

**Online Appendix for “Taxes in non-GAAP reporting:
Evidence of strategic behavior in selecting tax rates applied to exclusions”**

Example 1: Type I disclosure (non-GAAP exclusions are presented “net-of-tax” and the tax effects are not separately disclosed)

(<https://www.sec.gov/Archives/edgar/data/15615/000119312513196408/d530459dex991.htm>)

**MasTec Inc.
Reconciliation of Non-GAAP Disclosures and Supplemental Disclosures-Unaudited
(In millions, except for percentages and per share amounts)**

	Three Months March 31,	
	2013	2012
Adjusted Net Income Reconciliation		
Income from continuing operations before non-controlling interests	\$ 19.3	\$ 11.7
Loss on extinguishment of debt, net of tax	3.4	—
Adjusted income from continuing operations	\$ 22.8	\$ 11.7
(Loss) income from discontinued operations, net of tax	(0.9)	2.5
Adjusted net income	\$ 21.8	\$ 14.2

Example 2: Type II disclosure (tax effects of non-GAAP exclusions are presented as a lump sum)

(<https://www.sec.gov/Archives/edgar/data/935036/000119312513324299/d578892dex991.htm>)

**ACI Worldwide, Inc.
Reconciliation of Selected GAAP Measures to Non-GAAP Measures (1)
(unaudited and in thousands, except per share data)**

Selected Non-GAAP Financial Data	For the three months ended June 30,		
	2013 GAAP	Adj	2013 Non-GAAP
Total revenues (2)	\$ 205,830	\$ 2,001	\$ 207,831
Total expenses (3)	194,308	(3,922)	190,386
Operating income (loss)	11,522	5,923	17,445
Income (loss) before income taxes	4,161	5,923	10,084
Income tax expense (4)	2,280	2,073	4,353
Net income (loss)	\$ 1,881	\$ 3,850	\$ 5,731

(1) This presentation includes non-GAAP measures. Our non-GAAP measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP.

(2) Adjustment for deferred revenue that would have been recognized in the normal course of business by S1 and ORCC but was not recognized due to GAAP purchase accounting requirements.

(3) Expense for acquisition related transactions, including, \$2.4 million for employee related actions and \$1.5 million for professional and other fees in 2013 and \$3.6 million for employee related actions, \$3.1 million for termination of the IBM IT outsourcing agreement and \$0.9 million for other professional fees in 2012.

(4) Adjustments tax effected at 35%.

Note: In this example, ACI has net income-decreasing exclusions of \$5,923 (\$2,001 adjustment to revenues and \$3,922 adjustment to expenses), and the tax effect is \$2,073. TReX is $2,073/5,923 = 35\%$ (i.e., the statutory tax rate).

Example 3: Type III disclosure (tax effects are separately reported for each exclusion item)

(<https://www.sec.gov/Archives/edgar/data/706688/000070668813000005/secondquarterearningsrelea.htm>)

Aaron's, Inc.**Reconciliation of Net Earnings and Earnings Per Share Assuming Dilution to Non-GAAP****Net Earnings and Earnings Per Share Assuming Dilution**

(In thousands, except earnings per share)

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net Earnings	\$ 25,854	\$ 36,244	\$ 76,854	\$ 107,470
Add Regulatory Investigation Accrual, Net of Taxes (1)	9,603	—	9,603	—
Add Retirement and Vacation Related Charges, Net of Taxes (2)	3,148	—	3,148	—
Deduct Accrued Lawsuit Income, Net of Taxes (3)	—	—	—	(21,975)
Non-GAAP Net Earnings Assuming Dilution	\$ 38,605	\$ 36,244	\$ 89,605	\$ 85,495

(1) Net of taxes of \$5,397 for the three and six months ended June 30, 2013 calculated using the effective tax rate for the three months ended June 30, 2013.

(2) Net of taxes of \$1,769 for the three and six months ended June 30, 2013 calculated using the effective tax rate for the three months ended June 30, 2013.

(3) Net of taxes of \$13,525 for the six months ended June 30, 2012 calculated using the effective tax rate for the six months ended June 30, 2012.

(4) In some cases, the sum of individual EPS amounts may not equal total EPS calculations.

Note: in this example, Aaron's Inc. has two exclusion items for the fiscal quarter ending on June 30, 2013: regulatory investigation accrual, and retirement and vacation related charges. The company presents exclusions net of taxes and discloses tax effects in the footnote, so the reader can check the calculation of the tax effect on each exclusion item. The total pretax non-GAAP exclusion = $(9.603+5.397+3.148+1.769) = \19.917 million. Total tax effect = $5.397+1.769 = \$7.166$ million. TREx is $7.166/19.917 = 35.98\%$, which is the same as the firm's year-to-date GAAP ETR.

Table OA1: Testing H1: TReX and the propensity to meet or beat analysts' consensus forecast – including firm fixed effects

VARIABLES	Pred. Sign	(1)	(2)
		Benchmark = GAAP ETR	Benchmark = STR
ΔNG_EARN_{ETR}	+	0.176*** (0.043)	
ΔNG_EARN_{STR}	+		0.160*** (0.041)
<i>Total_Excl</i>	–	-0.144*** (0.012)	-0.139*** (0.012)
<i>BTM</i>		-0.058 (0.062)	-0.039 (0.056)
<i>ROA</i>		-0.024*** (0.009)	-0.019** (0.008)
<i>SalesGrowth</i>		0.092** (0.039)	0.104*** (0.036)
<i>Size</i>		-0.044 (0.045)	-0.039 (0.044)
<i>Loss</i>		-0.017 (0.078)	0.155*** (0.057)
<i>Constant</i>		0.522 (0.365)	0.460 (0.352)
Observations		5,513	5,771
Adj. R-squared		0.179	0.181
SE clustered by		Firm	Firm
Firm FE		Yes	Yes
Year FE		Yes	Yes
Quarter FE		Yes	Yes
Industry FE		Yes	Yes

Notes: This table reports the results from estimating equation 1. In column 1, the year-to-date GAAP ETR is used as the benchmark rate. In column 2, the statutory rate is used as the benchmark rate. In both columns, we report the results from the linear probability model and include firm fixed effects. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.

Table OA2: Testing H1: TReX and the propensity to meet or beat analysts' consensus forecast – Excluding gains versus excluding losses

VARIABLES	Pred. Sign	(1)	(2)	(3)	(4)
		Benchmark = GAAP ETR Excluding gains	Benchmark = GAAP ETR Excluding losses	Benchmark = STR Excluding gains	Benchmark = STR Excluding losses
ΔNG_EARN_{ETR}	+	0.065* (0.038)	0.151*** (0.039)		
ΔNG_EARN_{STR}	+			0.052 (0.032)	0.143*** (0.038)
<i>Total_Excl</i>	–	-0.006 (0.004)	-0.148*** (0.014)	-0.007* (0.004)	-0.138*** (0.014)
<i>BTM</i>		-0.009 (0.017)	0.013 (0.036)	-0.008 (0.015)	0.026 (0.036)
<i>ROA</i>		-0.007 (0.004)	-0.038*** (0.007)	-0.004 (0.003)	-0.036*** (0.007)
<i>SalesGrowth</i>		0.022 (0.023)	0.053 (0.035)	0.016 (0.022)	0.070** (0.034)
<i>Size</i>		0.002 (0.004)	0.033*** (0.006)	0.002 (0.004)	0.031*** (0.006)
<i>Loss</i>		-0.040 (0.026)	-0.022 (0.072)	-0.017 (0.014)	0.119** (0.053)
<i>Constant</i>		0.029 (0.051)	-0.128* (0.074)	0.027 (0.048)	-0.105 (0.072)
Observations		620	4,893	655	5,116
Adj. R-squared		0.016	0.099	0.013	0.099
SE clustered by		Firm	Firm	Firm	Firm
Year FE		Yes	Yes	Yes	Yes
Quarter FE		Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes

Notes: This table reports the results from estimating equation 1. In columns 1 and 2, the year-to-date GAAP ETR is used as the benchmark rate. In columns 3 and 4, the statutory rate is used as the benchmark rate. In columns 1 and 3, we only include firm-quarters that exclude gains when computing non-GAAP earnings. In columns 2 and 4, we only include firm-quarters that exclude losses when computing non-GAAP earnings. In all columns, we report the results from the linear probability model. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.

Table OA3: Testing H1 and H2 in Type II and Type III firms

Panel A: Testing H1: TReX and the propensity to meet or beat analysts' consensus forecast

VARIABLES	(1)	(2)	(3)	(4)
	Benchmark = GAAP ETR		Benchmark = STR	
	Type II	Type III	Type II	Type III
$\Delta NG_EARN_{ETR} (\beta_l)$	0.131*** (0.040)	0.157** (0.067)		
$\Delta NG_EARN_{STR} (\beta_l)$			0.138*** (0.039)	0.145** (0.061)
<i>Total_Excl</i>	-0.103*** (0.012)	-0.147*** (0.015)	-0.096*** (0.013)	-0.143*** (0.015)
<i>BTM</i>	0.002 (0.044)	0.018 (0.044)	0.022 (0.043)	0.021 (0.042)
<i>ROA</i>	-0.037*** (0.009)	-0.028*** (0.009)	-0.033*** (0.009)	-0.027*** (0.008)
<i>SalesGrowth</i>	0.089* (0.049)	0.054 (0.044)	0.100** (0.046)	0.066 (0.043)
<i>Size</i>	0.026*** (0.007)	0.027*** (0.007)	0.022*** (0.007)	0.028*** (0.007)
<i>Loss</i>	0.160 (0.104)	-0.131 (0.088)	0.251*** (0.063)	-0.049 (0.073)
<i>Constant</i>	0.009 (0.083)	-0.087 (0.086)	0.015 (0.079)	-0.092 (0.083)
Compare β_l (p-value)	p-value = 0.729		p-value = 0.917	
Observations	2,399	3,114	2,548	3,223
Adjusted R-squared	0.106	0.123	0.111	0.122
Cluster	Firm	Firm	Firm	Firm
Year FE	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes

Notes: This table reports the results from estimating equation 1. In columns 1 and 2, the year-to-date GAAP ETR is used as the benchmark rate. In columns 3 and 4, the statutory rate is used as the benchmark rate. In columns 1 and 3, we only include firm-quarters that present the tax effects using Type II format (i.e., firms disclose the tax effect of exclusions as a lump sum). In columns 2 and 4, we only include firm-quarters that present the tax effects using Type III format (i.e., firms separately disclose the tax effects of each exclusion item). In all columns, we report the results from the linear probability model. We estimate seemingly unrelated regressions and use the Wald chi-square test to compare β_l across columns. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.

Table OA3 (cont'd)

Panel B: Testing H2: The persistence of non-GAAP earnings for future performance – Type II firms

VARIABLES	Future operating earnings			Future operating cash flows		
	(1)	(2)	(3)	(4)	(5)	(6)
		Benchmark = GAAP ETR	Benchmark = STR		Benchmark = GAAP ETR	Benchmark = STR
<i>NG_EARN</i> (β_I)	2.493*** (0.183)			2.990*** (0.210)		
<i>NG_EARN</i> _{ETR} (γ_I)		2.641*** (0.171)			3.107*** (0.207)	
<i>NG_EARN</i> _{STR} (γ_I)			2.686*** (0.179)			3.132*** (0.215)
ΔNG_EARN _{ETR}		1.288** (0.640)			2.616*** (0.741)	
ΔNG_EARN _{STR}			0.392 (0.821)			1.551* (0.894)
<i>Constant</i>	0.108 (0.698)	-0.098 (0.695)	-0.226 (0.700)	13.895*** (1.365)	13.744*** (1.385)	13.638*** (1.383)
Compare β_I with γ_I (p-value)		0.024	0.019		0.012	0.037
Observations	2,327	2,327	2,327	2,329	2,329	2,329
Adj. R-squared	0.548	0.562	0.561	0.479	0.486	0.481
SE clustered by	Firm	Firm	Firm	Firm	Firm	Firm
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Panel C: Testing H2: The persistence of non-GAAP earnings for future performance – Type III firms

VARIABLES	Future operating earnings			Future operating cash flows		
	(1)	(2)	(3)	(4)	(5)	(6)
		Benchmark = GAAP ETR	Benchmark = STR		Benchmark = GAAP ETR	Benchmark = STR
<i>NG_EARN</i> (β_I)	2.341*** (0.172)			2.743*** (0.226)		
<i>NG_EARN</i> _{ETR} (γ_I)		2.445*** (0.167)			2.850*** (0.223)	
<i>NG_EARN</i> _{STR} (γ_I)			2.465*** (0.172)			2.855*** (0.231)
ΔNG_EARN _{ETR}		-0.864 (0.932)			-0.127 (1.097)	
ΔNG_EARN _{STR}			-1.309 (1.069)			-0.403 (1.215)
<i>Constant</i>	1.806** (0.740)	1.634** (0.723)	1.586** (0.722)	13.656*** (0.966)	13.483*** (0.971)	13.442*** (0.975)
Compare β_I with γ_I (p-value)		<0.001	0.005		<0.001	0.012
Observations	3,033	3,033	3,033	3,036	3,036	3,036
Adj. R-squared	0.549	0.566	0.562	0.431	0.441	0.436
SE clustered by	Firm	Firm	Firm	Firm	Firm	Firm
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Notes: In Panels B and C we report the results from estimating equations 2a-3c. In Panel B, we only include firm-

quarters that present the tax effects using Type II format (i.e., firms disclose the tax effect of exclusions as a lump sum). In Panel C, we only include firm-quarters that present the tax effects using Type III format (i.e., firms separately disclose the tax effects of each exclusion item). We estimate seemingly unrelated regressions and use the Wald chi-square test to compare β_l and γ_l across columns. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.

Table OA4: Removing Type II firms with nonrecurring tax items

Panel A: Testing H1: TReX and the propensity to meet or beat analysts' consensus forecast

VARIABLES	Pred. Sign	(1)	(2)
		Benchmark = GAAP ETR	Benchmark = STR
ΔNG_EARN_{ETR}	+	0.145*** (0.037)	
ΔNG_EARN_{STR}	+		0.136*** (0.034)
<i>Total_Excl</i>	–	-0.118*** (0.010)	-0.113*** (0.010)
<i>BTM</i>		0.019 (0.033)	0.029 (0.032)
<i>ROA</i>		-0.028*** (0.007)	-0.025*** (0.006)
<i>SalesGrowth</i>		0.058* (0.032)	0.074** (0.031)
<i>Size</i>		0.028*** (0.005)	0.027*** (0.005)
<i>Loss</i>		0.027 (0.069)	0.148*** (0.050)
<i>Constant</i>		-0.081 (0.065)	-0.076 (0.063)
Observations		4,972	5,222
Adj. R-squared		0.107	0.108
SE clustered by		Firm	Firm
Firm FE		Yes	Yes
Year FE		Yes	Yes
Quarter FE		Yes	Yes
Industry FE		Yes	Yes

Notes: This table reports the results from estimating equation 1. We remove firm-quarters that present the tax effects of exclusions using the Type II disclosure and at the same time report nonrecurring tax items. In column 1, the year-to-date GAAP ETR is used as the benchmark rate. In column 2, the statutory rate is used as the benchmark rate. In both columns, we report the results from the linear probability model. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.

Table OA4 (cont'd)

Panel B: Testing H2: The persistence of non-GAAP earnings for future performance

VARIABLES	Future operating earnings			Future operating cash flows		
	(1)	(2)	(3)	(4)	(5)	(6)
		Benchmark = GAAP ETR	Benchmark = STR		Benchmark = GAAP ETR	Benchmark = STR
<i>NG_EARN</i> (β_I)	2.416*** (0.143)			2.819*** (0.183)		
<i>NG_EARN</i> _{ETR} (γ_I)		2.539*** (0.139)			2.922*** (0.181)	
<i>NG_EARN</i> _{STR} (γ_I)			2.571*** (0.142)			2.919*** (0.187)
ΔNG_EARN _{ETR}		0.881 (0.571)			2.103*** (0.657)	
ΔNG_EARN _{STR}			-0.027 (0.717)			1.372* (0.764)
<i>Constant</i>	1.193** (0.584)	1.020* (0.568)	0.908 (0.571)	13.505*** (0.842)	13.367*** (0.847)	13.299*** (0.850)
Compare β_I with γ_I (p-value)		<0.001	<0.001		<0.001	0.015
Observations	4,828	4,828	4,828	4,835	4,835	4,835
Adj. R-squared	0.526	0.540	0.537	0.435	0.441	0.436
SE clustered by	Firm	Firm	Firm	Firm	Firm	Firm
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Notes: This table reports the results from estimating equations 2a-3c. We remove firm-quarters that present the tax effects of exclusions using the Type II disclosure and at the same time report nonrecurring tax items. We estimate seemingly unrelated regressions and use the Wald chi-square test to compare β_I and γ_I across columns. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.

Table OA5: Multinational firms with PRE versus other firms

Panel A: Testing H1: TReX and the propensity to meet or beat analysts' consensus forecast

VARIABLES	Pred. Sign	(1)	(2)	(3)	(4)
		Benchmark = GAAP ETR	Benchmark = STR	Benchmark = STR	Benchmark = STR
		MNCs with PRE	Other	MNCs with PRE	Other
ΔNG_EARN_{ETR}	+	0.207*** (0.059)	0.142*** (0.039)		
ΔNG_EARN_{STR}	+			0.195*** (0.058)	0.125*** (0.037)
<i>Total_Excl</i>	-	-0.110*** (0.020)	-0.121*** (0.011)	-0.106*** (0.019)	-0.117*** (0.011)
<i>BTM</i>		0.045 (0.073)	0.014 (0.035)	0.065 (0.069)	0.021 (0.033)
<i>ROA</i>		-0.038*** (0.012)	-0.025*** (0.007)	-0.036*** (0.012)	-0.023*** (0.007)
<i>SalesGrowth</i>		0.056 (0.075)	0.061* (0.034)	0.037 (0.073)	0.079** (0.033)
<i>Size</i>		0.013 (0.010)	0.029*** (0.006)	0.014 (0.010)	0.027*** (0.006)
<i>Loss</i>		-0.003 (0.181)	0.041 (0.074)	0.121 (0.130)	0.154*** (0.054)
<i>Constant</i>		0.019 (0.129)	-0.041 (0.068)	0.032 (0.130)	-0.039 (0.066)
Observations		989	4,524	1,050	4,721
Adj. R-squared		0.108	0.100	0.110	0.101
SE clustered by		Firm	Firm	Firm	Firm
Firm FE		Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes
Quarter FE		Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes

Notes: This table reports the results from estimating equation 1. In columns 1 and 3, we only include multinational firms with nonzero PRE values. In columns 2 and 4, we only include multinational firms with zero PRE and pure domestic firms. In columns 1 and 2, the year-to-date GAAP ETR is used as the benchmark rate. In columns 3 and 4, the statutory rate is used as the benchmark rate. In all columns, we report the results from the linear probability model. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.

Table OA5 (cont'd)

Panel B: Testing H2: The persistence of non-GAAP earnings for future performance – MNC firms with PRE

VARIABLES	Future operating earnings			Future operating cash flows		
	(1)	(2)	(3)	(4)	(5)	(6)
		Benchmark = GAAP ETR	Benchmark = STR		Benchmark = GAAP ETR	Benchmark = STR
<i>NG_EARN</i> (β_I)	2.394*** (0.199)			2.937*** (0.252)		
<i>NG_EARN</i> _{ETR} (γ_I)		2.517*** (0.197)			3.010*** (0.259)	
<i>NG_EARN</i> _{STR} (γ_I)			2.520*** (0.199)			2.964*** (0.262)
ΔNG_EARN _{ETR}		-0.171 (0.752)			2.108** (0.989)	
ΔNG_EARN _{STR}			-0.281 (0.963)			1.968* (1.192)
<i>Constant</i>	-23.010*** (1.725)	-23.643*** (1.675)	-24.038*** (1.730)	12.788*** (1.148)	12.686*** (1.165)	12.701*** (1.168)
Compare β_I with γ_I (p-value)		0.027	0.081		0.274	0.730
Observations	963	963	963	963	963	963
Adj. R-squared	0.528	0.553	0.545	0.482	0.489	0.476
SE clustered by	Firm	Firm	Firm	Firm	Firm	Firm
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Panel C: Testing H2: The persistence of non-GAAP earnings for future performance – MNC firms without PRE and domestic firms

VARIABLES	Future operating earnings			Future operating cash flows		
	(1)	(2)	(3)	(4)	(5)	(6)
		Benchmark = GAAP ETR	Benchmark = STR		Benchmark = GAAP ETR	Benchmark = STR
<i>NG_EARN</i> (β_I)	2.462*** (0.149)			2.883*** (0.182)		
<i>NG_EARN</i> _{ETR} (γ_I)		2.592*** (0.141)			3.003*** (0.178)	
<i>NG_EARN</i> _{STR} (γ_I)			2.639*** (0.144)			3.031*** (0.184)
ΔNG_EARN _{ETR}		1.021 (0.642)			1.892** (0.787)	
ΔNG_EARN _{STR}			-0.166 (0.773)			0.826 (0.903)
<i>Constant</i>	1.119** (0.541)	0.905* (0.527)	0.795 (0.534)	13.698*** (0.908)	13.510*** (0.917)	13.413*** (0.918)
Compare β_I with γ_I (p-value)		0.001	0.001		<0.001	0.002
Observations	4,397	4,397	4,397	4,402	4,402	4,402
Adj. R-squared	0.540	0.553	0.552	0.451	0.458	0.456
SE clustered by	Firm	Firm	Firm	Firm	Firm	Firm
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Notes: In Panels B and C we report the results from estimating equations 2a-3c. In Panel B, we only include

multinational firms with nonzero PRE values. In Panel C, we only include multinational firms with zero PRE and pure domestic firms. We estimate seemingly unrelated regressions and use the Wald chi-square test to compare β_I and γ_I across columns. Robust standard errors are reported in parentheses. ***, **, and * indicate significance at the 1%, 5%, and 10% level, respectively. Detailed variable definitions can be found in Appendix B.