Internet Appendix

A.1 Ambiguous Managerial Indiscretions and Confounding Events

As noted in the text, our sample includes 11 unique indiscretions (with five associated secondary firm observations), which could be ambiguously classified. For example, we classify a domestic violence incident fueled by illicit drugs as *Violence,* but this arguably could be classified as *Substance Abuse*. To test the sensitivity of our results to this choice, we exclude the ambiguous observations from our primary tests and report the results in Appendix A and B. The results are qualitatively similar to our primary findings.

Further, since the inclusion of the 63 confounding announcements into our event study is non-standard, we re-report our primary results from Tables 5 and 6 excluding these confounding events in Appendix C and D. As suggested by the *confounding event* estimate in Table 6, the results are generally more negative when these events are excluded from the analysis.

A.2 Managerial Indiscretions and Longer Term Firm Value

It is possible that the negative shareholder reactions reported in section 4.1 represent transitory shocks to firm value as investors exhibit a knee-jerk reaction to the announcement of the indiscretion. In this section we examine whether the reactions are permanently capitalized into the stock price or if there are reversals following an indiscretion. To do this, we test the relation between managerial indiscretions and long-run firm value by analyzing the time *t-1* to time *t* change in Tobin's q over the year surrounding the indiscretion disclosure (where *t* is the fiscal year of the indiscretion announcement). This yearlong period will also account for any issues we might have with misidentifying the announcement date, problems with confounding events, slow leakage of information about the indiscretion, etc.

Model 1 in Appendix E reveals that the announcement of an alleged indiscretion is significantly negatively related to the change in Tobin's q. On average, firms demonstrate a 0.167 reduction in q from *t-1* to *t*. At sample means, this implies an 8.9% loss in firm value. When the CEO is involved in an

indiscretion, the average decline in q is a significant 0.210 or an 11.1% loss in firm value.[1] Thus, similar to the operating performance evidence, managerial indiscretions are associated with a more permanent deterioration in shareholder wealth. These findings are significant for the combined set of all executives, as well as for individual samples of CEO and non-CEO indiscretions.

A.3 Potential Self-Selection of Managerial Indiscretion Announcements

We are careful to recognize that news of managerial indiscretions may not arrive to the market randomly. For instance, an executive who commits sexual harassment or has a problem with alcohol could have been creating morale problems for years and compromised the careers of other managers, thereby impacting the firm's operating performance. Although our methodologies control for systematic differences between our sample firms by using changes in the dependent variable, addressing time-invariant self-selection, they also treat the disclosure of an indiscretion as temporally exogenous. If disgruntled employees opportunistically leak an indiscretion at a time when the manager is most vulnerable (i.e., when performance is poor), then there would be a systematic relation between the disclosure of an indiscretion and firm performance.[2] This leads to the classic self-selection problem identified by Heckman (1979) and failure to account for such endogenous self-selection essentially amounts to an omitted variables bias, causing the parameter estimates in the model to be inconsistent (Li and Prabhala, 2007).

We do not believe this to be a problem in our analysis. First, many of our observations occur because of arrest (drug use or violence) or the filing of a lawsuit by the aggrieved party rather than an internal tip. Moreover, we do not find prior poor performance to be significantly related to the disclosure of an indiscretion.[3] To be thorough, we correct for this type of endogeneity with the use of a two-stage self-selection model (Heckman,1979); Maddala,1983). We first estimate the propensity for the disclosure of an indiscretion using a probit regression and capture the inverse mills ratio, λ, from the first stage and then

[1] In an unreported Barber, Lyon, Tsai (1999) Buy-and-Hold Abnormal Returns (BHARs) analysis, we similarly find BHARs of -13.76% for CEO indiscretions over the 250 trading days following the indiscretion disclosure.
[2] The coefficient on confounding event reported in in Table 6, however, suggests that the endogeneity of disclosure, if present, is positively biased. Thus, while plausible, empirical support for a negative bias is not observed.
[3] In some tests, the opposite is true. Firms with higher Tobin's q are more likely to be associated with indiscretions.

subsequently model the effect of an indiscretion on performance while including the λ in the second stage. The Heckman correction, λ, controls for the potential bias induced by systematic differences arising at indiscretion firms by specifically modeling the propensity for an indiscretion announcement on the basis of performance, firm value, governance, and ownership structure. Furthermore, this method has advantages in our application over other techniques, such as propensity score matching, since it also controls for selection based on "unobservables" not explicitly modeled in our first stage (Lennox, Francis, and Wang, 2012).

In order to successfully implement this method, we must properly identify the system. In the classic Heckman model, the first stage is identified due to the non-linear nature of the probit model and an instrument is not strictly required under the assumption of exogenous determinants and bivariate normality (Li and Prabhala, 2007). However, if the first stage model contains endogenous explanatory variables (i.e., performance is a determinant of an indiscretion disclosure) or there is a violation of the normality assumption, then we require at least one exclusion variable in the first stage which is then left out of the second stage to properly identify the system. The exclusion variable(s) must be related to the probability of an indiscretion disclosure but unrelated to our change in performance variables.

As a matter of robustness, we choose two instrumental variables to add to our logistic regression model in Table 4 to perform our first stage estimation: the degree of religiosity at the corporate headquarters location (Hilary and Hui, 2009) and an indicator of whether the CEO of the firm is married.[4] Arguably, religious societies might be less tolerant of the behavior found in our sample and therefore an indiscretion is more likely to be disclosed (i.e., not covered up) in these regions. Hilary and Hui find religiosity, defined as the percentage of religious citizens in the corporate HQ county from the year 2000, is positively related to ROA.[5] However, we find no a priori reason that it should be related to abnormal performance *changes* (i.e., the level of religiosity in a single year does not induce a time trend in ROA or q. Ostensibly, market

[4] We thank Nicolosi and Yore (2015) for sharing their data on CEO marital status.
[5] Religiosity is available from the American Religion Data Archive (ARDA) at the county level for only the years 1971, 1980, 1990, and 2000. Only the year 2000 data is appropriate for our 1996-2012 sample period.

efficiency prohibits a predictive annual trend in q from such a readily observable trait as religiosity). Secondly, married CEOs could be less willing to engage in sexual harassment or have more to lose from activities, such as recreational drug use. Again, we have no prior reason to believe that marital status is related to performance changes. Empirically, religiosity is positively related to the probability of the disclosure of a managerial indiscretion (P-value = 0.00) but unrelated to either the change in abnormal operating performance or change in Tobin's q (P-values of 0.45 and 0.91, respectively). Similarly, the married CEO indicator is negatively related to indiscretion disclosures (P-value = 0.06), but not significantly related to changes in OROA or q. We note that both of these exclusions from the second stage model would have to be inappropriate to fail to identify the system.

In model 3 of Appendix E, we continue to find that CEO indiscretions are associated with a decline in q even after accounting for the potential endogenous self-selection discussed above. We note that, while λ is significant, the bias runs counter to our results, as the coefficient is significantly positive. That is, indiscretions are announced when Tobin's q values are typically increasing. This evidence is consistent with our *CAR* regressions, where we find that indiscretion announcements coincide with positive news releases (confounding events).

In model 1 of Appendix F, we also find that CEO indiscretions are associated with a decline in operating performance of 1.3%, even after accounting for endogenous self-selection. The parameter estimate on the Heckman correction, λ, is not significant in this model. This suggests that managerial indiscretions are not endogenously disclosed on the basis of operating performance.[6]

A.4 Difference-In-Difference Analysis around Managerial Indiscretion Announcements

If we fail to properly identify the system in the Heckman selection model, we run the risk of introducing more noise than signal to our tests due to multicollinearity between λ and our indiscretion

[6] In our determinants model we use pre-event measures of operating performance. If we include contemporaneous measures of operating performance into our first stage as well, we continue to find a negative effect on OROA amounting to -1.5% (P-value = 0.0545).

indicator.[7] Therefore, we alternatively address the possibility that managerial indiscretion firms are systematically different than their non-indiscretion counterparts by implementing a firm fixed-effects difference-in-difference analysis of abnormal operating performance around the indiscretion announcement. In the regressions in Panel A of Appendix G, the estimate for the indiscretion indicator is interpreted as the difference in performance for indiscretion firms relative to non-indiscretion firms, absent a disclosure. The estimate for the time index reflects the annual change in performance for all firms. The interaction of these two is the amount of abnormal performance attributable to an indiscretion. We find a decline of 1.6% in operating performance using this method. There is no effect of a non-CEO indiscretion upon operating performance. Panel B of Appendix G reports similar results for the change in Tobin's q.

A.5 Arrest Announcements

Finally, we isolate a subset of observations that, everything else equal, should not be disclosed by disgruntled employees or character assassins. Specifically, we examine the instances of managerial indiscretions that result in an arrest of the executive. Reviewing these cases, 73% of the arrests are the product of spontaneous action (e.g., HBO's Chris Albrecht's alleged assault on his girlfriend) and are disclosed by way of police activity rather than an investigative report. In model 2 of Appendix F, we find that operating performance declines by 2.2% (P-value = 0.0233) during the fiscal year in which these indiscretions are disclosed. We note that each of these specifications provides similar parameter estimates to our OLS result for the CEO. Similarly, as reported in model 5 of Appendix E, we find that arrested executives are associated with a 0.17 drop in Tobin's q (P-value = 0.0985) over the one-year period.

A.6 Dishonesty Indiscretions, Malfeasance, and Director Elections

The results in Tables 5 and 6 of the paper suggest that firm value losses (and particularly reputational losses) may be greater for dishonesty indiscretions. In Appendix H, we examine whether allegations of public dishonesty are any more related than other indiscretions to commissions of

[7] As shown in the table, our variance inflation factors (VIF) are below the typical cutoff of 10 for multicollinearity problems.

malfeasance, which result in subsequent corporate malfeasance. In each of the three panels, we estimate models similar to those in Tables 9 and 10, but replace the key variable of interest with indicators of whether the CEO allegedly committed a dishonesty-type indiscretion (*CEO Dishonesty Indiscretion*) or a sexual misadventure, substance abuse, or violence indiscretion (*Other CEO Indiscretion*). The results in Panels A and B indicate that dishonesty indiscretions are positively and significantly related to the commission of malfeasance that is ultimately targeted by shareholders in a lawsuit or a DOJ/SEC fraud investigation. They are also positively related to the level of discretionary accruals at the firm. Interestingly, the non-dishonesty indiscretions have a positive, but statistically insignificant effect on each of these three outcome variables.

In Table 12, we present evidence that managerial indiscretions are disciplined when shareholders vote for directors up for election. Specifically, directors up for election earn lower vote totals if there was an indiscretion disclosed under their watch. In Appendix I, we investigate whether the effects are more severe for cases alleging public dishonesty. The results corroborate our event study evidence in Table 5 and indicate that shareholders are particularly concerned with dishonest CEOs. Cases of CEO dishonesty precipitate vote totals that are about 3.7% lower for the directors monitoring that CEO. While the numeric magnitude of this result is unlikely to change the outcome of director elections, previous research shows that even small negative shifts in votes are associated with meaningful changes in board behavior including the repeal of staggered boards and poison pills and the lowering of executive compensation (Cai, Garner, and Walkling,2009). Shareholders appear relatively unconcerned about non-dishonesty indiscretions as the change in vote totals is insignificant.

Online Appendix Table A

Managerial indiscretions and firm value (excluding ambiguous indiscretions)

This table presents the impact of 309 managerial indiscretions on firm value as indicated by the three-day and five-day cumulative abnormal returns (CARs) at disclosure using standard event study methods (Brown and Warner, 1985) while excluding the 16 observations which could be ambiguously categorized (e.g., illicit drug induced domestic violence). Investor reactions are presented for the full sample, split by the investor reactions at the executive's *primary firm* and *secondary firm*, by executive title, and by turnover. *CEO* indicates whether the executive committing the indiscretion is the firm's chief executive officer, while *Non-CEO* denotes some other executive or director at the firm. *Turnover* indicates the executive left within 30 days of the announcement, while *Executive retained* indicates that the executive remains at the firm. Announcement returns are further disaggregated by *Sexual misadventure*, *Substance abuse*, *Violence*, and *Dishonesty* which are described in Table 2 and the text. *Shady industry (noncompliance)* indicates the firm resides in an industry with a degree of regulatory noncompliance greater than the median for all industries (Kedia, Luo, and Rajgopal, 2016), while *Shady industry (BPI)* denotes firms in sectors with grand bribery scores less than the median value of Transparency International's 2011 Bribe Payers Index (BPI) (Karpoff, Lee, and Martin, 2015). p-values using Student's t tests and non-parametric Wilcoxon signed-rank tests are reported in parentheses.

		(-1,+1) CAR		(-2,+2) CAR	
Category	N	Mean	Median	Mean	Median
Overall announcement returns					
Full sample	309	-1.45%	-0.57%	-1.63%	-0.62%
		(0.00)	(0.00)	(0.00)	(0.00)
Announcement returns by primary versus secondary firm					
Primary firm	208	-2.06%	-0.96%	-2.15%	-0.92%
		(0.00)	(0.00)	(0.00)	(0.00)
Secondary firm	101	-0.20%	-0.39%	-0.55%	-0.40%
		(0.66)	(0.44)	(0.32)	(0.24)
Announcement returns by title					
CEO	110	-3.71%	-2.05%	-3.59%	-2.31%
		(0.00)	(0.00)	(0.00)	(0.00)
Non-CEO	199	-0.21%	-0.29%	-0.54%	-0.37%
		(0.65)	(0.39)	(0.32)	(0.26)
Announcement returns by turnover					
Turnover	86	-1.96%	-0.88%	-1.84%	-0.62%
		(0.03)	(0.01)	(0.03)	(0.02)
Executive retained	223	-1.26%	-0.54%	-1.54%	-0.62%
		(0.00)	(0.00)	(0.01)	(0.02)
Announcement returns by indiscretion type					
Sexual misadventure	148	-0.37%	-0.40%	-0.30%	-0.48%
		(0.39)	(0.15)	(0.56)	(0.29)
Substance abuse	34	-0.67%	-0.27%	-0.56%	-0.19%
		(0.27)	(0.99)	(0.49)	(0.78)
Violence	22	-2.11%	-2.03%	-2.76%	-2.91%
		(0.03)	(0.04)	(0.00)	(0.00)
Dishonesty	105	-3.10%	-1.18%	-3.61%	-0.77%
		(0.00)	(0.00)	(0.00)	(0.01)
Announcement returns by shady industry					
Shady industry (noncompliance)	157	-1.06%	-0.40%	-0.79%	-0.06%
		(0.06)	(0.06)	(0.24)	(0.49)
Non-shady industry (noncompliance)	152	-1.86%	-0.99%	-2.48%	-1.26%
		(0.00)	(0.00)	(0.00)	(0.00)
Shady industry (BPI)	141	-1.19%	-0.54%	-1.79%	-0.52%
		(0.10)	(0.09)	(0.05)	(0.09)
Non-shady industry (BPI)	168	-1.68%	-0.63%	-1.49%	-0.77%
		(0.00)	(0.00)	(0.01)	(0.01)

Online Appendix Table B

Managerial indiscretions and firm value regressions (excluding ambiguous indiscretions)

This table presents regressions of the (-1, +1) cumulative abnormal returns (CAR) at the indiscretion announcement for our sample of 309 managerial indiscretions Model 1 while excluding the 16 observations which could be ambiguously categorized (e.g., illicit drug induced domestic violence). Models 2-5 are run on subsets stratified by the indiscretion category. *Sexual misadventure*, *Violence*, and *Dishonesty* denote the category of indiscretion and are described in Table 2 and the text. Models 6 and 7 bifurcate this sample on the basis of whether the firm is in a *Shady industry* or *Non-Shady industry*, respectively, where shady industry is identified by noncompliance with federal regulations (Kedia, Luo, and Rajgopal,2016) or by Transparency International's Bribe Payers (Karpoff, Lee, and Martin, 2015). *Disruption costs* are the direct disruption costs defined in Table 2 normalized by sales. *Turnover* indicates the executive left the firm at the time of the announcement. *With subordinate* indicates that the indiscretion involved another employee of the firm. *Founding family exec* indicates the executive is a member of the founding family. *Confounding event* indicates that the firm announces some other event that is generally regarded as influencing stock returns (e.g., earnings guidance, mergers, new product announcements, etc). *Firm size* is the natural log of net sales. *Market-adjusted return* is the firm's net-of-market stock return for the 250 trading days preceding the indiscretion. All other variables are defined in Tables 2 and 3.

	(-1,+1) Cumulative abnormal return (CAR)																	
	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		Model 9	
Variable	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value
Intercept	-0.006	0.80	-0.008	0.67	-0.104	0.06	-0.010	0.87	-0.018	0.61	0.002	0.96	0.001	0.98	-0.065	0.38	-0.002	0.93
CEO	-0.032	0.00	-0.029	0.00	-0.018	0.29	-0.003	0.92	-0.059	0.02	-0.027	0.03	-0.041	0.00	-0.004	0.89	-0.036	0.00
Disruption costs	-0.926	0.03	-4.968	0.02	-5.715	0.24	9.309	0.22	-0.602	0.45	-1.820	0.00	0.345	0.56	-11.341	0.00	0.001	0.91
Sexual misadventure	-0.002	0.90									0.030	0.22	-0.032	0.17	-0.028	0.58	-0.001	0.94
Violence	-0.023	0.24									0.006	0.81	-0.028	0.36	-0.062	0.32	-0.016	0.46
Dishonesty	-0.036	0.03									0.005	0.82	-0.066	0.00	-0.069	0.18	-0.036	0.06
With subordinate	-0.007	0.57									0.004	0.79	-0.012	0.46	-0.007	0.84	-0.003	0.81
Turnover	0.002	0.83	0.025	0.02	0.061	0.09	-0.008	0.84	-0.028	0.18	-0.010	0.43	0.010	0.45	0.030	0.22	-0.008	0.46
Arrest	-0.012	0.34	0.002	0.91	0.021	0.23	-0.015	0.58	-0.045	0.14	0.015	0.39	-0.041	0.02	-0.096	0.01	-0.006	0.70
Repeat offender	0.005	0.59	0.005	0.56	0.022	0.15	0.009	0.79	0.039	0.27	0.005	0.72	-0.001	0.94	0.026	0.31	0.001	0.91
Founding family exec	-0.002	0.88	0.007	0.59	0.028	0.17	-0.055	0.29	-0.021	0.58	-0.020	0.22	0.015	0.36	-0.021	0.54	0.003	0.81
Confounding event	0.024	0.02	0.034	0.00	0.038	0.06	0.053	0.20	0.005	0.86	-0.004	0.74	0.053	0.00	0.014	0.60	0.017	0.18
Poor monitoring index	-0.001	0.90	0.005	0.28	0.015	0.08	0.004	0.68	-0.002	0.88	-0.002	0.71	0.007	0.23	0.008	0.51	0.001	0.88
Firm size	0.002	0.34	-0.001	0.77	0.004	0.31	-0.002	0.80	0.002	0.62	0.000	0.90	0.001	0.64	0.009	0.13	0.001	0.61
ROA	-0.037	0.00	-0.020	0.21	-0.197	0.19	0.119	0.04	-0.052	0.02	-0.022	0.20	-0.019	0.19	-0.065	0.00	-0.020	0.14
Tobin's q	0.001	0.19	0.000	0.88	0.005	0.56	0.002	0.73	0.001	0.61	-0.002	0.18	0.003	0.01	0.005	0.05	0.002	0.13
Market-adjusted return	0.005	0.55	0.001	0.88	0.030	0.13	0.056	0.11	0.010	0.65	0.023	0.06	-0.005	0.72	0.003	0.91	0.014	0.13
Sample	All indiscretions		Sexual misadventure		Substance abuse		Violence		Dishonesty		Shady industry (noncompliance)		Non-shady industry (noncompliance)		Shady industry (BPI)		Non-shady industry (BPI)	
F-statistic	4.04	0.00	3.44	0.00	1.74	0.13	2.35	0.10	2.39	0.01	3.55	0.00	4.01	0.00	4.80	0.00	2.39	0.00
R^2	0.1814		0.2343		0.4980		0.7582		0.2376		0.2888		0.3223		0.3823		0.2019	
N	309		148		34		22		105		157		152		141		168	

Online Appendix Table C

Managerial indiscretions and firm value (excluding confounding events)

This table presents the impact of 262 managerial indiscretions on firm value as indicated by the three-day and five-day cumulative abnormal returns (CAR) at disclosure using standard event study methods (Brown and Warner, 1985) while excluding the 63 confounding events. Investor reactions are presented for the full sample, split by the investor reactions at the executive's *primary firm* and *secondary firm*, by executive title, and by turnover. *CEO* indicates whether the executive committing the indiscretion is the firm's chief executive officer, while *Non-CEO* denotes some other executive or director at the firm. *Turnover* indicates the executive left within 30 days of the announcement, while *Executive retained* indicates that the executive remains at the firm. Announcement returns are further disaggregated by *Sexual misadventure*, *Substance abuse*, *Violence*, and *Dishonesty* which are described in Table 2 and the text. *Shady industry (noncompliance)* indicates the firm resides in an industry with a degree of regulatory noncompliance greater than the median for all industries (Kedia, Luo, and Rajgopal, 2016) while *Shady industry (BPI)* denotes firms in sectors with grand bribery scores less than the median value of Transparency International's 2011 Bribe Payers Index (BPI) (Karpoff, Lee, and Martin,2015). p-values using Student's t tests and non-parametric Wilcoxon signed-rank tests are reported in parentheses.

		(-1,+1) CAR		(-2,+2) CAR	
Category	N	Mean	Median	Mean	Median
Overall announcement returns					
Full sample	262	-2.18%	-1.20%	-2.45%	-1.40%
		(0.00)	(0.00)	(0.00)	(0.00)
Announcement returns by primary versus secondary firm					
Primary firm	178	-2.76%	-1.51%	-2.76%	-1.77%
		(0.00)	(0.00)	(0.00)	(0.00)
Secondary firm	84	-0.93%	-0.56%	-1.71%	-1.07%
		(0.06)	(0.01)	(0.00)	(0.00)
Announcement returns by title					
CEO	93	-4.75%	-3.02%	-4.44%	-2.69%
		(0.00)	(0.00)	(0.00)	(0.00)
Non-CEO	169	-0.76%	-0.54%	-1.35%	-1.04%
		(0.15)	(0.00)	(0.02)	(0.00)
Announcement returns by turnover					
Turnover	79	-2.50%	-1.18%	-2.30%	-1.37%
		(0.02)	(0.00)	(0.02)	(0.01)
Executive retained	183	-2.04%	-1.21%	-2.51%	-1.45%
		(0.00)	(0.00)	(0.00)	(0.00)
Announcement returns by indiscretion type					
Sexual misadventure	121	-1.37%	-1.02%	-1.44%	-1.15%
		(0.00)	(0.00)	(0.00)	(0.00)
Substance abuse	30	-0.94%	-0.39%	-0.86%	-0.49%
		(0.16)	(0.65)	(0.34)	(0.54)
Violence	23	-2.97%	-2.38%	-3.83%	-3.47%
		(0.00)	(0.00)	(0.00)	(0.00)
Dishonesty	88	-3.36%	-1.94%	-2.84%	-1.74%
		(0.00)	(0.00)	(0.00)	(0.00)
Announcement returns by shady industry					
Shady industry (noncompliance)	128	-1.24%	-0.74%	-0.91%	-0.47%
		(0.05)	(0.00)	(0.20)	(0.07)
Non-shady industry (noncompliance)	134	-3.07%	-1.49%	-3.92%	-1.83%
		(0.00)	(0.00)	(0.00)	(0.00)
Shady industry (BPI)	115	-1.80%	-0.97%	-2.76%	-1.37%
		(0.01)	(0.00)	(0.00)	(0.00)
Non-shady industry (BPI)	147	-2.47%	-1.51%	-2.20%	-1.46%
		(0.00)	(0.00)	(0.00)	(0.00)

Online Appendix Table D

Managerial indiscretions and firm value regressions (excluding confounding events)

This table presents regressions of the (-1, +1) cumulative abnormal returns (CAR) at the indiscretion announcement for our sample of 262 managerial indiscretions while excluding the 63 confounding events model 1. Models 2-5 are run on subsets stratified by the indiscretion category. *Sexual misadventure*, *Violence*, and *Dishonesty* denote the category of indiscretion and are described in Table 2 and the text. Models 6 and 7 bifurcate this sample on the basis of whether the firm is in a *Shady industry* or *Non-shady industry*, respectively, where shady industry is identified by noncompliance with federal regulations (Kedia, Luo, and Rajgopal, 2016) or by Transparency International's Bribe Payers Index (Karpoff, Lee, and Martin, 2015). *Disruption costs* are the direct disruption costs defined in Table 2 normalized by sales. *Turnover* indicates the executive left the firm at the time of the announcement. *With subordinate* indicates that the indiscretion involved another employee of the firm. *Founding family exec* indicates the executive is a member of the founding family. *Confounding event* indicates that the firm announces some other event that is generally regarded as influencing stock returns (e.g., earnings guidance, mergers, new product announcements, etc). *Firm size* is the natural log of net sales. *Market-adjusted return* is the firm's net-of-market stock return for the 250 trading days preceding the indiscretion. All other variables are defined in Tables 2 and 3.

	(-1,+1) Cumulative abnormal return (CAR)																	
	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		Model 9	
Variable	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value
Intercept	-0.005	0.85	-0.015	0.47	-0.097	0.11	-0.063	0.12	-0.037	0.37	0.043	0.22	-0.022	0.61	-0.061	0.46	0.008	0.74
CEO	-0.040	0.00	-0.031	0.01	-0.025	0.19	-0.042	0.09	-0.076	0.01	-0.032	0.02	-0.048	0.00	-0.014	0.63	-0.045	0.00
Disruption costs	0.001	0.86	-4.816	0.04	-0.018	0.73	13.010	0.05	0.401	0.61	-1.625	0.01	0.003	0.75	-6.555	0.01	0.000	0.98
Sexual misadventure	-0.009	0.66									0.024	0.37	-0.036	0.27	-0.039	0.47	-0.003	0.87
Violence	-0.025	0.29									-0.016	0.57	-0.031	0.39	-0.047	0.46	-0.019	0.35
Dishonesty	-0.043	0.04									0.003	0.91	-0.072	0.02	-0.070	0.21	-0.032	0.09
With subordinate	-0.007	0.65									-0.005	0.76	-0.014	0.55	-0.005	0.90	-0.003	0.83
Turnover	0.001	0.95	0.028	0.02	0.046	0.16	0.018	0.43	-0.031	0.22	-0.002	0.85	0.008	0.63	0.025	0.37	-0.004	0.71
Arrest	-0.023	0.13	0.006	0.82	0.023	0.21	-0.013	0.51	-0.078	0.05	0.003	0.89	-0.042	0.09	-0.125	0.00	-0.005	0.71
Repeat offender	0.006	0.61	0.008	0.50	0.022	0.21	-0.049	0.15	0.047	0.28	0.004	0.79	0.006	0.75	0.022	0.45	0.008	0.47
Founding family exec	0.000	0.99	0.007	0.67	0.030	0.20	0.011	0.73	-0.016	0.72	-0.021	0.24	0.029	0.15	0.001	0.98	0.001	0.94
Poor monitoring index	-0.002	0.67	0.005	0.37	0.008	0.44	0.008	0.27	-0.003	0.84	-0.002	0.78	0.006	0.44	0.008	0.60	0.001	0.80
Firm size	0.004	0.11	0.000	0.93	0.005	0.23	0.004	0.43	0.006	0.26	-0.004	0.17	0.005	0.18	0.011	0.09	-0.001	0.76
ROA	-0.024	0.07	-0.014	0.52	-0.078	0.66	0.148	0.00	-0.036	0.14	-0.018	0.26	-0.011	0.57	-0.049	0.00	-0.016	0.22
Tobin's q	0.000	0.70	-0.001	0.79	0.000	1.00	0.005	0.21	0.000	0.89	-0.004	0.01	0.003	0.01	0.001	0.61	0.002	0.13
Market-adjusted return	0.008	0.47	-0.002	0.84	0.029	0.18	0.053	0.04	0.014	0.61	0.017	0.19	-0.001	0.96	0.022	0.43	0.005	0.59
Sample	All indiscretions		Sexual misadventure		Substance abuse		Violence		Dishonesty		Shady industry (noncompliance)		Non-shady industry (noncompliance)		Shady industry (BPI)		Non-shady industry (BPI)	
F-statistic	2.60	0.00	2.22	0.02	1.59	0.19	2.29	0.09	1.92	0.05	3.97	0.00	2.42	0.00	3.68	0.00	2.32	0.01
R^2	0.1369		0.1828		0.4923		0.6959		0.2176		0.3472		0.2354		0.3648		0.2065	
N	262		121		30		23		88		128		134		112		150	

Online Appendix Table E

Managerial indiscretions and long-run firm value

This table presents the impact of managerial indiscretions upon long-run firm value during the fiscal year the indiscretion is disclosed using the universe of firms listed in EXECUCOMP from 1996 to 2012. The dependent variable in Panel A is Δ *Tobin's q* from the fiscal year-end of the year immediately preceding the indiscretion announcement (t-1) to the year of the announcement (t). The key independent variable of interest, *Indiscretion*, *CEO indiscretion*, and *Non-CEO indiscretion* are (0,1) indicators of whether a managerial, CEO, or non-CEO indiscretion is disclosed during the fiscal year, respectively. *Arrest* indicates an indiscretion which results in an arrest of the executive. Δ indicates a change in the variable from fiscal year (t-1) to (t). ROA is the change in abnormal operating performance. *Firm size* is the natural log of net sales. All other variables are defined in Table 3. Model 3 is run as a Heckman (1979) treatment effects model where λ is the inverse mills ratio captured from the first stage model predicting an indiscretion. Variance inflation factors (VIF) are reported as tests for multicollinearity. Each model includes industry and year fixed-effects. All p-values are computed using robust Rogers (1993) firm-clustered standard errors.

	Δ Tobin's q									
	Model 1		Model 2		Model 3		Model 4		Model 5	
Variables	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value	Estimate	p-value
Intercept	-0.020	0.76	0.027	0.77	0.014	0.88	-0.187	0.00	-0.184	0.00
Indiscretion	-0.167	0.00								
CEO indiscretion			-0.210	0.01	-0.315	0.00				
Non-CEO indiscretion							-0.138	0.03		
Arrest									-0.171	0.10
Δ ROA	1.435	0.00	1.436	0.00	1.440	0.00	1.439	0.00	1.437	0.00
Δ Leverage	-0.567	0.00	-0.564	0.00	-0.564	0.00	-0.569	0.00	-0.567	0.00
Δ CAPX	0.000	0.41	0.000	0.38	0.000	0.46	0.000	0.42	0.000	0.36
Δ Diversification	-0.020	0.00	-0.019	0.00	-0.020	0.00	-0.019	0.00	-0.019	0.00
Δ Poor monitoring index	-0.014	0.09	-0.014	0.09	-0.023	0.01	-0.014	0.09	-0.014	0.09
Firm age	0.039	0.00	0.040	0.00	0.031	0.00	0.040	0.00	0.040	0.00
Firm size	-0.010	0.00	-0.010	0.00	0.006	0.12	-0.010	0.00	-0.010	0.00
Family-managed firm	-0.001	0.91	-0.002	0.81	0.042	0.00	-0.002	0.83	-0.002	0.79
CEO age	0.001	0.27	0.001	0.28	0.000	0.96	0.001	0.25	0.001	0.27
CEO tenure	-0.001	0.19	-0.001	0.25	-0.003	0.00	-0.001	0.23	-0.001	0.27
CEO ownership	-0.001	0.19	-0.001	0.16	0.002	0.05	-0.001	0.13	-0.001	0.12
Outside director ownership	0.000	0.92	0.000	0.90	0.000	0.93	0.000	0.93	0.000	0.89
λ					1.681	0.00				
VIF (CEO indiscretion)					1.079					
VIF (λ)					2.564					
F-statistic	122.01	0.00	121.51	0.00	115.87	0.00	121.61	0.00	121.37	0.00
R^2	0.0938		0.0934		0.0966		0.0933		0.0931	
N	15,950		15,950		15,950		15,950		15,950	

Online Appendix Table F

Self-selection and arrests for operating performance tests

This table presents the impact of managerial indiscretions upon firm operating performance during the fiscal year the indiscretion is disclosed using the universe of firms listed in EXECUCOMP from 1996 to 2012. The dependent variable, *Abnormal Δ OROA (t)-(t-1)*, is the abnormal change in OROA using the procedure outlined in Barber and Lyon (1996,their model 8). *CEO indiscretion*, is a (0, 1) indicator of whether a CEO indiscretion is disclosed during the fiscal year. *Arrest* indicates an indiscretion which results in an arrest of the executive. *Firm size* is the natural log of net sales. All other variables are defined in Table 3. Model 1 is run as a Heckman (1979) treatment effects model where λ is the inverse mills ratio captured from the first stage model predicting an indiscretion. Variance inflation factors (VIF) are reported as tests for multicollinearity. Model 2 is run as an OLS. Each model includes industry and year fixed-effects. All p-values are computed using robust Rogers (1993) firm-clustered standard errors.

	Abnormal Δ OROA (*t*) - (*t*-1)			
	Model 1		Model 2	
Variable	Estimate	p-value	Estimate	p-value
Intercept	-1.449	0.06	-3.129	0.00
CEO indiscretion	-1.276	0.10		
Arrest			-2.145	0.02
Firm size	0.303	0.00	0.317	0.00
Firm age	-0.001	0.80	-0.001	0.72
Family-managed firm	0.187	0.05	0.203	0.05
CAPX	-2.072	0.00	-2.017	0.00
Leverage	-1.907	0.00	-1.907	0.00
CEO ownership	-0.002	0.84	-0.005	0.58
Outside director ownership	0.045	0.01	0.037	0.02
Diversification	-0.037	0.10	-0.049	0.04
Poor monitoring index	-0.125	0.02	-0.140	0.02
λ	-0.147	0.48		
VIF (CEO indiscretion)	1.465			
VIF (λ)	1.510			
F-statistic	109.20	0.00	99.46	0.00
R^2	0.0135		0.0129	
N	15,950		15,950	

Online Appendix Table G

Difference-in-difference tests

This table presents the impact of managerial indiscretions upon operating performance and long-run firm value during the fiscal year the indiscretion is disclosed using the universe of firms listed in EXECUCOMP from 1996 to 2012. The research design is a difference-in-difference model with firm and year fixed-effects. The dependent variable in Panel A, *Abnormal OROA (t)*, is the abnormal operating return on assets (Barber and Lyon 1996, their model 4) and the time t observation is indicated by the (0, 1) indicator *Time index*. The interaction of the indiscretion indicator and the time index is the amount of abnormal performance attributable to an indiscretion. The dependent variable in Panel B is *Tobin's q* and the time t observation is indicated by the (0, 1) indicator *Time index*. In the regressions, the estimate for the indiscretion indicator should be interpreted as the difference in q for indiscretion firms relative to non-indiscretion firms, absent a disclosure. The estimate for the time index reflects the annual change in q for all firms. The interaction of these two is the change in value attributable to an indiscretion. All p-values are computed using robust Rogers (1993) firm-clustered standard errors.

Panel A: Firm fixed-effects difference-in-difference in operating performance

	Abnormal OROA (t)					
	Model 1		Model 2		Model 3	
Variable	Estimate	p-value	Estimate	p-value	Estimate	p-value
Indiscretion x time index	-0.804	0.05				
Indiscretion	0.032	0.87				
CEO indiscretion x time index			-1.619	0.01		
CEO indiscretion			0.22	0.51		
Non-CEO indiscretion x time index					-0.414	0.42
Non-CEO indiscretion					-0.021	0.93
Time index	0.48	0.00	0.476	0.00	0.473	0.00
F-statistic	1.57	0.00	1.57	0.00	1.57	0.00
R^2	0.1106		0.1107		0.1104	
N	15,590		15,590		15,590	

Panel B: Firm fixed-effects difference-in-difference in firm value

	Tobin's q					
	Model 1		Model 2		Model 3	
Variable	Estimate	p-value	Estimate	p-value	Estimate	p-value
Indiscretion x time index	-0.196	0.00				
Indiscretion	-0.067	0.43				
CEO indiscretion x time index			-0.286	0.00		
CEO indiscretion			0.015	0.93		
Non-CEO indiscretion x time index					-0.153	0.02
Non-CEO indiscretion					-0.092	0.32
Time index	-0.045	0.00	-0.047	0.00	-0.047	0.00
F-statistic	29.33	0.00	29.32	0.00	29.32	0.00
R^2	0.6943		0.6942		0.6943	
N	15,590		15,590		15,590	

Online Appendix Table H

Dishonesty indiscretions, shareholder class action lawsuits, fraud, and earnings management

This table presents logistic regressions which estimate the propensity for malfeasance using the universe of firms listed in EXECUCOMP from 1996 to 2012. In Panel A, the dependent variable in each logistic regression model, *Violation class action lawsuit*, is a (0, 1) indicator denoting that the firm commits a violation in the year of the indiscretion or in the two years following the announcement that becomes the target of a class action lawsuit. In Panel B, the dependent variable in each logistic regression model, *Violation fraud*, is a (0, 1) indicator of whether the firm allegedly commits *Fraud* in the year of the indiscretion or in the two years following the announcement that becomes the subject of a DOJ or SEC fraud investigation. The dependent variable in the OLS regression in Panel C is the magnitude of *Discretionary accruals* discretionary current accruals as defined in Teoh, Welch, and Wong (1998). The key independent variables of interest, *CEO dishonesty indiscretion* and *Other CEO indiscretion* indicate whether the CEO allegedly committed a dishonesty indiscretion or some other type of indiscretion, respectively. *Industry legal exposure* is an indicator variable of whether the firm's industry is targeted by greater than the median number of class action lawsuits during the sample period. *Retail firm*, *Technology firm*, and *Regulated firm* are indicator variables of whether the firm is in retail, technology, or regulated industries as defined by Field, Lowry, and Shu (2005). *Firm size* is the natural log of net sales. *Market-adjusted stock return* is the annual return on the firm's common stock for the period ending with the fiscal year-end, net of the CRSP value-weighted index. *Average volume* is the average daily trading volume in millions of shares for the firm's common stock during the fiscal year. *Delaware incorporation* is an indicator variable of whether the firm is incorporated in Delaware. *ROA* is the net income return on assets. *Tobin's q* is the market value of assets to their book value. *Leverage* is total debt to assets. All other variables are defined in Table 3. Each model includes year fixed-effects (panel B models also include industry fixed-effects); p-values are computed using robust Rogers (1993) firm-clustered standard errors.

Panel A: Shareholder class action lawsuits			*Panel B: Fraud*			*Panel C: Earnings management*		
	Violation class action lawsuit			Violation fraud			Discretionary accruals	
Variable	Estimate	p-value	Variable	Estimate	p-value	Variable	Estimate	p-value
Intercept	-6.742	0.00	Intercept	-7.211	0.00	Intercept	0.109	0.01
CEO dishonesty indiscretion	1.390	0.01	CEO dishonesty indiscretion	1.940	0.01	CEO dishonesty indiscretion	0.102	0.05
Other CEO indiscretion	0.403	0.41	Other CEO indiscretion	0.869	0.16	Other CEO indiscretion	0.038	0.21
Industry legal exposure	0.584	0.04	Firm size	0.466	0.00	CEO-chairman	0.005	0.24
Retail firm	-0.211	0.38	Firm age	-0.007	0.20	CEO ownership	0.001	0.03
Technology firm	0.439	0.01	Leverage	0.448	0.35	CEO age	-0.001	0.00
Regulated firm	-0.228	0.38	Market-adjusted stock return	0.134	0.02	CEO tenure	0.000	0.59
Firm size	0.273	0.00	Average volume	0.000	0.21	Poor monitoring index	-0.001	0.61
Firm age	-0.015	0.00	Discretionary accruals	0.052	0.00	Delaware incorporation	0.015	0.00
Leverage	0.624	0.11	CEO-chairman	0.122	0.45	Firm size	-0.005	0.01
Market-adjusted stock return	0.218	0.00	CEO ownership	-0.013	0.44	ROA	-0.022	0.53
Average volume	0.000	0.00	CEO age	-0.033	0.01	Tobin's q	0.010	0.00
CEO-chairman	0.196	0.06	CEO tenure	0.024	0.12	Leverage	0.012	0.43
Poor monitoring index	-0.008	0.90	Poor monitoring index	0.020	0.82			
Likelihood ratio	597.49	0.00	Likelihood ratio	864.66	0.00	F-statistic	134.41	0.00
Pseudo R^2	0.0472		Pseudo R^2	0.0767		R^2	0.1385	
N	15,950		N	15,950		N	15,950	

Online Appendix Table I

Dishonesty Indiscretions and Director Election Results

This table presents firm- and calendar year-fixed effects regressions of the vote results for 86,836 director elections from 2,108 unique firms in the ISS Shareholder Voting database from 2003-2013. The dependent variable in the OLS model is the *Percent "For" Votes* observed for each director where the percentage "For" is defined as the votes "For" divided by the sum of the votes "For" and "Against." The key independent variables of interest, *CEO dishonesty indiscretion* and *Other CEO indiscretion* indicate whether the CEO allegedly committed a dishonesty indiscretion or some other type of indiscretion, respectively. *Firm size* is the natural log of assets. *Industry-adjusted ROA* is the return on assets reported by the company less the industry median *ROA*. *Classified board* and *Poison pill* indicates the firm has a staggered board or poison pill (as reported by RiskMetrics), respectively. *Board holdings* is the aggregate percentage ownership of the common shares held by all of the directors on the board. *Litigation* indicates that the firm was the target of a shareholder class-action lawsuit while *Accounting restatement* and *Non-timely SEC filing* indicate the firm restated their financials or failed to file with the Securities and Exchange Commission in a timely manner as reported by Audit Analytics. *Residual of ISS recommendation* is the residual of a linear probability model predicting a "For" recommendation by ISS for the director's election. *Vote-No campaign* indicates the existence of such a campaign at the firm during the year. *Unequal voting*, *Confidential voting*, *Majority voting* indicate unequal voting rights, a firm policy which prevents management from knowing how shareholders vote, and a requirement that directors are elected by majority vote, rather than a plurality vote, respectively. Each model includes firm / year fixed-effects and p-values are computed using robust Rogers (1993) firm-clustered standard errors.

	Percent "For" Votes	
Variable	Estimate	p-value
CEO dishonesty indiscretion	-3.687	0.00
Other CEO indiscretion	0.151	0.82
Firm size	-0.257	0.00
Industry-adjusted ROA	2.058	0.00
Classified board	-0.523	0.00
Poison pill	-0.528	0.00
Board size	0.012	0.48
CEO-chairman	-0.017	0.79
Percent outside directors	0.046	0.00
Board holdings	-0.014	0.00
Litigation	-1.121	0.00
Accounting restatement	-0.355	0.00
Non-timely SEC filing	-0.924	0.00
Residual of ISS recommendation	18.399	0.00
Vote-No campaign	-2.247	0.00
Unequal voting	-0.325	0.13
Confidential voting	0.181	0.09
Majority voting	1.242	0.00
F-statistic	46.48	0.00
R^2	0.5395	
N	86,836	