDCap_Under	-608.028	3559.218	-1515.172
_	(-0.39)	(0.39)	(-0.75)
RDExp	407.228	952.599	104.351
-	(1.37)	(1.63)	(0.32)

Expected and Discretionary R&D Capitalization and the Cost of Private Debt

	Cost of private	Cost of private	Cost of private
	debt	debt	debt
VARIABLES	Model 1 –	Model 2 –	Model 3–
	Capitalizers	Signaling	Earn. Mgmt.
RDCap_Over	-2001.959	-1460.564	-2762.187
	(-1.26)	(-0.70)	(-0.67)
RDCap_Exp	-2825.311**	-6529.782*	-1094.629
	(-2.08)	(-1.96)	(-0.61)
RDCap_Under	-709.442	-18435.861	1009.555
	(-0.23)	(-0.57)	(0.39)
RDExp	302.574	687.199	-254.767
	(0.86)	(1.17)	(-0.51)

Expected and Discretionary R&D Capitalization and its effect on Future benefits and audit fees

	33	J	J
NI	NI	NI	Audit fees
Model 1 –	Model 2 –	Model 3 –	Model 4 –
Capitalizers	Signaling	Earn. Mgmt.	Full Sample
9.491	16.473	0.070	-15.656
(0.81)	(1.22)	(0.00)	(-1.22)
11.536**	19.960**	6.524	-3.160
(2.08)	(2.38)	(1.24)	(-0.75)
8.439	31.813	4.660	-9.319
(0.83)	(0.31)	(0.45)	(-0.71)
-0.752	-2.239	0.585	-0.698
(-0.60)	(-1.22)	(0.40)	(-0.63)
			0.292***
			(3.14)
	NI  Model 1 - Capitalizers  9.491 (0.81) 11.536** (2.08) 8.439 (0.83) -0.752	NI         NI           Model 1 -         Model 2 -           Capitalizers         Signaling           9.491         16.473           (0.81)         (1.22)           11.536**         19.960**           (2.08)         (2.38)           8.439         31.813           (0.83)         (0.31)           -0.752         -2.239	NI         NI         NI           Model 1 –         Model 2 –         Model 3 –           Capitalizers         Signaling         Earn. Mgmt.           9.491         16.473         0.070           (0.81)         (1.22)         (0.00)           11.536**         19.960**         6.524           (2.08)         (2.38)         (1.24)           8.439         31.813         4.660           (0.83)         (0.31)         (0.45)           -0.752         -2.239         0.585

Notes: This table summarizes two sensitivity analyses on the effect of the expected, over- and undercapitalized amount of R&D on a firm's choice of source of debt financing (H1), on its cost of public and private debt (H2 & H3), as well as on its future profitability and audit fees. We include the same control variables and fixed effects as in the respective original models.  $RDCap\_Over$  is the amount of R&D a capitalizing firm overcapitalized beyond the expected amount.  $RDCap\_Exp$  is the amount of R&D a capitalizing firm is expected to capitalize during a year given its specific characteristics.  $RDCap\_Under$  is the amount of R&D a capitalizing firm undercapitalized compared to the expected amount. RDExp is the amount of R&D a firm expensed during a year. CAP is a dummy variable which is equal to one if a firm capitalized R&D during a year, and zero otherwise. \*, \*\* and \*\*\* denote significance at the 10%, 5% and 1% (two-tailed) level, respectively.