# Essays in Corporate Finance, Shareholder Litigation, and Politics

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## ABSTRACT

**Essays in Corporate Finance, Shareholder Litigation, and Politics**

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When firms seek to curry the favor of politicians, it inevitably leads to political corruption. Political spending totaled US$14.4 Billion in the 2020 US election cycle—and this total does not include dark money donations. Firms naturally never donate to politicians without wanting a return on their investment, so clearly political corruption is a multi-billion-dollar problem in the United States. Recently, a strand of literature examines political corruption in the US from a corporate finance perspective. Another recent strand of finance literature concerns the effects of political ideology on the outcomes of US securities-related shareholder litigation. This thesis aims to first combine and expand upon these two emerging strands of literature by analyzing the relationships of a comprehensive variety of US political and judicial variables with the outcomes of securities fraud and related shareholder litigation. We then extend our framework to a refined exploration of corporate governance as it relates to shareholder litigation.

In the first essay, we study the relationship between a number of political and judicial variables in the United States with the outcomes of litigation for firms that have been sued by their shareholders. Consistent with our hypothesis, we find that a crucial factor in shareholder litigation dismissal has been the passage of the *Citizens United v. FEC* Supreme Court campaign finance ruling of 2010. Furthermore, we find evidence that political campaign contributions afford firms the requisite connections that will benefit them in current or future lawsuits. Also, we quantify the impact of the size and timing of the political campaign contributions. In addition, we confirm

hypotheses that the fate of shareholder class action litigation against these firms is also affected by the political ideologies of some of the trusted authorities who write, administer, and interpret the laws pertinent to firms facing such litigation. These authorities are federal politicians and judges, who are ideally independent arbiters—but the great powers they are given appear to create agency and bias issues, respectively.

In the second essay, we use the knowledge and framework attained from our conclusions from the first essay to examine various corporate governance variables with respect to their role in shareholder litigation outcomes in this new light—variables which can be categorized as board, executive, and firm ownership characteristics. We confirm hypotheses generally based on the principle that variables reflecting better corporate governance will tend to be associated with a higher lawsuit dismissal likelihood. This likelihood tends to increase with a firm's board of directors who are older, more independent, less busy, and have a larger network size. Furthermore, the likelihood of litigation dismissal increases with greater analyst coverage of the firm, with a firm's CEO who is older than the board of directors, with greater institutional ownership, and with a larger number of blockholders owning stakes in the firm. As well as finding results consistent with such hypotheses for our corporate governance variables, we also find some novel, unexpected interactions between political variables and corporate governance variables.

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# *PAYOLA ON THE BELTWAY: THE POLITICAL DETERMINANTS OF SHAREHOLDER LITIGATION OUTCOMES*

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## Abstract

We study the relationship between a number of political and judicial variables in the United States with the outcome of securities fraud and related shareholder litigation. Consistent with our hypotheses, the likelihood of shareholder litigation dismissal has tended to have been increased by the passage of the pivotal Citizens United v. FEC Supreme Court campaign finance ruling of 2010; by political campaign contributions—particularly pre-litigation donation and total donation amounts—from defendant firms to federal-level politicians; and also by the preponderance of conservative ideologies among sitting US Presidents, US Supreme Court justices, and US District Court Judges—the latter in districts corresponding to the shareholder lawsuits. Furthermore, we find that shareholder lawsuits are more likely to be dismissed if they are litigated in the state in which the firm is headquartered, or litigated in states associated with political corruption convictions. Moreover, we find from an event study that the passage of Citizens United has the additional effect of mitigating the fall in stock price for a firm coincident with the firm announcing shareholder litigation. Lastly, we find that lawsuits in general tend to get dismissed faster than they tend to get settled.

## 1. INTRODUCTION

Political connections forged by firms have been shown by previous studies to confer a variety of economic and regulatory advantages, not the least of which are securities laws that are written and interpreted in a manner that is often more favorable to corporations being sued than to the shareholders suing them. Several prior studies examine shareholder litigation risk, comparing sued vs. non-sued firms (Francis et al., 1994; Huang et al., 2019; I. Kim & Skinner, 2012). Our empirical study differs from the extant literature in that we study observations of only cases involving lawsuits, all ending in either a settlement or dismissal. We differentiate lawsuits in this way because shareholder lawsuits very rarely go to trial; generally speaking, the more meritorious lawsuits are settled, and the others are dismissed. Thus, the settled lawsuits can be thought of as merited lawsuits in which the defendant firm is—without a formal verdict—found to be "guilty," and the dismissed lawsuits as unmerited suits in which the defendant firm is found to be "not guilty." We study dismissal likelihood—only in sued firms—as opposed to litigation risk—in sued vs. non-sued firms—because of the uniqueness of our key variables of interest.

Our overarching goal is to explore how US federal and state political and judicial variables work together to demonstrate the effect of corruption on the outcomes of shareholder litigation against firms over corporate malfeasance. This is hypothesized to be manifested mainly via the effects of the size and timing of political campaign contributions, as well as the conservative political ideologies of US federal politicians and judges. Our donation variables of interest reflect timing relative to litigation, and as such all firms in the sample must have undergone litigation. We further hypothesize the passage of the pivotal Citizens United Supreme Court campaign finance ruling of 2010 augments the effects of the aforementioned donations. Huang et al. (2019)'s study also concerns political ideology, but it is limited to US District Court judges, while ours is a

more comprehensive examination of US District Court judges as well as the US President, US Supreme Court, and both houses of the US Congress. Furthermore, ours is the first study we are aware of to examine the role of the size and timing of political campaign contributions—as well as the role of Citizens United—in a corporate finance context such as this. These are the contributions to the literature that we hope to make.

We collect a sample of 2,991 shareholder class action lawsuits filed in US District Courts between 1997 and 2020, for firms trading on major US exchanges. It is noteworthy that prior to the passage of the Private Securities Litigation Reform Act (PSLRA) of 1995, there was a low burden of proof for securities plaintiffs, and it was more common for frivolous lawsuits to be filed and settled. However, our study does not begin until 1997. Our results largely confirm our hypotheses. In our results, we find that by increasing their lawsuit dismissal likelihood and thus reducing their expected settlement costs, defendant firms do indeed extract economic rents via their political and judicial proxies, and that the Citizens United ruling has had a pervasive effect on shareholder litigation outcomes.

The remainder of this essay is structured as follows: In Section 2, we summarize the literature, develop our testable hypotheses, and propose the approach we will follow. In Section 3, we describe the construction of our data sample, and we define our variables. In Section 4, we explain our methodology. In Section 5, we present our results. In Section 6, we discuss robustness. In Section 7, we offer a brief summary of our findings and conclude.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Having political connections may offer a firm numerous potential benefits—generally in the form of greater access to private information and resources, and lower transaction costs for the

firm (Brogaard et al., 2015; Ferris et al., 2019; Gao & Huang, 2016). More specifically, this can mean such benefits as a lower effective tax rate (Adhikari et al., 2006; Wu et al., 2012). It could also mean that regulatory encumbrances will be less likely and/or less costly (Correia, 2014; Yang, 2013), or that the firm will enjoy a lower cost of capital—or a perception as a less risky investment (Boubakri et al., 2012; Bradley et al., 2016; Claessens et al., 2008; Faccio et al., 2006; Khwaja & Mian, 2005). Lastly, the firm may benefit from privileged competitive advantages in obtaining—or receiving preferential terms for—government resources, such as contracts and relief money (Adelino & Dinc, 2014; Blau et al., 2013; Brogaard et al., 2015; Duchin & Sosyura, 2012; Faccio et al., 2006). Eventually, the above benefits all lead—like roads to Rome—to the real prize, the *ultimate* benefit: improved *firm performance*, as measured by both accounting and market returns (Amore & Bennedsen, 2013; Cooper et al., 2010).

So, a firm facing shareholder litigation which subsequently forges political connections may benefit not only by avoiding the value-related and reputation-related pitfalls of a formal guilty verdict or out-of-court settlement—namely: higher firm risk, higher operational costs, lower sales, lower ROA, a decline in institutional ownership, and a collapse in the stock price (Autore et al., 2014; Firth et al., 2011)—but such a firm may also prosper from the numerous other commercial benefits that political connections may afford. As such, firms facing litigation have strong incentives to seek out political connections, even in cases when the political project's expected NPV associated with litigation alone may not appear sizable. This is not to say that the avoidance of reputational costs alone is not a substantial benefit, however. One study of SEC enforcement actions for financial misrepresentation from 1978-2002 estimated that for every $1 that the average firm misleadingly inflated its market value, it paid $0.36 in legal and regulatory penalties, but 7.5 times this amount—a total of $2.71 in reputational penalties, because of lost sales and higher

operating and financing costs (Karpoff et al., 2008). So clearly firms want to keep their reputations intact.

Some empirical studies measure political connectedness by tallying donations by firms to politicians' election campaigns via political action committees—also known as PACs (Bradley et al., 2016; Cooper et al., 2010; Duchin & Sosyura, 2012). Some studies have measured the impact of individuals associated with a firm—such as CEOs and other executives or directors—making individual political donations with the presumed aim to economically benefit the firm (Ovtchinnikov & Pantaleoni, 2012). Other studies measure political connectedness by including the analyses of soft money (Aggarwal et al., 2012) and lobbying expenditures earmarked for politicians (Adelino & Dinc, 2014; Bradley et al., 2016; Hill, Kelly, Lockhart, & Ness, 2013; Tripathi et al., 2002). However, since soft money is designated for a political party and thus not specific to a politician, soft money figures are of limited use for our research. Furthermore, when a firm's lobbying expenditures are spread out over multiple politicians who are being lobbied simultaneously, it is difficult to allocate exact dollar amounts for the value each politician provides the firm in reducing litigation risk. Thus, political campaign contributions are a better proxy of political connectedness than lobbying expenditures for our purposes. Even though major corporations spend more money on lobbying than on PAC campaign contributions (Milyo et al., 2000), there is a high correlation and substantial complementarity between lobbying and contributing (Tripathi et al., 2002). Furthermore, whether lobbying creates value for a firm has not been clearly established—although lobbying has been associated with a greater likelihood of value creation in firms that: a) have not recently been charged with SEC violations, b) have relatively high corporate social responsibility (CSR) rankings, and c) have disclosed and implemented a strong code of ethics against bribery and corruption (Borisov et al., 2016).

Former federal level politicians are often employed by firms as lobbyists, as well as consultants, executives, or directors. However, our interest is in current politicians, not former politicians. Federal politicians, as opposed to state level politicians, have largely been the focus of the finance literature to date (Adelino & Dinc, 2014; Cooper et al., 2010; Duchin & Sosyura, 2012; Hill, Kelly, Lockhart, & Ness, 2013). In some countries, such as Malaysia, even current federal level politicians are not barred from concurrently serving as firm executives (Faccio, 2006), but countries like Malaysia are an anomaly, and our focus is on firms listed on the United States, where there are such restrictions. Our study is thus limited to firms listed on US stock exchanges. It is notable that in contrast, current municipal level politicians are usually not subject to such stringent employment restrictions, and were found in one study to be associated in employment with Italian firms with higher revenues—especially in areas with higher public expenditures and higher corruption (Cingano & Pinotti, 2013). But our interest is in federal level politicians—not municipal level politicians—as they are more germane to securities-related shareholder litigation.

In addition, some empirical studies extend the definition of the "political connectedness" of firms to include such informal issues as: a) a politician—or a politician's family member—owning a large number of shares of the firm (Faccio et al., 2006), b) a politician being a family member of the firm's executives or directors (Amore & Bennedsen, 2013), or c) a politician being in the professional network of a firm's board member (D. Fisman et al., 2012). However, while these issues may lead a politician to a pro-firm bias, they do not necessarily in and of themselves have a direct effect on the outcome of shareholder litigation and as such, are negligible.

For politicians, the obvious benefit from campaign contributions is clearly the financial benefit of the money itself. In addition to presumed personal enrichment, political candidates ostensibly use the money for covering campaign costs, which have become increasingly

expensive—sometimes prohibitively so, without at least some corporate backing—especially for US Presidential races and US Senate races in large states. Moreover, as well as direct financial benefits, there may be some reputational benefits from corporate donations as well. For example, in the 2018 election cycle, Democratic Senator Joe Manchin from West Virginia received at least $41,050 in known contributions from the coal mining industry (OpenSecrets, 2018). Senator Manchin's family also owns a coal company. Some West Virginia voters who view coal mining companies as valuable job providers may see these donations not as a power play but as a signal of confidence in Manchin's political policies and perhaps even as a commitment to keep jobs in West Virginia provided Manchin continues to be re-elected. As a result, Manchin's reputation will have become improved in the minds of these voters, because of his association with the coal mining companies. On the other hand, there are of course negative potential reputational consequences for a politician who is seen to be accepting donations from a corporation or an industry group. The politician may be perceived by the public as having had their policy positions "bought." Some empiricists argue that policy-buying is actually not significant as politicians seek to protect their reputations despite soliciting corporate donations (Ansolabehere et al., 2003). But various other studies argue that firms clearly benefit from their political connections, whether in the US (Cooper et al., 2010; Goldman et al., 2009), or internationally (R. Fisman, 2001).

We also seek to quantify the relative impacts of campaign contributions as they are separated based on their timing. Is it more advantageous for firms to donate to politicians in anticipation of a lawsuit i.e. in advance of the litigation filing date? Or is it better to make donations during the litigation? What about the benefits—if any, of political campaign contributions made after the lawsuit has been resolved—either with a dismissal or a settlement?

As well, another natural question for the firm to ponder is "How eager will the politician be to help the firm?" It is an old maxim that every man, or woman, has a price. But money is not the only motivator. Political ideology can also be an important factor, and it can clinch or nix a politician's alliance with a firm. Historically, conservative political ideology has tended to be in alignment with the goals of businesses, and liberalism in alignment with consumers. It follows that when examined through a left-right political lens, conservatism would tend to favor firms, and thus favor dismissal from shareholder litigation, while liberalism would favor shareholders, and thus favor litigation settlement. We consider political ideology not only as it affects US federal-level politicians—be they Presidents, Senators, or Congressmen—but we also consider the effect of political ideology on jurists (George, 1998)—the US Supreme Court Justices, and also US District Court Judges, the latter of whom decide shareholder litigation cases in the initial trial. If the case requires appeal, it will go to the US Circuit Court (the court of appeals), from which further appeal would eventually have it brought before the Supreme Court Justices. There are 677 authorized District Court judgeships, 179 authorized Circuit Court judgeships, and nine Supreme Court Justices. Several studies have shown that judicial rulings can be tainted by political ideology—sometimes that of the judge himself, and sometimes even originating externally from politicians who have the power to renew the judge's appointment to the bench (Shepherd, 2009; Sunstein et al., 2004). Federal judges are all appointed by the US President, with approval by the US Senate. Thus, federal judges tend to share the President's political ideology, to varying degrees.

Our research builds on the work of Huang et al. (2019), but Huang et al. (2019)'s study differs from ours in several respects. They only consider political ideology of judges—and specifically only of one type of judge—Circuit Court Judges, while our more comprehensive study considers the political ideologies of District Court Judges and Supreme Court Judges, as well as

Presidents, and a composite "Congress" variable combining Senators and Congressmen. Huang et al. (2019) say that Circuit Court Judge results are stronger than essentially non-existent District Court Judge results, because every District Court trial must undergo a mandatory and routine review by Circuit Courts that could result in an embarrassing reversal of a District Court Judge's decision. The implication of this reasoning is that District Court Judges live in so much fear of the monitoring by Circuit Court Judges that the District Court Judges' own political ideology is forgotten, and the politically partisan composition of the Circuit Court Judges preoccupies the minds of the District Court Judges. However, we disagree with this line of thought. First of all, we do find strong results for District Court Judges, which we will discuss in more detail later. Secondly, we use District Court Judges because they provide a larger and more representative sample—every lawsuit in our sample can be used when using District Court Judges. If we had used Circuit Court Judges instead, a smaller sample of non-randomly-assigned lawsuits would have instead been used—and it is important to note that it would be one in which all the lawsuits were dismissed with prejudice. That means the District Court has made judgments in favor of the defendants in all of these lawsuits. When these lawsuits get appealed at the next stage—the Circuit Court—they will tend to have an uphill battle to try to get a settlement. If they get dismissed with prejudice again, they can try to appeal to the Supreme Court, but that court is incredibly selective about which cases it will examine. Then, even if a case is accepted for appeal at the Supreme Court, the likelihood of litigation dismissal will again be disproportionately high. As a result, for Huang et al. (2019)'s purposes, the use of Circuit Court Judges may have been fine, but since our study's primary dependent variable is related to shareholder litigation dismissal, such use does not seem appropriate.

## 2.1 HYPOTHESES

The "big picture" of our empirical study extends to political corruption in the US, as a general construct, and the manners in which it has led to anti-shareholder results in shareholder litigation. To get to the root of the theoretical rationales for our main research, we can consider some mechanisms by which this occurs—mechanisms which can affect how laws are written, interpreted, and/or enforced. First, political campaign contributions of elected officials by corporate donors; the role of these contributions has been accelerated by the Citizens United v. FEC US Supreme Court ruling. One mechanism by which state-level corruption affects the outcome of shareholder litigation in the US is what some would call "bribery" of elected state officials but more accurately involves political campaign contributions by corporations that are *legal.* These are no longer limited to any dollar amount since the landmark Citizens United v. Federal Election Commission (FEC) ruling of January 21, 2010. In the Citizens United ruling, the US Supreme Court opined, in a partisan 5-4 decision, that political contributions that are "independent expenditures"—as opposed to direct contributions to candidates—are to be considered political speech, and that the First Amendment guarantees corporations the right to unabridged speech and thus to unlimited independent political expenditures.

A second mechanism is political ideology, which exacerbates an agency issue in politicians, and creates bias in judges. These issues have great significance because federal politicians and judges can have tremendous sway over shareholder litigation studies, as we will see.

Third, actual bribery—or, alternatively, what is effectively bribery, by corporations, which of course is *illegal*. This also exists, and can be of government officials whether they are elected or not, and whether they work at the local, state, or federal level. True bribery is just one type of

act of corruption that can result in an indictment. Although this can be difficult to measure, it can be proxied-for by our CONVICNS variable (the total Corruption-related federal Convictions per million population at the state-level; see Table 1 for details). The Jack Abramoff scandal of 2004 was a case of true bribery that involved 24 guilty parties and resulted in Abramoff and other defendants being ordered to pay at least US$25 million in restitution in addition to their jail sentences.

Fourth, the "revolving door" in the labor market for government regulators—to be later hired by the firms they once regulated—leads to an incentive for these regulators to under-penalize a "bad" firm, which, if subsequently sued by shareholders, will have less ancillary evidence (i.e. citations, etc.) available to be held against that firm in court. This is another mechanism by which CONVICNS may be related to STATUS—the "revolving door" in the labor market for government regulators. STATUS is the Litigation Status dummy variable, and is our study's primary dependent variable; it equals one if the lawsuit is ultimately dismissed, or equals zero if the lawsuit is settled. Tenekedjieva (2021) found that 38% of insurance commissioners went to work for insurance companies after their terms as commissioners ended. Furthermore, these same commissioners—whose responsibility it is to be the state-level government regulators of insurance firms—were much laxer in regulating before leaving office. As commissioners, they have considerable subjective discretion over how strictly insurance regulations are enforced. Moreover, they have an obvious financial incentive to be poor regulators: their potential future employers will be more likely to hire them—and possibly pay them higher salaries—in return for preferential treatment. In states where revolving door laws have been strengthened, Tenekedjieva (2021) found the commissioners that were more likely to become post-term revolvers were more strict regulators *ex ante*. If an insurance firm is given fewer citations and financial penalties by an insurance

commissioner, it stands to reason that if the firm is subsequently sued by its shareholders for managerial malfeasance, there would be less ancillary evidence available to potentially be held against the firm in that shareholder lawsuit, and the lawsuit would therefore be more likely to be dismissed. Thus, the state-level corruption of the government regulator with a "revolving door" labor market opportunity can affect the status of shareholder litigation. The CONVICNS variable can be a proxy for that state-level corruption even though it does not directly measure the actions of the regulators.

Although our research does not explicitly explore the third and fourth mechanisms as described, we comprehensively study the first and second mechanisms, and we make substantial use of the CONVICNS variable that proxies for anticipated effects of the third and fourth mechanisms.

**Hypothesis 1:** *Litigation filed on or after the date of the passage of the Citizens United v. FEC Supreme Court campaign finance ruling of January 21, 2010, is more likely to be dismissed.*

We hypothesize that after this loosening of campaign finance law, firms were able to donate unlimited amounts of money to politicians in the form of "independent political expenditures." Although such donations are not direct contributions to political candidates like the ones we measure, we need to capture the effect of this legislative change because of the enormity of its anticipated effect. Thus, we test Hypothesis 1 using our CU variable. The CU variable is a dummy variable that equals one for lawsuits filed on or after January 21, 2010—the date of the Citizens United Supreme Court ruling, and equals zero for lawsuits filed beforehand.

**Hypothesis 2a:** *Larger Pre-Litigation Donations are positively related to litigation dismissal.*

**Hypothesis 2b:** *Larger During-Litigation Donations are positively related to litigation dismissal.*

**Hypothesis 2c:** *Larger Post-Litigation Donations are positively related to litigation dismissal.*

**Hypothesis 2d:** *Larger Total Litigation Donations are positively related to litigation dismissal.*

We posit Hypotheses 2a because politicians can presumably have more influence in getting lawsuits dismissed by the courts if the politicians are "retained" by firms before the lawsuits are even filed than if the lawsuits are already in progress, and certainly more influence than if the lawsuit has already been resolved. It is for these reasons that we believe the effect of Hypothesis 2a will be stronger than the effect of Hypothesis 2b, which in turn will be stronger than Hypothesis 2c. We do, however, still believe there will be a significant effect from Post-Litigation Donations because firms will want to signal to politicians that these sorts of alliances are not going to be terminated abruptly as soon as litigation is resolved. Also, it is less likely to draw the ire of regulators if firms make their political donations continuing after their litigation has been resolved, and also spread out over a longer period of time. We include Hypothesis 2d because the total donation offers a glimpse into the effect of the sum investment of the firm in the politician at all stages of the litigation process.

**Hypothesis 2e:** *Firms which are donors to Presidential, Senate or House candidates are positively related to litigation dismissal.*

We expect that, in aggregate, defendant firms benefit from the decision to make a political campaign contribution, regardless of its timing relative to the firm's litigation. We test Hypothesis 2e using FIRMDON, a dummy variable that equals one if a firm is a donor, and equals zero otherwise.

**Hypothesis 3:** *The greater the preponderance of conservative political ideology among the litigation filing date's and state's corresponding US President, US District Court Judges, US Supreme Court Justices, and the two houses of the US Congress, the greater the likelihood of litigation dismissal.*

We theorize that the nature of conservative political ideology tends to lead to the creation of anti-shareholder legislation and/or anti-shareholder interpretation of existing laws. We must consider the effects of political ideology separately on agents of each of the three branches of the US government—legislative, executive, and judicial—because each branch has separate powers and responsibilities over federal law. As such, the ideologies of the US President, US District Court Judges, the US Supreme Court Justices, and the two houses of the US Congress—may affect the likelihood of the shareholder litigation being dismissed rather than settled by the contending legal parties i.e., in the plaintiff's favor.

Since US Supreme Court Justices are usually only replaced on their death or when retiring at an old age, most US Presidents only appoint at most one or two Supreme Court Justices of the nine on the court, so swings in the court's ideology have tended to be gradual. Also, since the President's Supreme Court appointments must be approved by the US Senate, potential Justices with extremist political ideologies have tended to be nixed during the process, unless the President's political party also happens to control the US Senate. As a result, the Supreme Court has tended to be fairly equally balanced between mostly moderate liberals and moderate conservatives over most of the study's time period. Furthermore, because many Supreme Court cases are decided in close, 5-4 votes, with the deciding vote cast by one of the most moderate Justices—whose political ideology as applied to a particular complex and nuanced Supreme Court case is probably also one of the least predictable, we expect that the Supreme Court variable loses some explanatory power. Thus, we suspect that a preponderance of conservative political ideology on the Supreme Court will have a weaker effect on litigation dismissal than, for example, our other judicial variable—US District Court Judges.

Since the ideological tendencies of the US Senate and the House of Representatives exhibit collinearity as separate variables, we use their average ideology as a single, composite US Congress variable. US Senators are elected every six years (in staggered elections for one-third of the Senators every two years), while US Representatives are elected every two years, so ideological shocks among voters would affect the US House of Representatives much more markedly than the US Senate. US Representatives are also thought to generally have a wider disparity in ideology than US Senators, as political candidates with more "extreme" views are more readily able to raise the smaller amounts of money required to run for Representative than to run for Senator. In addition to making them more expensive, US Senate races being state-wide forces political candidates to appeal to a regionally-diversified populace which is likely to be less politically polarized than in US Representative races. But despite the differences in how often Senators and Representatives are elected—and despite differences in how extreme their respective views are expected to be—we expect the effect of ideology to be significant for both types of politicians. We further expect this effect to persist on creation of the US Congress composite variable. However, by a similar rationale as outlined with the Supreme Court above, the US Congress has traditionally enacted laws after a deliberative and often bipartisan process in which the two houses are controlled by different political parties. Furthermore, moderates from both major parties are often indistinguishable in policy platforms. As such, we expect that conservative political ideology on the US Congress variable will have a weaker effect on litigation dismissal than the US President variable. The US President—while usually a moderate, has historically also been evidenced to be motivated by his base to make clearly partisan decisions during his tenure. These decisions can be far-reaching and include appointments of federal judges, executive orders, and legislative vetoes.

**Hypothesis 4:** *Firms who have a "home state advantage"—in that the US state of litigation is also their state of headquarters—are more likely to have their litigation dismissed.*

We hypothesize that a firm's state of headquarters establishes for that firm a foothold of influence among the state's politicians and judges, an unwritten understanding that should the firm face any legal issues, the first power brokers it would employ would be those from its own state. The firm's executives and board members may even have prior established personal or working relationships with federal politicians or judges from the state—as well as a network of other thought leaders whose individual effects are not measured by our study. As a result, when the state of litigation and state of headquarters do ultimately match for the firm, the firm has a "home state advantage." We test this with a matching dummy variable.

**Hypothesis 5:** *The higher the Corruption Convictions in the US state of headquarters, the greater the likelihood of litigation dismissal.*

We hypothesize that our CONVICNS variable may proxy for corruption of both federal politicians at the state level and also state regulators. Moreover, we speculate that both of these types of public servants can impact shareholder litigation outcomes, although it may be conjecture in the case of the latter. In the case of the former, CONVICNS may reflect actual bribery, or what is effectively bribery—or other acts of corruption for which the politician has been convicted. Hypothetically, US states with higher degrees of corruption should have a greater propensity for money to change hands between firms and politicians, and thus more firms skirting the law as a result. Thus, we believe CONVICNS will be related to litigation dismissal.

**Hypothesis 6:** *The stronger the Democratic-Republican two-party Duopoly Power in a firm's state of headquarters, the greater the likelihood of litigation dismissal.*

We hypothesize that the more the Democratic and Republican parties combined dominated the popular vote in the most recent US Presidential election in a firm's state of headquarters, the more likely the litigation dismissal. Our rationale for this is that although it is commonly seen worldwide for a two-party system to result from single-ballot majoritarian elections, the extent to which this Duopoly Power occurs at the state level in a given election reflects the strength of the stranglehold the two major parties have on the partisan political structure of the state. It is as if every state has a two-headed Tammany Hall political machine controlling the state from behind the scenes, with the two parties actually being more like two wings of the same party, as some would say. The strength of the machine in a particular state determines the likelihood of litigation dismissal.

**Hypothesis 7:** *Citizens United's passage has had the additional effect of dampening the negative impact on a firm's stock price that will take place coincident with the firm announcing the filing of shareholder litigation.*

We hypothesize that an event study on litigation filing dates will show that the Citizens United Supreme Court decision has buffered the negative impact on the stock prices of firms which announce shareholder litigation. We expect this to be true as stock investors will be presumably less fearful of potential negative impacts of shareholder litigation on share prices considering the enhanced political protections available in the Post-Citizens United era.

## 3. DATA AND METHODOLOGY

### 3.1 DATA

Detailed explanations of all variables are available in Table 1. We consider all securities class action lawsuits that are not related to initial public offerings and that were filed under the 1934 US Securities Exchange Act—also known as the "Exchange Act," with litigation filing dates ranging between January 1997 through December 2020. We further restrict the sample to firms whose common stock publicly traded on a major US stock exchange, and to firms for which firm characteristic information is available from Compustat, and stock market data is available from CRSP. Also we exclude investment funds including open end and closed end funds, and exchange traded funds. Litigation data is culled using web scraping from the Securities Class Action Clearinghouse (SCAC), which is compiled jointly by Stanford Law School and Cornerstone Research. We use the US Federal Election Commission (FEC) database for culling corporate political donation data, as well as for state-specific and US-wide historical Presidential election result data. In addition, we use the US Federal Judicial Center for US District Court judge data. Data on the US Supreme Court justices is taken from the US Supreme Court Justices Database. US Senate and US House of Representatives data is derived from the US Senate and US House History websites, respectively. The Political Alignment Index (PAI) variable (C. Kim et al., 2012) can be calculated using these two sources in addition to state records on state senators and state representatives, but PAI data was provided to us directly courtesy of Dr. Christos Pantzalis. Information pertaining to the Citizens United v Federal Election Commission (FEC) US Supreme Court ruling was culled from the Supreme Court website. Corruption Convictions (Dass et al., 2016) data is sourced from the US Department of Justice Public Integrity Section. State credit risk ratings are derived from S&P Global. State GDP growth rates are culled from the US Bureau of Economic Analysis, while state unemployment rates are taken from the US Bureau of Labor Statistics. Historical industry unionization rates are culled from Hirsch and Macpherson (Hirsch & Macpherson, 2021). Our

sample consists of 2,991 shareholder class action lawsuits filed in US District Courts between 1997 and 2020, for firms trading on major US exchanges.

### 3.2 VARIABLES

We use two dependent variables in our analyses. Our main dependent variable is the Litigation Status dummy variable, which equals one if the lawsuit is ultimately dismissed, and equals zero if the lawsuit is settled (STATUS). We also use a dependent variable that measures the Lawsuit Duration, in days—the DAYS variable.

The explanatory variable that deserves a category of its own is what we can consider the sole "campaign finance legislation variable"—namely the Citizens United dummy variable (CU), which equals one if a lawsuit was filed on or after January 21, 2010—the date of the crucial Citizens United Supreme Court campaign finance ruling, or equals zero if the lawsuit was filed before this date.

Another variable category is for our political donation variables. Much of what corporations spend on politicians is done through lobbying and contributions to Political Action Committees (PACs)—which have several types, including "independent expenditure-only PACs," which are also known as "Super PACs." Lobbying is usually related to an issue or an industry, so a particular firm-politician relationship cannot be isolated and quantified. Contributions to PACs can also be complicated, although public disclosure of contributions is required. Although some firms set up their own "connected" corporate PACs, when they do so, it is not for the purpose of donations to a single political candidate. Technically, corporations are not allowed to donate money to political candidates or candidate committees, although corporations can donate to PACs,

which can then donate up to $5,000 per candidate or candidate committee both in the primary and in the general election. In the US, the "primary" election is the qualifying election in which the candidate is usually competing with members of his or her own political party in the electoral contest for the party's nomination for the general election. PACs also allow unlimited independent expenditures—such as for TV commercials. Super PACs have the additional benefit of allowing unlimited donation sizes; however, donations can only be used for independent expenditures, so technically, they cannot be paid directly to the political candidate. With PACs, the donated funds can be paid out to candidates, candidate committees, political parties, and to other PACs; as well, the funds can be spent on independent expenditures. Added on to all this, "dark money" contributions—which are undisclosed political donations are becoming larger and larger every year. As such, missing data clouds an already complicated analytic process, and we need to use an alternate method to estimate the size and timing of political donations.

Thus, to proxy for a firm's political campaign donations, we use political donations made by executives of the firm—or their spouses—directly to US Presidential, Senate, or House Candidates. Individual political contributions to economically relevant politicians made by employees of firms have been shown to be associated with improvements in operating performance of firms in industry clusters (Ovtchinnikov & Pantaleoni, 2012). We infer from this that individual political contributions will suit our purposes. We cull Individual Contributions from the Federal Election Commission (FEC) database where the occupation of the campaign contributor includes as a keyword(s) one of the following—either in full or in abbreviation: Chairman, Chief Executive Officer, CEO, Chief Financial Officer, CFO, Chief Information Officer, CIO, Chief Legal Officer, CLO, Chief Marketing Officer, CMO, Chief Operating Officer, COO, Chief Technology Officer, CTO, Founder, General Counsel, President, Vice President, and VP. In addition, contributors

listing their Occupation as Wife, Spouse, or Husband of any of the above are also included. Duplicates resulting from dual titles are removed. Thus, initially, we have the following variables: PREMO: Actual Pre-Litigation Donations; DMO: Actual During-Litigation Donations; PDMO: Actual Pre- or During- Litigation Donations; POSTMO: Actual Post-Litigation Donations; and TOTMO: Actual Total Litigation Donations. Note that since firms are sometimes sued multiple times during our study period, and since such lawsuits can be only a few years apart, we narrow the definitions of the donation periods in order to avoid commingling of donations. We define the Pre-Litigation period as the 365 calendar days before the firm is sued. Furthermore, as the During-Litigation period, we use the period from the litigation filing date to the date the suit is resolved (either dismissed or settled). The Pre- or During- Litigation period is the combination of these two periods. Also, the Post-Litigation period is the 365 calendar days after the suit is resolved (either dismissed or settled). All relevant variables—PREMO, DMO, PDMO, POSTMO, and TOTMO are thus calculated based on these stricter donation period definitions. All of these preceding variables are calculated in millions of dollars.

Now, in order to be consistent in our treatment of variables of such large scale, we find their natural logs—in the same way we have taken the natural log of total assets, for example. But first, 0.000001 (i.e., $1) is added to the contribution amount—just in case the amount is 0, because logs will be involved. Then we find the natural log of the result. In this way, we derive the political campaign contribution variables that we actually use for our analyses—namely PRELD, DURLD, PREORDUR, POSTLD, TOTLD, and FIRMDON. All are derived from raw Individual Contributions figures. The distinction between these variables is: PRELD: LN(Pre-Litigation Donations); DURLD: LN(During-Litigation Donations); PREORDUR: LN(Pre- or During-Litigation Donations); POSTLD: LN(Post-Litigation Donations); and TOTLD: LN(Total

Litigation Donations). The calculations of PRELD, DURLD, PREORDUR, POSTLD, and TOTLD are similar to each other—these are all derived from a political campaign contribution amount. The variable FIRMDON is a dummy variable that is equal to one if the firm is a donor to a federal political candidate, and is equal to zero otherwise.

We also have other political variables, and judicial variables, of interest in our study. We expect that political ideology will have a major importance in our study, as we hypothesize it likely has a far-reaching effect flowing through all branches of the federal government.

The United States Constitution vests powers of the US federal government into three distinct branches. First, the legislative branch is represented by the two houses of Congress: the US Senate and the US House of Representatives. Second, the executive branch is represented by the US President. Third, the judicial branch is represented by the federal courts. The federal courts can be further subdivided—insofar as they pertain to our study—as being comprised of the US Supreme Court and the US District Courts. The legislative and executive branches are comprised of clearly partisan politicians. To date, all US Presidents have been either Democrats or Republicans, and legislators in both houses of Congress are either members of these two major parties or caucus with these parties. Furthermore, Supreme Court Justices as well as US District Court Judges are appointed by US Presidents. Thus, it is possible to quantitatively measure political ideology of all three branches of government.

In the cases of legislators, we use the percentage of the total who are Republicans (or, if applicable, caucusing with Republicans). In the case of US Presidents, we use a dummy variable equals one if a President is a Republican, or equals zero if a President is a Democrat (PRESID). We combine data for the percentage of Republicans in the US House of Representatives in a given election year, with likewise data for the US Senate—giving each an equal weight—to find an

average, thus creating a single, composite "US Congress" variable (CONG). Even though US Senators serve six-year terms, Senate elections are staggered, so Senate composition changes every two years as does House composition. Reducing the Congressional data from two variables to one in this way avoids any issues with multicollinearity.

In the case of Supreme Court Justices, we use, for a given Litigation Year, the percentage of the total Court who were appointed by Republican Presidents as the political ideology variable (SC). In the case of the District Court Judges, we use a binomial function in order to calculate the probability, for a given Litigation Year and Litigation State, that at least two of the three judges assigned to the lawsuit will have been appointed by Republican Presidents. Further details for this calculation are available in Table 1 (JDG). Thus, our political ideology variables (PRESID, JDG, SC, and CONG) are all created on a scale such that higher values reflect greater conservatism, and lower values reflect greater liberalism. All of these are continuous variables except PRESID, which is a dummy variable.

In our research, we control-for a variety of firm-specific characteristics. These include: The excess stock return (RETEXL); the stock return volatility (RETVOLATL); the stock return skewness (RETSKEWL); the share turnover (TURNOVRL); the firm's year-over-year sales growth (SALESGR); the natural log of total assets (LNSIZE); the return on assets (ROA); the research and development expenditure intensity (RND); the property, plant, and equipment expenditure intensity (PPE); the book-to-market ratio (BM); a dummy variable to proxy for auditor quality, which equals one for auditing firms which either are, or eventually become—as the result of mergers or acquisitions—one of the Top 4 auditing firms, and equals zero otherwise (AU); an NYSE dummy variable, which =1 if the stock traded on the New York Stock Exchange or the American Stock Exchange—the latter of which was ultimately acquired by NYSE Euronext, and

=0 if the firm's stock traded on the NASDAQ; a "Repeat Offender" dummy variable indicating whether the firm in question has been listed as a defendant firm in a similar litigation in the SCAC database previously (REPEATOFF); discretionary accruals, calculated using the Modified Jones method (Dechow et al., 1995) (DAC); a debt-to-assets leverage ratio (LEV); free cash flow (FCF); a debt financing variable (DEBTFIN); and an equity financing variable (EQFIN). Rather than using the Altman Z score in the regressions, we use a corresponding Distress Risk dummy variable (DISTRSK), which =1 for firms with an Altman Z >= 1.81, which is what Altman considers to be the critical score for a firm to likely be in the distress zone. The Distress Risk variable =0 for firms with an Altman Z score <1.81. We include the FPS dummy variable for firms belonging to industries—biotechnology, computers, electronics, and retail—identified by prior studies as being at higher risk of litigation (Francis et al., 1994; Huang et al., 2019; I. Kim & Skinner, 2012). We do so in order to test if FPS is also related to litigation dismissal. Another firm characteristic is year-over-year debt growth (DEBTGR), but we only use it in unreported robustness tests.

There are a few other control variables that we include in our study, some of which are state characteristics. The "home state advantage" variable is equal to one if the firm's state of headquarters is the same as the litigation state, or equal to zero otherwise (HOME). We proxy for overt existing corruption by federal politicians using the findings of Dass, Nanda, and Xiao (2016), who total the Corruption-related federal Convictions per million population at the state-level for each state of headquarters (CONVICNS) (Dass et al., 2016). The Political Alignment Index is a composite variable created by (C. Kim et al., 2012) to measure the alignment of the political parties of the federal and state level politicians, in a particular state in a particular year, to the party of the sitting US President (PAI). The state credit risk rating variable is converted to a number from S&P Global's state credit risk ratings, as described in Table 1 (CREDIT). The state GDP growth rate is

the year-over-year change in GDP for a firm's state of headquarters (GDPGR). The state unemployment rate is the unemployment rate in the firm's state of headquarters (UER).

The variable RED gives us a window into a state's partisan political structure on a continuum from redness (conservativeness) to blueness (liberalism). It is a dummy variable equal to one if the Republican candidate wins more of the popular vote than the Democratic candidate in the state of headquarters in the most recent US Presidential election as of the time of the filing year; or equal to zero otherwise. RED is a modified version of the Blue State variable of Huang et al. (2019). In unreported robustness tests, we also use two alternate specifications with which to measure state partisanship. RED5 is a categorical variable equal to two if the Republican candidate surpassed the Democratic candidate by more than 5% of the popular vote; or equal to one if the Democrat led by more than 5%; or equal to zero otherwise (i.e., a Battleground State). The 5% figure is routinely used by US election pundits as the critical value to measure whether a state is politically extreme—to either the red or blue side—or politically gridlocked. Of course, a natural criticism of this would be that the use of a number such as 5% as such a critical value may be somewhat arbitrary and capricious, so this variable may not be a perfect metric, but nevertheless, no metric is. REDPCT is a continuous variable equal to the margin of victory, in percentage points, that the Republican candidate won ahead in the popular vote over the Democratic candidate. This is a negative number if the Democrat led. RED5 and REDPCT yielded qualitatively similar empirical results to RED.

Duopoly Power of the Democratic and Republican parties (DUOPOLY) is proxied-for on a state-level using a calculation analogous to a "partial" Herfindahl–Hirschman Index calculation. The Herfindahl–Hirschman Index is normally a sum of all the market share squares of all the competing firms in a given industry (i.e., business data). In this duopoly power calculation

however, we instead sum the vote share squares (i.e., electoral data) of only the Democratic and Republican US Presidential candidates, in the elections from 1996 through 2020, in all fifty states as well as Washington, DC.

Compustat firm financial statement data is provided at the annual level. CRSP data is monthly for the purposes of deriving return-related regression variables, and daily for the purposes of conducting event studies. All independent variables are uncentered. We winsorize all continuous variables culled from Compustat and CRSP at the 1% and 99% levels in order to minimize outliers for these accounting and stock market firm characteristics, consistent with the methodology of prior studies. Also, we right-winsorize CONVICNS at the 99% level only—because it has several unusually large outliers in the Washington DC area, which is categorized in the data source as a "state."

For industry fixed effects, we almost always categorize firms considering their Fama-French 48-Industry Classification, based on their four-digit SIC codes, and we subsequently use the related industry categorical variable (NEWVAR) to aid our regression analyses. The only case in which we instead use the Fama-French 12-Industry Classification is when we need to determine a firm's industry-year unionization rate (UNRATE), and this is because the historical unionization rate classifications more aptly fit into these twelve industry categories (Hirsch & Macpherson, 2021). The unionization rate variable is only used in our Heckman analysis, as are the following variables: the firm's market share (MKTSHR); the market share squared (MSS); the market share Herfindahl–Hirschman Index (HHI); the Regulated Industry dummy variable, which equals one if the firm's SIC code indicates that it is a utility or financial firm, or equals zero otherwise (REGUL); the natural log of the number of employees (LNEMP); the natural log of sales revenue (LNSALES); the natural log of market capitalization (LNSIZE2); the natural log of the number of

Business Segments of the firm (LNBSEG); and the natural log of the number of Geographic Segments of the firm (LNGSEG).

### 3.3 LITIGATION DISMISSAL LIKELIHOOD

We follow the extant literature and utilize a series of logistic regression models in order to identify the determinants of a firm's litigation dismissal likelihood, using our Litigation Status variable (STATUS), as defined in Table 1. In doing so, we test the majority of our hypotheses. Our logistic models are somewhat similar to Huang et al., (2019). However, our study has a more comprehensive set of political ideology variables, and also includes the analysis of political donation variables.

$$Logit(Status) = \alpha_0 + f\left(CU, \boldsymbol{D_d}, \boldsymbol{I_p}, \boldsymbol{F_f}, \boldsymbol{S_s}, \boldsymbol{\varphi_k}\right) + \varepsilon \qquad (1)$$

Where:

STATUS is the Litigation Status dummy variable that is equal to one if the lawsuit is dismissed, and is equal to zero if the lawsuit is settled;

CU is the Citizens United dummy variable, which is equal to one for lawsuits filed on or after the date of the Citizens United Supreme Court ruling of January 21, 2010, or is equal to zero beforehand;

$\boldsymbol{D_d}$ is a vector of Political Donation Variables;

$\boldsymbol{I_p}$ is a vector of Political Ideology Variables;

$\boldsymbol{F_f}$ is a vector of Key Firm Characteristics;

$\boldsymbol{S_s}$ is a vector of Key Other Control Variables including State Characteristics;

and $\boldsymbol{\varphi_k}$ is a vector of Industry Fixed Effects.

In robustness tests, we conduct logistic analysis including all control variables, which contains a much broader array of firm and state characteristics.

While homoscedasticity is a required assumption of linear regression models, it is not a requirement for logistic regression models—such as the ones we use, and some degree of heteroskedasticity is inherent in logistic regression. Thus, to help provide robustness to address heteroscedasticity concerns, we use White (1980) heteroskedasticity-adjusted robust standard errors. Furthermore, to reduce any possible omitted variable biases, we include industry fixed effects (Petersen, 2009). While we have a sizable number of potential clusters at the industry level (forty-eight), we also have a similar number of explanatory variables for most of our regressions. Such a situation constrains the degrees of freedom, and as such, we are limited from using cluster-robust standard errors clustering at the industry level. Such standard errors could have potentially mitigated misspecification of the models due to intra-cluster correlation, existing because of litigation—as a treatment assignment—tending to be related to industry membership, as evidenced by the summary statistics.

An advantage of binomial logistic regressions over hazard models such as the traditional Cox proportional hazard model is that the latter are designed for situations in which there is a single event for each firm after which that firm disappears, and when the likelihood of that event probably systematically changes over time for a given firm. An example of such use is in the case of bankruptcy. Although class action lawsuits have their shortcomings as suitable events since firms are sometimes sued in multiple years, and since the likelihood of lawsuits may not systemically change over time, we believe that each lawsuit is unique, and firms respond to lawsuits in ways to

prevent future litigation—which is a subject for different papers—so we believe that Cox proportional hazard models can suffice for robustness tests (I. Kim & Skinner, 2012).

### 3.3 STOCK MARKET REACTIONS TO ANNOUNCEMENTS

Also, we conduct a series of standard event study methodologies in order to examine how the stock market reacts to various litigation-related announces; we thus test Hypothesis 7. We employ the Carhart four-factor modification of the Fama-French three-factor model in order to estimate abnormal returns (Carhart, 1997; Fama & French, 1992). We use samples with three different specifications for our different event studies which regard as the event date the announcement date of: a) the litigation filing; b) the litigation dismissal; and c) the litigation settlement. For each specification, we use an event window of (-1,+1) and an estimation period of (-255,-46) prior to the respective announcement date. For robustness checks, we also include (-2,+2) and (-3,+3) event windows. In Figures 1 through 3, we plot the respective graphs of the cumulative abnormal returns, comparing them between the Pre-CU and Post-CU subsamples. In Table 8, we do this comparison quantitatively, with p-tests.

In Table 9, we tabulate the results of an Ordinary Least Squares series of multivariate models, which are simply based on a modified version of Equation (1) above:

$$CAR = \alpha_0 + f\left(CU, \boldsymbol{D_d}, \boldsymbol{I_p}, \boldsymbol{F_f}, \boldsymbol{S_s}, \boldsymbol{\varphi_k}\right) + \varepsilon \qquad (2)$$

Where CAR, the dependent variable, is CAR(-1,+1) in each of the three possible respective specifications,

And all other variables are as defined for Equation (1) above.

We also use Table 9, and Equation (2), in testing Hypothesis 7. We discuss how in the Empirical Results section.

### 3.4 MATCHING TECHNIQUES

The inclusion in both our logistic analyses and our event study analyses of a statistical matching technique, such as Propensity Score Matching (PSM), would have been beneficial, in that it ostensibly reduces bias originating from lurking confounding variables. In most of the shareholder litigation literature, litigation risk is measured, with sued firms being matched with non-sued firms from outside the study's sample. However, our study examines litigation dismissal likelihood, with all firms in the sample being sued firms; some dismissed and some settled. We could not compare dismissed and settled firms (i.e., STATUS=1 vs STATUS=0) because they would be originating from the same sample. The same issue would apply to using CU=1 vs CU=0, or FIRMDON=1 vs FIRMDON=0. An additional issue with the CU variable is that its subsamples are from two different time periods, which is also a problem. Furthermore, an additional issue with the FIRMDON variable would be that all the Campaign Finance variables with non-zero values would be separated into the FIRMDON=1 subsample, and all those with zero values would be left in the FIRMDON=0 subsample, so the subsequent regressions would be problematic.

## 4. EMPIRICAL RESULTS

### 4.1 UNIVARIATE ANALYSIS

Kimbro (2002) found in a cross-country study that countries with more efficient judiciaries were less corrupt. Kimbro (2002) postulated that an efficient judiciary assures that the anti-corruption measures and penalties stipulated by law are actually enforced. Kimbro (2002) further

asserts that inter-country variations in judicial efficiency are affected by *country risk ratings*. This implies that US state credit risk ratings may analogously be a significant determinant of state-level variations in judicial efficiency for our study, and as such, should be controlled-for. Judicial efficiency is important because if litigation is seen to linger excessively in the court system, it serves as an incentive for more unmeritorious lawsuits to be filed in the hopes that defendant firms will offer a nuisance value settlement in order to preserve their firm's reputation. Confirming this, in the Correlation Matrix in Table 2, we see that the correlation between CREDIT and DAYS_W is positive and highly significant—it is significant at the 1% level. It is noteworthy that for the CREDIT variable, a lower number indicates a better score, so we expect a positive correlation here.

In addition, in Table 2, it is notable that the CONVICNS variable does not have a significant correlation with the RED variable, but CONVICNS has a highly significant positive correlation with the DUOPOLY variable. This finding would imply that overt existing corruption is unlikely to be higher among Republicans than Democrats—or vice versa—even though this result may contradict some cursory anecdotal evidence which would indicate that many of the highest CONVICNS states are also Red States. With this correlation finding, we see that the true driver of corruption may be the stranglehold that the two major political parties have on the US federal electoral process. As with any competitive setting, the fewer the competitors, the higher the price that sellers can demand. In states where Duopoly Power is stronger, it appears that political candidates from the two major parties are tempted into pay-for-play with higher stakes and more penalties. Duopoly Power can occur in cases of politically extreme states—as opposed to politically gridlocked states—whether Red or Blue, which are thus more likely to be corrupt than the less extreme Battleground states. For example, Illinois is the state with 8$^{th}$ highest

CONVICNS while being a Blue State. The city of Chicago in particular has had a reputation in the past for Democratic Party political corruption, as did New York City many years before it. A rationale for this is that corporate political campaign contributors donate to corrupt Democratic politicians in heavily Democratic states like Illinois just as they donate to corrupt Republican politicians in heavily Republican states. Such a scenario is posited to come about because the corrupt politician recognizes the confluence of the high likelihood of re-election with the great power of the politician. Thus, perceiving himself or herself as untouchable, the politician will continue to demand growing campaign contributions, quid pro quo.

Table 3 presents the distribution of the sample of lawsuits over the year and industry levels. Table 3 Panel A shows the surge of class action lawsuit activity in recent years, particularly in the last five years. The year with the highest number of lawsuits thus far has been 2017, with 277 suits. Panel B shows the industries in which lawsuits are most concentrated, and how concentrations have changed with the passage of Citizens United. Pharmaceutical Products and Banking appear to have become much more of a target of litigation since the passage of Citizens United, but there has not been much change in the preponderance for Business Services or Electronic Equipment. Our findings in Panel B for the full sample largely mirror those of prior studies that use the FPS variable, which is based on industries identified as being "at-risk" of litigation—these being biotechnology, computers, electronics, and retail (Francis et al., 1994; Huang et al., 2019; I. Kim & Skinner, 2012).

In Table 4, we see the results of a t-test and a Wilcoxon test conducted to compare differences between the means and medians, respectively, of Litigation Duration in days (the DAYS_W variable), comparing cases that settle (Status=0), and cases that are dismissed (Status=1). The Litigation Duration is much shorter for the dismissed vs. the settled lawsuits,

whether comparing means (458 days vs. 1468) or medians (378 vs. 1231). Both the t-test and Wilcoxon test are significant at the 1% level. Thus, shareholder lawsuits tend to be dismissed more quickly than they are settled. A possible rationale is that lawsuits that are without merit will tend to be quickly reviewed by US District Court Judges and dismissed out of hand, while litigation that will need to ultimately be settled is more likely to tend to be more complex in nature, and thus require more of the court's time, for requisite witnesses and evidence to be presented, and for judicial deliberations. On the other hand, there may also be some countervailing effect opposing this as some firms may be anxious to avoid the negative effects of litigation on firm reputation and valuation and, as such, have a bias toward an early settlement, *ceteris paribus*—i.e., when other considerations are otherwise equal. However, it appears clear that any such latter countervailing effect is relatively minor compared to the former primary effect.

What is interesting is the Table 5 reveals a significantly shorter Litigation Duration and significantly higher dismissal likelihood, respectively, in the Post-Citizens United subsample vs. the Pre-Citizens United subsample, as revealed by both t-tests and Wilcoxon tests (mean DAYS_W 546 vs. 1330; median DAYS_W 426 vs. 1035); (mean STATUS 0.73 vs. 0.379; median STATUS 1 vs. 0). Thus, the loosening of campaign finance regulations brought upon by the passage of Citizens United appears to have markedly enhanced the ability of firms to evade shareholder litigation, and allows them to do so quickly.

Furthermore, Table 5 shows that Duopoly Power is significantly higher in the Post-CU subsample than in the Pre-CU subsample, as revealed by both a t-test and a Wilcoxon test (mean duopoly 0.481 vs. 0.467; median 0.482 vs. 0.473). This is logical, as passage of Citizens United would be expected to most benefit the two major political parties, as one of them usually has the candidate leading in the polls, and money tends to follow the projected winner.

## 5.2 MULTIVARIATE ANALYSIS

In our regression analyses, we use models that control for industry fixed effects, but when including the Citizens United dummy variable, our models do not control for year fixed effects. If we had also controlled for year fixed effects, doing so would have interfered with the Citizens United variable. Year fixed effects, i.e., year dummy variables, control for factors changing each year that are common to all industries for a given year—and vice versa. For example, the regression coefficient for the Year 2010 dummy variable estimates the common change to all industries in the primary dependent variable, Litigation Status, in the year 2010 relative to a reference year—for example, 1996—controlling for all the covariates, including the industry-specific time-invariant characteristics i.e., the industry fixed effects. The Citizens United dummy variable has a value of 0 for lawsuits filed on dates before the Citizens United ruling was issued, on January 21, 2010, and a value of 1 for lawsuits filed thereafter—which we can consider to be essentially values of 0 for years up until 2009 and values of 1 for years from 2010 onward. Thus, since the Citizens United variable and the year dummy variables both have time-variant natures, it is inappropriate to use both of them in the same regression models. This potential duplicity is further implied when noting the very high positive correlation between the Citizens United variable and the Litigation Filing Year—the latter of which would determine the year dummy variables for a year fixed effects regression. Thus, the inclusion of year fixed effects in a regression model would mask the true impact of the Citizens United v. FEC US Supreme Court ruling, and we must therefore examine regression models without year fixed effects when including the CU variable. However, we do

also investigate comparable regressions which do include year fixed effects, in addition to industry fixed effects, by dropping the Citizens United variable in those analyses.

Table 6 presents our primary logistic regression results demonstrating the consequences on the likelihood of shareholder litigation dismissal arising from the Citizens United ruling, as well as from political campaign contributions, and the political ideologies of federal politicians and judges, as well as a few key control variables. Table 7 offers a comparable logistic regression but with year fixed effects instead of the Citizens United variable.

In comparing Table 6 to Table 7, it is notable that the Pseudo R-Squared of the models within them tend to be somewhat higher in the Year fixed effects table than in the CU table—even though the Year fixed effects table also has fewer significant explanatory variables, and fewer significant interactions. This is largely because CU is itself involved in three of the six interactions in Table 6. It is possible that these interactions are spurious, but it is also possible that they should inspire further inquiry in our future research. But the current inconsistency we see, with Table 6 having six interactions and Table 7 having only one, leads us to lean toward concluding the former for now. Also, it may appear that the year effect unfortunately captures much of the explanatory power of our study. However, we plan to expand our study to include Political Action Committee (PAC) donations, and should have a better idea of the true significance of the interactions at that time.

Table 6 is unlike Table 7 in that variables CU, Home, President, Judges, and PreLD are positively related to dismissal likelihood, and Return Volatility is negatively related. Another difference is that although Congress is statistically significant in both tables, it flips sign from negative to positive from Table 7 to Table 6, probably because of the inclusion of a significant interaction term. But both tables show the variables Excess Return, Auditor Quality, R&D, ROA, and PostLD to be positive in coefficient, and the variables GDP Growth, State Credit Risk, DurLD,

PreOrDur, TotLD, and FIRMDON to be negative. The positively related results, as well as the results of the State Credit Risk variable, are all in line with our expectations. Note that our State Credit Risk variable assigns a lower score to states with better credit risk, which is why we would expect a negative relationship. The other results are contrary to our expectations. The negative results of PreOrDur, TotLD, and FIRMDON are probably being driven by the negative results of DurLD—as donations made during litigation constitute a plurality of Total Donations. When we expand our study to include Political Action Committee (PAC) donations in our future research, we expect that our regression results will generally be more robust and in line with our expectations.

In Table 10 Panels A and B we compare and contrast the subsamples for lawsuit observations outside of a firm's home state (i.e., Home=0), and in the firm's home state (i.e., Home=1), respectively. At first blush, Panel A appears to have more significant results based on higher Pseudo R-Squared values, but that may be misleading as it represents a significantly smaller sample. The panels have a comparable number of total significant variables, with Panel A having ten, and Panel B having eleven. In common, both panels show variables CU, Excess Return, and PostLD to be positively related to dismissal likelihood, and also show State Credit Risk, DurLD, and PreOrDur to be negatively related. Where these panels differ is that Panel A also shows Judges being positive in coefficient, and Duopoly, Return Volatility, and GDP Growth being negative, while Panel B shows President and Auditor Quality being positive, and it shows Convictions, TotLD, and FIRMDON being negative. In spite of the difference in Pseudo R-Squared values, we note that two-thirds of our observations are of lawsuits in a home state advantage situation, and based on our prior regression results tabulated in Table 6, we maintain our belief that the home state advantage is a key factor in our framework.

### 5.3 EVENT STUDY

Figures 1-3 graphically illustrate the results of our series of event studies using samples with a) the litigation filing date; b) the litigation dismissal date; and c) the litigation settlement date, as the event date, respectively. These results are also subsequently shown quantitatively by the results of t-tests we conducted in Table 8 Panels A to C. In Table 8 Panel A we show that for the first event study—which is our primary event study of interest, the mean Cumulative Abnormal Return in the CU=1 subsample is significantly less negative than the mean Cumulative Abnormal Return in the CU=0 subsample for CAR(-1,+1), CAR(-2,+2), and CAR(-3,+3). The upshot of Figure 1 and Table 8 Panel A is that the arrival of the Citizens United Supreme Court decision heralded a new era for equity investors in firms announcing shareholder litigation. Figure 1 shows that in the Pre-CU period, a litigation announcement would send the stock price down almost -8.5% by Day +5, but in the Post-CU period, this shock was "dampened" to less than -6%. Clearly, investors see more hope for firms to evade shareholder litigation in the unlimited-money-in-politics world.

Furthermore, Table 9 shows that, in CAR(-1,+1) regressions for this first event study, the Citizens United variable and BM both appear to be highly significant factors in determining CAR(-1,+1).

## 5. ROBUSTNESS TESTS

In Table 11, we expand our previous logistic regressions whose results were tabulated in the pair of tables Table 6 and Table 7. In Table 12 Panels A and B, we expand regressions likewise for Table 10 Panels A and B. The expanded regressions includes the same explanatory variables and datasets, but now also includes a complete set of control variables rather than only a few key control variables. We find that in running these expanded regressions, the Pseudo R-Squared appears to be somewhat increased, but this may not be that significant a gain for us. In some cases, parsimony in the number of variables chosen can be a better strategy as it can avoid the issue of overfitting, when an overabundance of parameters extracts some of the residual variation as if that variation represents underlying model structure.

A self-selection bias may be created when certain firms choose to make political campaign contributions because these firms have—in doing so, self-selected themselves to henceforth become members of a select group that non-donating firms do not belong to.

A selection bias may also exist because of fraud-committing firms having their cases dismissed, and innocent firms having to pay settlements. In this latter case, it is not the firm making the problematic "selection" leading to the bias, but rather an erroneous legal system.

In order to correct for our sample's potential self-selection bias and selection bias, we utilize modified versions of the Heckman correction (Heckman, 1979) of Cooper et al. (2010), which has itself based its methodology on several prior papers (Grier et al., 1994; Hart, 2001; Masters & Keim, 1985; Zardkoohi, 1985). These papers have produced individual firm and industry characteristics related to a higher likelihood of the firm having a PAC. Though we are not studying PACs, we adopt the principal Cooper et al. (2010) variables—which we refer to as UNRATE, MKTSHR, MSS, HHI, REGUL, LNEMP, LNSALES, LNSIZE2, LNBSEG, and LNGSEG—as we hypothesize that these variables also logically reflect a firm's likelihood of making political

contributions to an individual candidate. The results are unreported and do not show any significant bias.

As an alternate in exploring potential endogeneity, we investigate the possible need for two-stage models such as two-stage probit and two-stage least squares. We conduct Hausman Specification Tests of Endogeneity for PRELD, TOTLD, and FIRMDON, respectively. We note that LNSIZE_W—a variable from our complete set of control variables, DUOPOLY, and AUDIT are all significantly correlated with each of these potential endogenous variables, but are not significantly correlated with STATUS. As such, we consider LNSIZE_W, DUOPOLY, and AUDIT to be potential instruments. However, the Hausman Specification Tests all yield insignificant results so we see no value in proceeding with the two-stage methodology. Using two-stage models would only increase inefficiency.

In another robustness test, we consider the impact of multiple lawsuits faced by a firm—lawsuits spread apart by less than one year. Such situations would result in the commingling of political campaign contribution amounts, distorting the variables as we have defined them. As such, we again examine the same models as in Table 6, but now limit our analysis to a subsample of the data including only the first lawsuit faced by a given firm in the study period. Our results are qualitatively similar to those of Table 6 and are unreported.

In Table 13, we show results of a series of Cox Proportional Hazard models using Litigation Duration, measured in days, as the dependent variable. In Table 13, we see similar results as in Table 6, but very much limited to our main variables of interest. Also in Table 13, the interaction terms differ. Here, the Citizens United variable has a negative interaction with a political donation variable in each model—namely, DURLD, PREORDUR, TOTLD, and FIRMDON, respectively. Furthermore, in all of the models, the Citizens United variable also has a negative interaction with

Duopoly Power, and Judges has a negative interaction with the Repeat Offender variable. Table 13 shows that Litigation Duration is positively related to: the Citizens United variable, Pre-Litigation Donations, Post-Litigation Donations, the District Court Judges variable, the Supreme Court variable, the Congress variable, the Repeat Offender variable, the Home variable, and the Duopoly variable. Furthermore, Litigation Duration is shown by Table 13 to be negatively related to During-Litigation Donations, PREORDUR, Total Donations, and FIRMDON.

## 6. CONCLUSION

We have developed a novel framework with which to examine the intersection of campaign finance, political ideology, corporate finance, and shareholder litigation in a rapidly changing US political landscape. We incorporate into our analysis the effects of the landmark Citizens United US Supreme Court ruling of 2010, political campaign contributions, and the political ideologies of US Presidents, District Court Judges, Supreme Court Justices, and members of both the US Senate and the US House of Representatives. We also take into consideration various other factors, such as Duopoly Power of the two major political parties; state-level Corruption Convictions; and the firm's "home state advantage" in litigation. Also, we investigate Litigation Announcement stock market effects as an event study in the Post-Citizens United era. We believe that our findings are significant and are reason for further inquiry.

Also, lately, there has been increased public pressure for the US Congress to pass stricter legislation requiring disclosure of legislators' and judges' investments in publicly held corporations. Often, those in the House and Senate serve on powerful committees with access to material non-public information that will benefit them as investors in these firms. Furthermore,

politicians may be incentivized to give such a firm a new federal contract because the politician has been receiving donations from the firm, or because the politician owns stock or options in the firm. There does exist some legislation to deal with these issues with members of Congress—the Stop Trading on Congressional Knowledge (STOCK) Act of 2012—but it is weak regulation with paltry penalties, and with highly inconsistent and lacking enforcement. There was an effort a decade later, in the House in early 2022, to pass stronger legislation in this area but it faced stiff opposition from the majorities of both Democratic and Republican parties. Some prior studies have examined the impacts of politician and judge investment holdings (Gao & Huang, 2016; Knill et al., 2021; Ziobrowski et al., 2004), and we believe that future research could benefit from incorporating this line of investigation into our framework of political donations and political ideology for further study.

# *CAN CORPORATE GOVERNANCE AND POLITICAL PREFERENCE SAVE A FIRM FROM CLASS ACTION?*

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## 1. INTRODUCTION

Shareholder litigation tends to occur because of allegations of malfeasance involving accounting irregularities or violations of corporate disclosure rules—the latter involving such issues as false or misleading financial statements, or failures to disclose material adverse information. The 1934 US Securities Exchange Act—also known as the "Exchange Act," seeks to ensure securities investors have access to truthful and accurate information about a security being traded—including any applicable material facts about the issuer of the said security that could adversely affect its value. Thus, assuming market efficiency, the Exchange Act considers financial statements from the issuer containing material misrepresentations or omissions to constitute fraud, and it provides for statutory remedy for investors—either through private litigation, or through suits filed by the US federal government: in the latter case, criminal prosecutions by Department of Justice, and civil enforcement actions by the Securities and Exchange Commission (Kessler Topaz Meltzer Check LLP, 2019).

Shareholders turn to the courts for redress because their legal rights have been violated—rights that have been put in place to protect, in essence, these stock owners from the agency issues that can be created when ownership and control are separated in the creation of a corporation. Shleifer

and Vishny conduct a comprehensive survey of corporate governance (Shleifer & Vishny, 1997) which focuses on legal protections of shareholders, because the fundamental objective of corporate governance is to safeguard shareholders—who are the firm's principals, and, as the firm's owners and financiers, bear equity risk. Corporate governance strives to ensure that shareholders receive a return on their investments—rather than their wealth being expropriated by managers—who are agents of the firm who manage and control it—due to agency problems resulting from the separation of equity ownership from managerial control in the firm.

Human ingenuity in designing the complex set of contracts that comprise the firm is critical in allaying agency concerns. The corporation has survived, and even thrived, through many years and countries, because creditors and investors have been adequately protected by the law and by the design of these contracts (Fama, 1980; Jensen & Meckling, 1976). Jensen & Meckling (1976) interestingly even define the firm in the context of being comprised merely of a set of contracts—and if this definition is interpreted to only include explicit contracts, then the only residual legal claim in a situation like firm liquidation will be the equity claim, and if we are of the mind to allocate decision rights based on who stands to benefit and lose most from those decisions, then we have a basis for shareholders' supremacy over all the other firm's stakeholders when it comes to decision rights, such as voting rights, in the corporation (Zingales, 2000). Thus, corporate governance—broadly defined—becomes of paramount importance for protecting the firm's equity holder from principal-agent issues. The goal of corporate governance is to mitigate managerial opportunism resulting from information asymmetry between the CEO and the shareholders, and instead better align the interests of the CEO with those of the shareholders so that the value of the firm is maximized. An alternative to the agency view is that shareholder litigation is merely motivated by frivolous rent-seeking by the plaintiff's lawyers. However, studies have shown

(Agnes Cheng et al., 2010; Ferris et al., 2007; McTier & Wald, 2011; Strahan, 1998) that firms which face shareholder litigation are firms which are more likely to have agency issues. Furthermore, firms tend to respond to shareholder litigation by improving their corporate governance metrics—even when not mandated to do so as a result of litigation—which is clearly an indication that the firms have begun to become more acutely aware of the agency costs that they are incurring. Thus, shareholder litigation's role appears to be as an *ex post* managerial disciplining mechanism, and corporate governance is the means through which litigation ultimately exerts its effects on management. If litigation is anticipated by management *ex ante*—perhaps by an executive team aware that they will soon be caught in the act of malfeasance—then management may make corporate governance improvements even before the litigation filing date—in the hopes that this move will ultimately improve the odds of litigation dismissal. Such *ex ante* actions are analogous to management making sizable Pre-Litigation Donations to politicians in order stave off litigation headwinds. Thus, we see that corporate governance can be viewed through a similar lens as political campaign contributions with regard to shareholder litigation.

Now, in a formal decision hierarchy within a firm, the functions of decision initiation and implementation are executed by lower-level agents, who then report to higher-level agents for decision monitoring and later decision ratification (Fama and Jensen, 1983). The higher-level agents include the firm's CEO and board of directors—the latter of whom in turn monitor and ratify the CEO's decisions. The board is the major internal corporate governance mechanism—serving over the CEOs a disciplinary function, as do external corporate governance mechanisms such as shareholder litigation and government regulation. Other internal mechanisms include executive compensation and monitoring by large shareholders. As such, we research the effects of several categories of corporate governance variables on shareholder litigation outcomes. These

include board characteristics; CEO traits and compensation; and firm institutional ownership. We collect a sample of 2,465 shareholder class action lawsuits filed in US District Courts between 1997 and 2020, for firms trading on major US exchanges. We conduct our study within the political campaign finance and political ideology framework of Singh, Jaswinder J. (2023).

The remainder of this essay is structured as follows: In Section 2, we review the literature, develop our testable hypotheses, and propose our approach. In Section 3, we describe the construction of our data sample, and we define our variables. In Section 4, we explain our methodology. In Section 5, we present our results of the consequences of corporate governance variables—broadly categorized as board, executive, and firm ownership characteristics—on the likelihood of shareholder litigation dismissal, and we discuss how these results may interact in a political campaign finance and political ideology context. In Section 6, we discuss robustness. In Section 7, we offer a brief summary of our findings and conclude.

## 2. LITERATURE REVIEW AND HYPOTHESES

The higher likelihood of a shareholder lawsuit being dismissed is *partially* predicated on the lower likelihood of CEO malfeasance actually having been committed. Furthermore, cases involving actual CEO malfeasance of course add nuance by having varying degrees of the extent and severity of the infractions. Thus, the incentives and disincentives that affect the CEO's motivations are of paramount importance. One such disincentive may be firm financial performance—which appears to reduce the probability of shareholder litigation (Kalchev, 2008). We hypothesize that this is because it reduces the probability of CEO malfeasance. This would be

consistent with the tenets of agency theory. However, financial performance can be a misleading indicator as it can be artificially inflated as a result of the fraudulent actions by the CEO.

Romano (1991) argues that shareholder litigation may work as a substitute for other corporate governance structures that are meant to monitor CEOs—such as independent boards and concentrated stock ownership. As such, weaknesses in the firm's corporate governance characteristics would hamper its *ex ante* monitoring abilities, leading to CEO misconduct, and necessitating more frequent shareholder litigation as an *ex post* settling-up mechanism. Furthermore, Romano (1991) opines that while lawsuits—particularly those that end with the firm being required to pay out a settlement—serve to destabilize the board, litigation may be useful for outside blockholders. As a result, outside blockholders may use the threat of legal action in order to redirect corporate policy in their favor, and this maneuver in and of itself may act as a corporate governance mechanism.

Board characteristics, CEO attributes, CEO compensation, and firm institutional ownership are natural candidates of categories of potential factors affecting shareholder litigation outcomes. For board characteristics and CEO attributes, these include variables such as: firm average board member age and its standard deviation; average board member network size; proportion of independent directors on a board; proportion of females on a board; director busyness—as proxied-for by the number of other boards the director serves on; board size; CEO age; and a CEO-Chair dual role dummy variable. This category can also include a variable that is a d-statistic—in this case, a directional difference between CEO age and average board member age, scaled by the standard deviation of the latter—such as our CEOLDER variable, which is based on Xu et al. (2018)'s study in China. CEO compensation variables can include salary; bonus; long-term incentive plans; and options—all as proportions of total compensation. Another variable that could

be considered in this category is the total value of the CEO's equity-linked wealth. Firm institutional ownership variables can include institutional ownership percentage; number of blockholders; blockholder ownership percentage; largest institutional ownership concentration—and its square; and the top 5 largest institutional owners' concentration. A corporate governance study such as ours should also include a Sarbanes-Oxley dummy variable, and can include an analyst coverage variable.

When controlling for differences in the standard deviation of board member age, Xu et al. (2018) find that older board members are associated with a lower likelihood of CEOs committing financial fraud, which they speculate is either because age gives directors the wisdom or experience to effectively monitor the CEO, or because older directors are more concerned about threats to their reputations and incomes, and that this motivates them to better monitor the CEO. However, Xu et al. (2018) also find that this relationship weakens with an increasing directional difference between the CEO age and average board member age, reflecting that perhaps as relatively young CEOs give deference to the board, older CEOs are less likely to take the board's monitoring seriously, or are more adept at skirting it. Thus, CEO age may have a moderating effect on board age. However, in their study of IPO-related shareholder litigation, Li et al. (2016) find that when also including a CEO tenure variable, CEO age is positively related to litigation while CEO tenure is negatively related. Li et al. (2016) hypothesize that younger CEOs are actually more concerned about reputational penalties, because they have a longer career ahead of them. They further hypothesize that the latter relationship is negative because tenure brings with it institutional knowledge about the firm that affords a now-acclimatized CEO better insight with which to thwart other officers from committing fraud.

Khanna et al. (2015) study "CEO connectedness," as measured by the fraction of the top executives and directors that are appointed by the CEO. Their measure is found to be positively related to the incidence of corporate fraud and to the likelihood of the CEO evading detection. In other words, "CEO power" rises. In the case of our study, we measure board network size, and board members of course do not have appointment power over people in their network. However, we hypothesize that since network size is a proxy for access to resources, it reflects the knowledge base that the board member has, and this impacts monitoring capabilities—which in turn give the board member some degree of power over the CEO. This should improve corporate governance and increase the likelihood of litigation dismissal. Network size confers a second advantage to board members as well. We hypothesize that as the board member's network size increases, so does the probability that the network size will be relatively large in the future. This is based on the research of Graham & Pelican (2020), who study networks mapped into utility functions. They find that two agents who form a bipartite—or two-party—network, the dyadic relationship they create will generate more utility upon forming a link if they already share many links or "friends" in common. Among the factors in its calculation are agent-specific "extroversion" or "popularity" parameters for each of the two agents. In the case of boards, these parameters are obviously related to a board member's network size. Thus, the larger a board member's network size, the greater the propensity for the board member to continue increasing his or her network size. So in already having a large network size, a board member has a sustainable competitive advantage, or wide economic "moat," compared with lesser rivals, in the battle for resources and connections with which to deflect litigation.

Several studies find that when the board has a higher proportion of independent directors, board monitoring appears to be more effective and there are thus fewer issues with shareholder

litigation (Beasley, 1996; Dechow et al., 1996; Helland & Sykuta, 2005; Li et al., 2016). Fich & Shivdasani (2007) find that independent directors are motivated by potential reputational penalties in the labor market, while Brochet & Srinivasan (2014) find independent directors being motivated by being personally named as defendants in shareholder suits, in addition to their potential loss of board seats. However, Laux (2010) finds that when directors face greater personal legal liability, it may actually become counterproductive for shareholders. Directors have a choice to respond to this by either increasing their monitoring of the CEO, or by decreasing the CEO's incentive pay, and—particularly in situations where monitoring is costly or difficult—such as in large and complex firms, the director may choose to do the latter. Decreasing the CEO's pay-performance sensitivity may diminish the CEO's incentive to commit fraud, but it may also be deleterious for the firm's interests. Moreover, Harris & Raviv (2008) posit that insiders on the board may be preferrable to shareholders than outsiders in situations where the value of insider information outweighs agency costs. Masulis & Mobbs (2011) find that the inside directors of value are specifically what they call "certified inside directors"—which are non-CEO inside directors who serve on outside boards. Their rationale is that inside directors are selected to receive appointments to outside directorships as rewards for superior individual performance, and thus the outside directorship labor market serves as an important source of inside director incentives to improve board performance and thus shareholder wealth.

Helland & Sykuta (2005) find board size to be negatively related to the likelihood of shareholder litigation. However, Brochet & Srinivasan (2014) find board size to be insignificant in relation to the likelihood of shareholder litigation dismissal. On the other hand, Beasley (1996) concludes that board size is positively related to financial statement fraud.

Beasley (1996) also finds that outside director busyness is negatively related to financial statement fraud. However, Beasley (1996) limits his variable's busyness analysis to only outside directors while we feel that all directors should be included.

Cumming et al. (2015) find—from a large sample of firms in China, a non-linear relationship between gender-diverse boards and shareholder litigation. As the proportion of women on the board increases—especially in male-dominated industries—there are decreases in both the frequency and severity of fraud—to a point. This maximization function reaches its optimal point when the board is 50% female.

CEO-Chair duality has shown mixed results when studied in relation to corporate financial fraud. Kesner et al. (1986) and (Li et al., 2016) find no significant relationship; Dechow et al. (1996) find a positive relationship; and Xu et al. (2018) find a negative relationship.

Mohan (2005) finds that greater analyst coverage is associated with a lower likelihood of litigation. Furthermore, Mohan (2005) finds that litigation is more common in firms with larger total pay packages for the CEO, and larger incentive pay packages—such as stock options. Mohan (2005)'s research also finds that lawsuits become increasingly common with a rise in institutional ownership, but in the presence of a blockholder(s), lawsuits become less common. The latter result is in line with Dechow et al. (1996)'s finding that firms which manipulate their earnings are more likely to lack an outside blockholder. Other studies also find shareholder litigation risk to be higher with higher CEO option pay (Denis et al., 2006; Peng & Röell, 2008).

Pukthuanthong et al. (2017) find that litigation risk is positively related to the institutional ownership percentage, the number of blockholders, and the total ownership of the five biggest institutional investors. However, these results appear to be driven by the results for short-term institutional owners and blockholders, and the relationships for long-term investors actually appear

to be negative. Pukthuanthong et al. (2017) blockholder finding here may be because while the largest of the blockholders may have strong incentives to monitor the CEO, that same large shareholder can create another agency problem between itself and minority shareholders by expropriating wealth from them in an inefficient transfer—such as by "tunneling" assets and profits out of the firm (Lin et al., 2011). To counter this, smaller, institutional blockholders in a multiple blockholder owned firm are found to be more likely to monitor the largest blockholder than to try to form a coalition with it than would an individual investor blockholder of that firm (Basu et al., 2017). Mazur et al. (2018) produce results in line with Pukthuanthong et al. (2017), with Mazur et al. (2018) showing that litigation risk decreases particularly markedly as institutional ownership percentage increases for the largest long-term institutional owners in closest geographic proximity. Mazur et al. (2018) theorize that as the large long-term institutional owner gets closer to the firm, it becomes an easier task to monitor the CEO.

When class action suits actually occur with an institutional investor acting as lead plaintiff—as opposed to an individual investor—it is found that there is a lower dismissal likelihood, with resultant settlements having larger payouts to plaintiffs (Agnes Cheng et al., 2010). Thus, institutional investors can choose to monitor by litigating.

## 2.1 HYPOTHESES

Our first hypothesis, in parts, is as follows:

**Hypothesis 1a:** *Firms whose board members are older are positively related to litigation dismissal.*

**Hypothesis 1b:** *Firms whose board members are more independent are positively related to litigation dismissal.*

**Hypothesis 1c:** *Firms whose board members are less busy are positively related to litigation dismissal.*

**Hypothesis 1d:** *Firms whose board members have larger professional networks are positively related to litigation dismissal.*

**Hypothesis 1e:** *Firms with less variance in the ages of their board members are associated with litigation dismissal.*

**Hypothesis 2:** *Firms with CEOs older than their board members are associated with litigation dismissal.*

With regard to board age, standard deviation of board age, and CEO age, we expect our findings to be in line with Xu et al. (2018), who test these variables together. We expect the standard deviation to be negatively related to dismissal likelihood because a board that is closer together in age is more likely to forge personal friendships with each other and thus see more at stake if malfeasance is committed. We expect board age to be positive, because older board members bring more knowledge and experience with which to avoid or handle legal issues. But we expect CEO age to be negative, as Xu et al. (2018) predict, with the effect of board age being countered and overcome as CEO age increases and becomes larger than board age. Board independence is expected to be positively related to dismissal likelihood, as implied by several studies (Beasley, 1996; Dechow et al., 1996; Helland & Sykuta, 2005; Li et al., 2016). We also test a variation of Masulis & Mobbs (2011)'s "certified inside directors" variable and expect it to be positively related as well. Director busyness is expected to be negatively related, as it is hypothesized to be symptomatic of the director being distracted from monitoring effectively.

Meanwhile, the director's network size is expected to be positively related, as it is considered emblematic of the director's access to resources and thus knowledge, which enhances monitoring capabilities—and thus gives the board member some increase in power in relation to the CEO.

**Hypothesis 3:** *CEO-Chair Duality is negatively related to litigation dismissal.*

This conjecture is based on Dechow et al. (1996) finding that CEO-Chair Duality is associated with a higher incidence of corporate fraud.

**Hypothesis 4:** *Greater analyst coverage of firms is positively related to litigation dismissal.*

Analyst coverage is a method of monitoring the CEO.

**Hypothesis 5:** *Greater CEO options pay is negatively related to litigation dismissal.*

Increasing pay-performance sensitivity in the CEO's employment contract with incentive compensation such as options pay may create an unwanted side effect of the CEO taking illegal fraudulent actions in order to inflate the stock price, as one would expect based on the findings of several studies (Denis et al., 2006; Mohan, 2005; Peng & Röell, 2008).

**Hypothesis 6a:** *Greater institutional ownership is negatively related to litigation dismissal.*

We believe that in line with the implications of extant literature (Agnes Cheng et al., 2010; Pukthuanthong et al., 2017), institutional ownership percentage rises with shareholder litigation risk, and will thus be negatively related to litigation dismissal likelihood.

**Hypothesis 6b:** *A larger number of blockholders is positively related to litigation dismissal.*

We believe our results will support the findings of Basu et al. (2017), with regard to the development of multiple blockholder owned firms as a solution to the "tunneling" agency issue that is created when there is a firm dominated by a single, large blockholder (Lin et al., 2011).

# 3. DATA AND METHODOLOGY

## 3.1 DATA

We describe all of our variables in detail in Table 14. Considered are all securities class action lawsuits not related to IPOs filed under the 1934 US Securities Exchange Act—more commonly referred to as the "Exchange Act." The included litigation filing dates range from January 1997 through December 2020. Firms must have common stock publicly traded on a major US stock exchange, and must have firm characteristic information available from Compustat, as well as stock market data are available from CRSP. Excluded are investment funds including open end and closed end funds, and exchange traded funds. Litigation data is extracted using web scraping from the Securities Class Action Clearinghouse (SCAC), a joint venture of Stanford Law School and Cornerstone Research. We use the US Federal Election Commission (FEC) database as our source of corporate political donation data, as well as for historical Presidential election result data. The US Federal Judicial Center provides our US District Court judge data, and we cull our data on US Supreme Court justices from the US Supreme Court Justices Database. We find data on the US Senate and US House of Representatives data on the US Senate and US House History websites, respectively. Equity analyst coverage data came from I/B/E/S. Data regarding board member characteristics as well as some CEO/CFO characteristics were taken from BoardEx. For information on institutional and blockholder ownership, we use the Thomson Reuters Institutional Holdings (13F) Database (formerly CDA/Spectrum), which provides data on quarterly 13F filings of institutional investors with more than $100 million in equities. CEO compensation data is from ExecuComp. The Political Alignment Index (PAI) variable (C. Kim et

al., 2012) could have been calculated using these two sources in addition to state records on state senators and state representatives, but PAI data was provided to us directly courtesy of Dr. Christos Pantzalis. Information pertaining to the Citizens United v Federal Election Commission (FEC) US Supreme Court ruling was taken from the Supreme Court website. Corruption Convictions (Dass et al., 2016) data is derived from the US Department of Justice Public Integrity Section. State credit risk ratings are culled from S&P Global. State GDP growth rates are taken from the US Bureau of Economic Analysis, while state unemployment rates are from the US Bureau of Labor Statistics. Historical industry unionization rates are from the research of Hirsch and Macpherson (Hirsch & Macpherson, 2021). Our sample consists of 2,465 shareholder class action lawsuits filed in US District Courts between 1997 and 2020, for firms trading on major US exchanges.

### 3.1 VARIABLES

Our corporate governance variables include natural log of board age (LNBAGE)—where board age is the average age of the firm's board (BAGE); standard deviation of board age (BAGESD); board network—the average of the board members' network sizes (BNET); board independence—the proportion of independent directors on the board (BDINDEP); the proportion of certified insider directors on the board (BCID); the proportion of females on the board; director busyness—proxied-for by the number of other boards the director serves on (BUSYDIR); natural log of the board size (LNBSIZE); natural log of CEO age (LNCEOAGE); the standardized mean difference between CEOAGE and BAGE, scaled by BAGESD (CEOLDER); CEO—Board Chair dual role dummy variable (DUAL); CEO/CFO female representation—is the proportion of the firm's CEO(s) and CFO(s) that are female (CFRATIO); Analyst coverage (ANLY); Sarbanes-

Oxley dummy variable (SOX); CEO tenure (TENURE); CEO Salary (SALARY); CEO Bonus (BONUS); CEO Long-Term Incentive Program pay (LTIP); CEO Options pay (OPTIONS); CEO Total Value of Equity-Linked Wealth (TOTEQWLTH); Institutional ownership (INSTO); Number of blockholders (BLOCKN); blockholder ownership (BLOCKO); Top Institutional Owner Concentration (CONCEN); Top Institutional Owner Concentration Squared (CONCENSQ); and Top 5 Institutional Owners' Concentration (TOP5CONCEN).

Our other variables generally follow the framework of Singh, Jaswinder J. (2023), unless otherwise stated, and are described in detail in Table 14. In the interest of brevity, we will mention them here summarily.

Our two dependent variables are the Litigation Status dummy variable (STATUS), and Lawsuit Duration (DAYS).

The sole "campaign finance legislation variable" is the Citizens United dummy variable (CU).

Our political donation variables are based on raw, actual individual contribution figures, in millions of dollars, namely PREMO: Actual Pre-Litigation Donations; DMO: Actual During-Litigation Donations; PDMO: Actual Pre- or During- Litigation Donations; POSTMO: Actual Post-Litigation Donations; and TOTMO: Actual Total Litigation Donations. We limit the Pre-Litigation period to 365 calendar days before the firm is sued, and the Post-Litigation period to 365 calendar days after the suit is resolved (either dismissed or settled). We add 0.000001 (i.e., $1) to the contribution amount—just in case the amount is 0, because logs will be involved. Then we find the natural log of the result. In this way, we derive the political campaign contribution variables that we actually use for our analyses. These variables are: PRELD: LN(Pre-Litigation Donations); DURLD: LN(During-Litigation Donations); PREORDUR: LN(Pre- or During-

Litigation Donations); POSTLD: LN(Post-Litigation Donations); and TOTLD: LN(Total Litigation Donations). The calculations of PRELD, DURLD, PREORDUR, POSTLD, and TOTLD are thus similar to each other—these are all derived from a political campaign contribution amount. The variable FIRMDON is a dummy variable that is equal to one if the firm is a donor, and is equal to zero otherwise.

We also have political ideology variables for the US President (PRESID), US District Court Judges (JDG), two houses of Congress (CONG), and US Supreme Court Justices (SC).

Our firm-specific control variables include: excess stock return (RETEXL); stock return volatility (RETVOLATL); stock return skewness (RETSKEWL); share turnover (TURNOVRL); year-over-year sales growth (SALESGR); natural log of total assets (LNSIZE); return on assets (ROA); R&D expenditure intensity (RND); property, plant, and equipment expenditure intensity (PPE); book-to-market ratio (BM); an auditor quality dummy variable (AU); an NYSE dummy variable; a "Repeat Offender" dummy variable indicating if the firm was sued before (REPEATOFF); discretionary accruals (DAC); debt-to-assets (LEV); free cash flow (FCF); a debt financing variable (DEBTFIN); an equity financing variable (EQFIN); a distress risk dummy variable (DISTRSK); and the FPS dummy variable—which is from papers such as (Francis et al., 1994; Huang et al., 2019; I. Kim & Skinner, 2012).

There are a few other control variables, some of which are state characteristics. The "home state advantage" variable (HOME); the Corruption Convictions (CONVICNS) variable of Dass, Nanda, and Xiao (2016); the Political Alignment Index of (C. Kim et al., 2012) (PAI); a state credit risk rating variable (CREDIT); the state GDP growth rate (GDPGR); the state unemployment rate (UER); the state's partisan political structure (RED)—a variable based on Huang et al. (2019); and Democrat-Republican Duopoly Power (DUOPOLY).

Compustat firm financial statement data, BoardEx board of directors data, and ExecuComp executive compensation data are culled at the annual level. Thomson Reuters 13F institutional holdings and I/B/E/S data are provided at the quarterly level. CRSP stock market data is monthly for the purposes of deriving return-related regression variables. All explanatory variables are uncentered. We winsorize all continuous variables culled from Compustat and CRSP at the 1% and 99% levels in order to minimize outliers for these accounting and stock market firm characteristics, consistent with the methodology of prior studies. In addition, we right-winsorize CONVICNS at the 99% level only—because it has several unusually large outliers in the Washington DC area, which is categorized in the data source as a "state."

For industry fixed effects, we always use four-digit SIC codes to categorize firms considering their Fama-French 48-Industry Classification, and we subsequently use the related industry categorical variable (NEWVAR) to aid our regression analyses. The only exception—where we instead use the Fama-French 12-Industry Classification—is in order to determine a firm's industry-year unionization rate (UNRATE), and this is because the historical unionization rate classifications more aptly fit into these twelve industry categories (Hirsch & Macpherson, 2021). UNRATE is only used in our Heckman analysis, as are the following variables: firm market share (MKTSHR); market share squared (MSS); market share Herfindahl–Hirschman Index (HHI); the Regulated Industry dummy (REGUL); natural log of the number of employees (LNEMP); natural log of sales revenue (LNSALES); natural log of market capitalization (LNSIZE2); natural log of the number of Business Segments of the firm (LNBSEG); and natural log of the number of Geographic Segments of the firm (LNGSEG).

### 3.2 REGRESSION ANALYSIS

We follow the existing literature and utilize a series of logistic regression models to identify the determinants of a firm's litigation dismissal likelihood, using our Litigation Status variable (STATUS), as defined in Table 14.

$$Logit(Status) = \alpha_0 + f(CU, \boldsymbol{G_g}, \boldsymbol{D_d}, \boldsymbol{I_p}, \boldsymbol{F_f}, \boldsymbol{S_s}, \boldsymbol{\varphi_k}) + \varepsilon \qquad (3)$$

Where:

STATUS is the Litigation Status dummy variable that is equal to one if the lawsuit is dismissed, and is equal to zero if the lawsuit is settled;

CU is the Citizens United dummy variable, which is equal to one for lawsuits filed on or after date of the Citizens United Supreme Court ruling of January 21, 2010, or is equal to zero beforehand;

$\boldsymbol{G_g}$ is a vector of Corporate Governance Variables;

$\boldsymbol{D_d}$ is a vector of Political Donation Variables;

$\boldsymbol{I_p}$ is a vector of Political Ideology Variables;

$\boldsymbol{F_f}$ is a vector of Key Firm Characteristics;

$\boldsymbol{S_s}$ is a vector of Key State Characteristics;

and $\boldsymbol{\varphi_k}$ is a vector of Industry Fixed Effects.

We conduct, in robustness tests, logistic regressions which include all control variables and cover a much broader array of firm-specific and state-specific characteristics.

Brochet & Srinivasan (2014) also construct logistic regression models in order to examine litigation dismissal likelihood in corporate governance research, but in a relatively limited way. Also, Brochet & Srinivasan (2014)'s paper does not include the impacts of political campaign finance or political ideology. More often than dismissal likelihood, research is done on shareholder litigation risk, as is the case with Mohan (2005), who uses logistic regression analysis as well as a Cox proportional hazard model. We also include a model of the latter variety in our robustness tests.

### 3.3 MATCHING TECHNIQUES

We would have benefited by including a statistical matching technique, such as Propensity Score Matching (PSM) in our logistic analyses, in that PSM ostensibly reduces bias originating from lurking confounding variables. In most of the extant shareholder litigation literature, litigation risk is measured, with sued firms being matched with non-sued firms from outside the study's sample, while our study examines litigation dismissal likelihood, with all firms in the sample being sued firms; some dismissed and some settled. We could not compare dismissed and settled firms (i.e., STATUS=1 vs STATUS=0) because all would originate from the same sample. Likewise using CU=1 vs CU=0, or FIRMDON=1 vs FIRMDON=0. Also, with the CU variable, its subsamples are from two different time periods—which is also a problem. As well, with FIRMDON: all the Campaign Finance variables with non-zero values would be separated into the FIRMDON=1 subsample, and all those with zero values would be left in the FIRMDON=0 subsample, so the subsequent regressions would be skewed.

## 4. EMPIRICAL RESULTS

In Table 15, we present the results of logistic regressions for litigation dismissal likelihood when the corporate governance variables are board or executive characteristics. Table 16 offers similar logit results to Table 15, but with Year fixed effects included instead of the Citizens United variable. In similar fashion, Table 17 and Table 18 present the results from the analyses of institutional and blockholder ownership variables, and Table 19 and Table 20 present results from institutional ownership concentration variables. In the cases of all three of these pairs of tables, we see that the Pseudo R-Squared of the models therein tends to be somewhat higher in the latter table than in the former—even though the latter table seems to also have fewer significant explanatory variables, and fewer significant interactions. The last point is due in no small part to the Citizens United variable often itself being involved in interactions. Now, it may well be that these interactions are spurious, or they may reflect a deeper connection to remain to be determined by our future research. But at this time, the inconsistencies of these interactions amongst the tables leads us to lean toward concluding the former for now.

Moreover, it may appear that the year effect unfortunately captures much of the explanatory power of our study. However, it is noteworthy that as our study is a corporate governance study, we are compelled to include a Sarbanes-Oxley dummy variable (SOX), which—like the Citizens United variable—is related to time. Our regressions still run without any collinearity complications when including SOX along with Year fixed effects, but the robustness of the concomitance of these effects is, in our opinion, clouded.

In contrast to Table 16, in Table 15, the CU variable and analyst coverage are significantly positive, while GDP growth is significantly negative. On the other hand, in Table 16, FIRMDON

is negative. However, we do find that both tables have mostly qualitatively similar results. We see that dismissal likelihood, as expected, is positively related to board age, and board network size. Other positively related variables are PreLD, PostLD, and R&D. Also as expected, dismissal likelihood is negatively related to standard deviation of board age, CEO-Chair duality, and director busyness. Another negative variable is DurLD. We procure mixed results with board independence, and also when we use certified inside directors as an alternative specification instead of board independence. We also find inconclusive results with CEO options pay.

Table 17 and Table 18 have five main differences between them. In Table 17, the CU, Judges, and President variables are positively related to dismissal likelihood, while the Duopoly variable is negative. Furthermore, in Table 18, Auditor Quality is positive. Other than these differences, results are qualitatively similar. In both tables, dismissal likelihood is shown, as expected, to be positively related to number of blockholders. But contrary to expectations, it is also positively related to institutional ownership. We find a similarly significantly positive result for blockholder ownership. However, although statistical significance also stands for the two blockholder variables for all of the models in Table 18, it only holds for some of the models for the institutional ownership variable in Table 18. In both tables, variables PreLD, PostLD, Home, Excess Return, R&D, and ROA are positively related to dismissal likelihood. Variables DurLD, TotLD, FIRMDON, Return Volatility, GDP Growth, and State Credit Risk are negative in coefficient.

There are four key differences between the results in Table 19 vs. Table 20. Duopoly is actually significantly negative in all models of Table 19, but insignificant in Table 20. Congress is insignificant in all of Table 19, but consistently significantly negative in Table 20. Also, TotLD and FIRMDON show mixed results—significant and insignificant—in Table 19, but in Table 20, TotLD and FIRMDON are consistently significant—although the negative sign flips to positive

when an interaction term with the Top 5 Institutional Ownership Concentration (Top5Concen) is included. Aside from these four differences, the results from Table 19 and Table 20 are qualitatively similar. Variables Largest Institutional Owner Concentration, and Concentration Squared, and Top5Concen, TotLD, and FIRMDON have insignificant or mixed results. Variables PreLD, PostLD, President, Excess Return, Auditor Quality, R&D, and ROA are positively related to dismissal likelihood. In addition, CU is positive in Table 19. Variables DurLD, Return Volatility, GDP Growth, and State Credit Risk are negative in coefficient.

Thus, our results when including the analysis of the impact of the Citizens United variable in the absence of Year fixed effects confirm the majority of our hypotheses. However, our results are less robust when instead including Year fixed effects in our regressions. Dismissal likelihood will tend to increase with an aging board that is close together in age, the board members have relatively large networks, and the board members are not distracted by too many other board assignments. Dismissal likelihood is also hurt by CEO-Chair duality, but augmented by the number of blockholders, and—surprisingly—by the institutional ownership percentage. Findings related to our PreLD and PostLD political campaign contribution variables are noteworthy, although our political ideology variables do not show as much significance as we would have expected.

In addition to their individual corporate governance results, overall, all models in Table 15 through Table 20 show that PreLD, PostLD, and R&D are positive as expected. However, all models also show DurLD to be negative, contrary to our expectations. Considering that our results have been clouded by the comparisons with models containing Year fixed effects at the expense of dropping the CU variable, we hope to revisit our work in the future and find better results when we expand our study to include Political Action Committee (PAC) donations.

## 5. ROBUSTNESS TESTS

In Table 21, Table 22, and Table 23, we expand our logistic regressions whose results were previously tabulated in the three pairs of tables from Table 15 through Table 20. The expanded regressions correspond to each set of explanatory variables but now include the complete set of control variables—instead of including just a handful of key control variables. We find that in running these expanded regressions, the Pseudo R-Squared is only appreciably increased in the case of Table 21. In the cases of Table 22 and Table 23, it appears that parsimony in the number of variables chosen appears to be a better strategy. In some cases, parsimony helps avoid the issue of overfitting, which is when having too many parameters leads to extracting some of the noise in the model as if that noise variation represents underlying model structure.

There are a variety of possible shortcomings of our research. For example, one study uses political connections of foreign firms cross-listed in the US to proxy for the firms having low regional social trust and low trust in laws and regulations, and that this will be a precursor to the firm committing fraud. The rationale is that if a firm's CEO and board are generally distrustful of the regional society and the government, the firm is more likely to be drawn to using political corruption to get ahead, and this would be correlated with firms who will ultimately commit fraud. It logically follows that, if this effect holds and it is not controlled-for in research, it could adversely affect empirical results (Ang et al., 2016).

It is also possible for both self-selection bias and selection bias to occur in a study such as this. As such, we used variations of the Heckman correction (Grier et al., 1994; Hart, 2001; Heckman, 1979; Masters & Keim, 1985; Zardkoohi, 1985) in unreported analysis, finding no significant self-selection bias or selection bias.

As an alternate method in exploring potential endogeneity, we investigate the possible need for two-stage models such as two-stage probit and 2SLS. We conduct Hausman Specification Tests for PRELD, TOTLD, and FIRMDON, respectively. We note that BDINDEP and INSTO are all significantly correlated with each of these potential endogenous variables, but are not significantly correlated with STATUS. As such, we consider BDINDEP and INSTO to be potential instruments. However, the Hausman Specification Tests are all insignificant so there is no value in the two-stage methodology, which would only increase inefficiency.

There is the possibility that a firm could face more than one lawsuit in the study period, and that the lawsuits could be spread apart by a period of less than one year. Then there would be commingling of political campaign contribution amounts, and this would distort our variables. So we re-examined the same models as in Table 21, Table 22, and Table 23 in another robustness test, now limiting our analysis to a subsample of the data including only the first lawsuit faced by a given firm in the study period. Our results are qualitatively similar to those of Table 21, Table 22, and Table 23 and are unreported.

In Table 24, we present the results of a series of Cox Proportional Hazard models considering the impacts of board characteristics, CEO traits, and CEO compensation. In Table 25, we do likewise when considering the impacts of firm institutional and blockholder ownership. The dependent variable in all cases is Litigation Duration, measured in days. We find our results to largely mirror those of our previous logistic analyses and thus to be unsurprising.

## 6. CONCLUSION

We have confirmed our expectations that older board members with larger networks will be advantageous to firms seeking shareholder litigation dismissal, as will having a board with members who are close together in age. Other advantages include board members who are not as busy with board seats with other firms; the absence of CEO-Chair duality; a higher number of blockholders; higher percentages of institutional and blockholder ownership; and larger Pre-Litigation and Post-Litigation political campaign contributions. In summary, we have examined corporate governance issues at the emerging nexus politics, finance, and litigation in the US. We believe that there is more to be discovered and that firms can make changes to their corporate governance practices proactively. Moreover, corruption may be seen in a new light.

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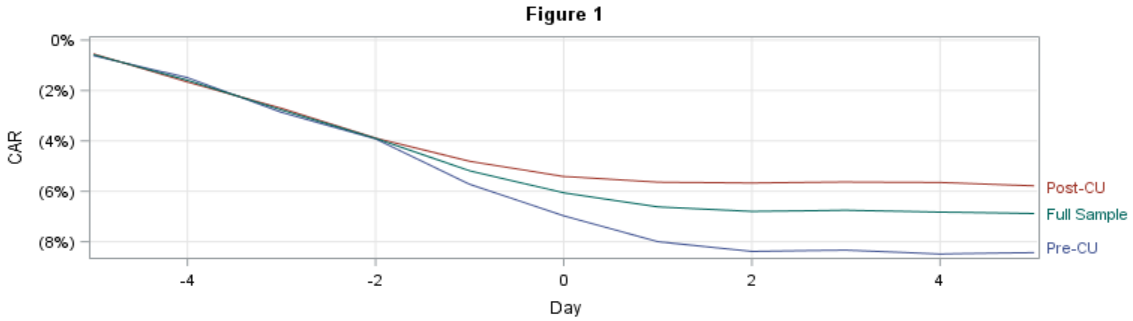
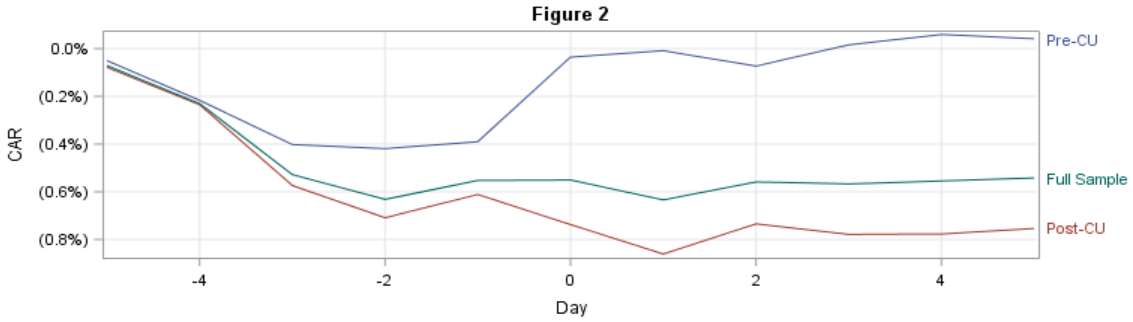
## Figure 1: Mean Cumulative Abnormal Returns around Litigation Filing Date



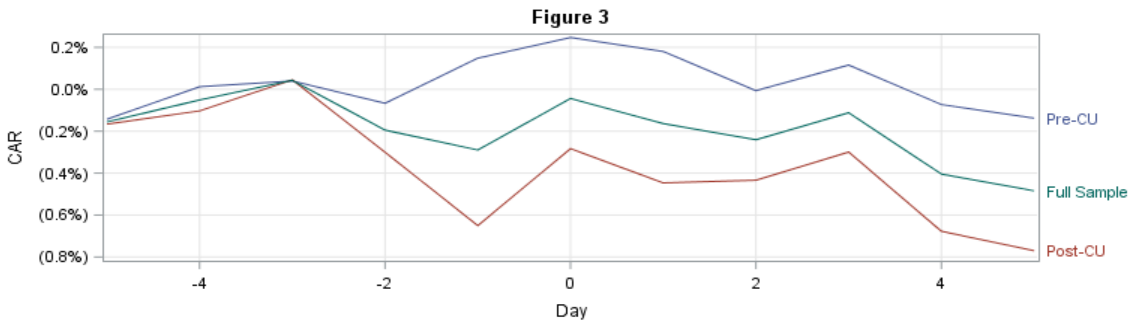

This figure plots the mean cumulative abnormal returns during the period from -5 to +5 days around the litigation filing date (Day 0) for all our sample lawsuits. Our sample includes 2,754 lawsuits, of which 1,146 lawsuits were from the Pre-Citizens United subsample; and 1,608 were from the Post-Citizens United subsample.

## Figure 2: Mean Cumulative Abnormal Returns around Litigation Dismissal Date




This figure plots the mean cumulative abnormal returns during the period from -5 to +5 days around the lawsuit dismissal date(Day 0) for all our sample litigation dismissals. Our sample includes 1,202 dismissals, of which 381 lawsuits were fromthe Pre-Citizens United subsample, and 821 were from the Post-Citizens United subsample.

## Figure 3: Mean Cumulative Abnormal Returns around Litigation Settlement Date




This figure plots the mean cumulative abnormal returns during the period from -5 to +5 days around the lawsuit settlement date (Day 0)for all our sample litigation settlements. Our sample includes 824 litigation settlements, of which 495 lawsuits were fromthe Pre-Citizens United subsample, and 329 were from the Post-Citizens United subsample.

**Table 1: Variable Definitions – Essay 1**

Note that wherever variables have been adjusted for inflation, the source for inflation data was the Consumer Price Index (All Urban Consumers) from the US Bureau of Labor Statistics. The suffix "_adj" indicates that a variable has been adjusted for inflation to 1997 US dollars.

| Variable | Definition | Source |
|---|---|---|
| | Litigation Variables: | |
| status | Litigation Status: the primary dependent variable; a dummy variable equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. (Huang et al., 2019). | Stanford University Securities Class Action Clearinghouse (SCAC) |
| days_w | Litigation Duration: a dependent variable; the number of days elapsing before a lawsuit resolves. Next, we winsorize the calculated Litigation Duration at the 1% and 99% percentile levels to create days_w. | SCAC |
| repeatoff | Repeat Offender: a dummy variable equal to one if the firm has faced similar shareholder litigation previously in the sample time period; or equal to zero otherwise. | SCAC |
| | Campaign Finance Variables: | |
| cu | Citizens United: a dummy variable equal to one if the litigation's filing date is on or after January 21, 2010—the date that the *Citizens United v. FEC* US Supreme Court campaign finance case was decided in favor of Citizens United—or zero otherwise. | US Supreme Court |
| durld | Calculated as the natural log of (0.000001 + During-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | US Federal Election Commission (FEC) |
| dmo | Actual During-Litigation Donations—defined as made between the lawsuit filing date and the date the lawsuit is resolved—either dismissed or settled, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| firmdon | Firm is a Donor: a dummy variable equal to one if a firm donates to a US Presidential, Senate, or House Candidate—or zero otherwise. | FEC |
| preld | Calculated as the natural log of (0.000001 + Pre-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| premo | Actual Pre-Litigation Donations—defined as political contributions made in the 365 calendar days before the firm is sued, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| preordur | Calculated as the natural log of (0.000001 + Pre- or During- Lit Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| pdmo | Actual Pre- or During- Lit Donations—defined as the sum of the Actual Pre- | FEC |

| | | |
|---|---|---|
| | Litigation Donations and the Actual During-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | |
| postld | Calculated as the natural log of (0.000001 + Post-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| postmo | Actual Post-Litigation Donations—defined as any donations made in the 365 calendar days after the date the lawsuit is resolved—either dismissed or settled, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| totld | Calculated as the natural log of (0.000001 + Total Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| tmo | Actual Total Donations—defined as the sum of Actual Pre-Litigation Donations, Actual During-Litigation Donations, and Actual Post-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| | <u>Political Ideology Variables:</u> | |
| cong | US Congress—composite variable: an average of a) the proportion of the US Senate that caucuses with the Republicans in the filing year, and b) the proportion of the US House of Representatives that caucuses with the Republicans in the filing year. | US Senate History, US House History |
| jdg | US District Court Judges: a binomial coefficient representing the probability that at least two US District Court Judges out of the three-judge panel assigned to a particular lawsuit being tried in a particular state of jurisdiction in a particular filing year will have been appointed by Republican US President, out of the total sitting US District Court Judges in the filing year and having jurisdiction in the state in which the litigation is being tried. This probability is calculated as [C(gop,3) + C(gop,2) * C(tot−gop,1)] / C(tot,3), where C(n,r) is a binomial coefficient indicating the number of possible combinations of $r$ objects from a set of $n$ distinct objects, gop = the number of Republican-appointed judges in the particular district court, and tot = the total number of judges in the particular district court. In this calculation, we modify the methodology of (Huang et al., 2019). | US Federal Judicial Center |
| presid | US President: a dummy variable equal to one if the President is a Republican in the given filing year, or zero otherwise. | FEC |
| sc | Supreme Court: the proportion of the US Supreme Court in the filing year who are widely considered to be conservative justices. Note that these are not necessarily the same as those who were appointed by Republican Presidents. For example, John Paul Stevens and David Souter were both appointed by Republican Presidents but are widely considered to be liberal justices because of their rulings. | The US Supreme Court Justices Database |
| scshock | Supreme Court Shock: a variable equal to one for dates in the six-month period beginning the day there is a sudden tilt toward conservatism of the proportion of justices on the US Supreme Court—an increase in SC of at least 5% of the total; or equal to negative one for dates in the six-month period beginning the day there is a sudden tilt toward liberalism of the proportion of justices on the US Supreme Court—a decrease in SC of at least 5% of the total; or equal to zero otherwise. (This variable was used in robustness tests only and was not reported.) | The US Supreme Court Justices Database |

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|---|---|---|
| | State Characteristics: | |
| battle | Battleground State: a dummy variable equal to one if the difference in popular vote percentage in the state of headquarters was less than 5% in the most recent US Presidential election as of the time of the filing year, or zero otherwise. (This variable was used in robustness tests only and was not reported.) | FEC |
| convicns_w | Convictions: calculated as the average number of Corruption-related federal Convictions per million population in a given state of firm headquarters calculated over the period 1990 through 2011. We follow the methodology of Dass et al. (2016), except that we then right-winsorize the Convictions variable at the 99% percentile level only—because of its far-outlying Washington DC observations. | US Dept of Justice (DOJ) Public Integrity Section |
| credit | State Credit Risk Rating: calculated based on a particular year's US state credit rating provided by S&P Global, for the years 1996-2019, as of the filing year, for the litigation state. S&P Global ratings are converted to numbers as follows: "AAA": 1, "AA+": 2, "AA": 3, "AA-": 4, "A+": 5, "A": 6, "A-": 7, "BBB+": 8, "BBB": 9, "BBB-": 10, "BB+": 11, "BB": 12, "BB-": 13, "B+": 14, "B": 15, "B-": 16, "CCC+": 17, "CCC": 18, "CCC-": 19, "CC": 20, "C": 21, "D": 22. | S&P Global |
| duopoly | Duopoly Power of the Democratic and Republican parties is proxied-for on a state-level using a calculation analogous to a "partial" Herfindahl–Hirschman Index (HHI) calculation. The HHI is normally a sum of all the market share squares of all the competing firms in a given industry (i.e., business data). However, in this duopoly power calculation, we instead sum the vote share squares (i.e., electoral data) of only the Democratic and Republican US Presidential candidates in the elections from 1996 through 2020 in all fifty states as well as Washington, DC. | FEC |
| gdpgr | State GDP Growth: the percentage change in GDP, as of the filing year, from the prior year, for the state of headquarters, for the years 1996-2019. (Bradley et al., 2016). | US Bureau of Economic Analysis |
| home | Home State: a dummy variable equal to one if the US state in which the litigation is occurring is the same as the US state in which the firm is headquartered (i.e., the firm's "home" state), or zero otherwise. | SCAC and Compustat |
| pai | Political Alignment Index: calculated as 0.25*S + 0.25*C + 0.25*G + 0.25*[0.5*ss + 0.5*sr],<br>where S= US Senators, C= US Representatives, G=Governors, ss=State Senators, and sr=State Representatives. We follow the methodology of Kim, Pantzalis, and Park (2012). PAI is a state-level measure of the political alignment of sitting politicians at various levels with the sitting US President. For a particular state, S is the fraction of the state's two US Senators that belong to the President's party, C is the percentage of US Representatives from the President's party, G is a dummy variable equal to one if the state's Governor is from the President's party (and zero otherwise), and ss and sr are dummy variables equal to one if the majority of the State Senators—or State Representatives, respectively—belong to the President's party (or zero otherwise). | US Senate History, US House History, State Records |
| red | Red measures the partisan political structure of a state. It is a dummy variable equal to one if the Republican candidate wins more of the popular vote than the Democratic candidate in the state of headquarters in the most recent US Presidential election as of the time of the filing year; or equal to zero otherwise. (A modification of Huang et al., 2019). | FEC |
| red5 | Red5: a categorical variable equal to two if the Republican candidate surpassed the | FEC |

| | | |
|---|---|---|
| | Democratic candidate by more than 5% of the popular vote in the state of headquarters in the most recent US Presidential election as of the time of the filing year; or equal to one if the Democrat led by more than 5%; or equal to zero otherwise (i.e., a Battleground State). (This variable was used in robustness tests only and was not reported.) | |
| redpct | Redpct: a continuous variable equal to the margin of victory, in percentage points, that the Republican candidate won ahead in the popular vote over the Democratic candidate in the state of headquarters in the most recent US Presidential election as of the time of the filing year. This is a negative number if the Democrat led. (This variable was used in robustness tests only and was not reported.) | FEC |
| uer | State Unemployment Rate: the unemployment rate in the state of headquarters as of the end of the year prior to the filing year. (Bradley et al., 2016 and Huang et al., 2019). | US Bureau of Labor Statistics |
| | Firm Characteristics: | |
| altmanz | Altman Z Score of the firm, calculated as: (1.2)*(wcap_adj/at_adj) + (1.4)*(re_adj/at_adj) + (3.3)*(ebit_adj/at_adj) + (0.6)*(mkvalt_adj/lt_adj) + (revt_adj/at_adj)<br>where wcap_adj = Working Capital (Balance Sheet), at_adj = Total Assets, re_adj = Retained Earnings, ebit_adj = Earnings Before Interest and Taxes, lt_adj = Total Liabilities, and revt_adj = Total Revenues. (Li et al., 2016). (This variable was used in robustness tests only and was not reported.) | Compustat |
| distrsk | Distress Risk: a dummy variable equal to one if a firm's altmanz < 1.81; or equal to 0 if the altmanz >= 1.81. Altman advocates that 1.81 be the critical value, below which firms fall into a "distress zone." (Altman, 2013). | Compustat |
| audit | Auditor Quality: a dummy variable equal to one if the defendant firm is being audited by an auditing firm that either is or eventually becomes one of the Big 4 auditing firms; or equal to zero otherwise. (Li et al., 2016). | Compustat |
| bm_w | BM, Book-to-Market Ratio = book equity / market equity = (seq_adj+txdb_adj+itcb_adj-pstkrv_adj) / (mkvalt_adj),<br>where seq_adj = Total Stockholders' Equity; txdb = Deferred Taxes (Balance Sheet); itcb_adj = Investment Tax Credit (Balance Sheet); pstkrv_adj = Preferred Stock Redemption Value; and mkvalt_adj = Total Market Value of Equity. Variables here have each been adjusted in order to minimize missing values and also adjusted for inflation. Next, we winsorize the calculated Book-to-Market Ratio at the 1% and 99% percentile levels to create bm_w. (A modification of Davis et al., 2000 and Cooper et al., 2010). | Compustat |
| dac | Discretionary Accruals, calculated using the Modified Jones method (Dechow et al., 1995). Before calculating DAC, we create the variable Accruals (ACC): ACC=(ib_adj-oancf_adj)/(MAX(0.000001,at_adj)), where<br>ib_adj = Income Before Extraordinary Items, and oancf = Operating Activities' Net Cash Flow.<br><br>To prevent errors from division by zero in missing observations, we assume in the ACC calculation above that all firms have Total Assets of at least 0.000001—i.e., a minimum of $1, since Compustat reports Total Assets in units of millions of US dollars.<br><br>Next, for a given firm, we create the variables AccRegIndep1, AccRegIndep2, and | Compustat |

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|---|---|---|
| | AccRegIndep3:<br><br>AccRegIndep1 = Inverse Lag Assets = 1 / (at_adj in year t-1)<br><br>AccRegIndep2<br>= (Change in Revenues) - (Change in Receivables) * AccRegIndep1<br>where Change in Revenues = (revt_adj in year t) - (revt_adj in year t-1),<br>Change in Receivables = (rect_adj in year t) - (rect_adj in year t-1),<br>and rect_adj = Total Receivables.<br><br>AccRegIndep3 = ppegt_adj*AccRegIndep1,<br>where ppegt_adj = Total (Gross) Property, Plant and Equipment.<br><br>We then winsorize ACC at the 1% and 99% percentile levels to create the variable ACC_W. We then set ACC_W as the dependent variable in an OLS regression with AccRegIndep1, AccRegIndep2, and AccRegIndep3 as the only independent variables. The predicted residual of this regression is then the variable DAC. | |
| debtfin_w | Debt Financing: debtfin = (dltis_adj[t]-dltr_adj [t]+dlcch_adj [t]+fiao_adj [t]) / (at_adj[t-1]),<br><br>Where dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>Next, we winsorize at the 1% and 99% percentile levels. (A modification of Ayash et al., 2021 and Huang et al., 2019— taking note of the two separate Debt and Equity variables used in (Kim & Skinner (2012) ).<br><br>The original, single financing variable of Ayash et al., 2021 and Huang et al., 2019 was:<br><br>financing = (sstk_adj[t]-prstkc_adj [t]-dv_adj [t]+dltis_adj[t]-dltr_adj [t]+dlcch_adj [t]+fiao_adj [t]) / (at_adj[t-1]).<br><br>Where sstk_adj = Sale of Common and Preferred Stock; prstkc_adj Purchase of Common and Preferred Stock; dv_adj = Cash Dividends; dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>We have simply split this into two variables—the debt and equity components. | Compustat |
| debtgr_w | Debt Growth—calculated as: ((dltt_adj[t]+dlc_adj[t])-(dltt_adj[t-1]+dlc_adj[t-1])) / (dltt_adj[t-1]+dlc_adj[t-1]),<br><br>where dltt_adj = Total Long-Term Debt, dlc_adj = Total Debt in Current Liabilities, t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that. Next, we winsorize at the 1% and 99% percentile levels. (This variable was used in robustness tests only and was not reported.) | Compustat |
| eqfin_w | Equity Financing: eqfin = (sstk_adj[t]-prstkc_adj [t]-dv_adj [t]) / (at_adj[t-1]),<br><br>Where sstk_adj = Sale of Common and Preferred Stock; prstkc_adj Purchase of | Compustat |

| | | |
|---|---|---|
| | Common and Preferred Stock; dv_adj = Cash Dividends; dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>Next, we winsorize at the 1% and 99% percentile levels. (A modification of Ayash et al., 2021 and Huang et al., 2019—taking note of the two separate Debt and Equity variables used in (Kim & Skinner (2012) ).<br><br>The original, single financing variable of Ayash et al., 2021 and Huang et al., 2019 was:<br><br>financing = (sstk_adj[t]-prstkc_adj [t]-dv_adj [t]+dltis_adj[t]-dltr_adj [t]+dlcch_adj [t]+fiao_adj [t]) / (at_adj[t-1]).<br><br>Where sstk_adj = Sale of Common and Preferred Stock; prstkc_adj Purchase of Common and Preferred Stock; dv_adj = Cash Dividends; dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>We have simply split this into two variables—the debt and equity components. | |
| even | Even: a dummy variable equal to one in evenly numbered Litigation Years, and equal to zero in odd Litigation Years. | SCAC |
| fcf_w | Free Cash Flow, FCF = (oibdp_adj[t]-txt_adj[t]-tie_adj[t]-(txdb_adj[t]-txdb_adj[t-1])-dvp_adj[t]-dvc_adj[t]) / (mkvalt_adj[t-1]),<br><br>Where oibdp = Operating Income Before Depreciation; txt = Total Income Taxes; tie = Total Interest Expense; txdb = Deferred Taxes (Balance Sheet); dvp = Preferred Dividends; dvc = Common Dividends; mkvalt = Total Market Value of Equity; t=the most recent fiscal year before Litigation Filing Date; and t-1=the fiscal year trailing that.<br><br>Next, we winsorize the calculated Free Cash Flow at the 1% and 99% percentile levels to create fcf_w. Note that our calculation follows the original methodology of Lehn & Poulsen (1989), which scales by total market value of equity—rather than the methodology of Ferris & Pritchard (2001), which instead scales by total assets. | Compustat |
| fps | FPS: a dummy variable for firms belonging to "at-risk" industries (biotechnology, computers, electronics, and retail). These industries were first identified as facing higher litigation risk in a seminal paper by authors with these initials—Francis, Philbrick, and Schipper (Francis et al., 1994). An FPS variable can be found in more recent papers such as Kim & Skinner (2012), and Huang et al. (2019). | FPS (1994) |
| hhi | Herfindahl–Hirschman Index = sum of all the market share squares of all the competing firms in a given industry (i.e., business data). (Cooper et al., 2010). | Compustat |
| lev_w | Leverage: the Debt-to-Assets ratio of the firm, calculated as: (dltt_adj+dlc_adj) / (seq_adj+dltt_adj+dlc_adj),<br>where dltt_adj = Total Long-Term Debt, dlc_adj = Total Debt in Current Liabilities, and seq_adj = Total Stockholders' Equity. Next, we winsorize at the 1% and 99% | Compustat |

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|---|---|---|
| | percentile levels. (A modification of Ferris & Pritchard, 2001 and Bradley et al., 2016). | |
| lnbseg | The natural log of the number of Business Segments of the firm (as in Bradley et al., 2016). | Compustat |
| lngseg | The natural log of the number of Geographic Segments of the firm (as in Bradley et al., 2016). | Compustat |
| lnsales | Ln(Sales), calculated as ln(revt_adj) = the natural log of (the firm's Total Revenue). The variable revt is adjusted beforehand in order to mitigate the risk of division by zero due to missing observations. We assume that all firms have Total Revenue of at least 0.000001—i.e., a minimum of $1, since Compustat reports Total Revenue in units of millions of US dollars. (Cooper et al., 2010) | Compustat |
| lnsize_w | LnSize, calculated as ln(at_adj) = the natural log of (the firm's Total Assets). The variable AT is adjusted beforehand in order to mitigate the risk of division by zero due to missing and zero observations. We assume that all firms have Total Assets of at least 0.000001—i.e., a minimum of $1, since Compustat reports Total Assets in units of millions of US dollars. Next, we winsorize the calculated LnSize at the 1% and 99% percentile levels to create lnsize_w. (Li et al., 2016). | Compustat |
| lnsize2_w | As a robustness check, we calculate an alternative measure of Ln Firm Size called LnSize2, calculated as ln(mkvalt_adj)<br>= the natural log of (the firm's Market Capitalization).<br>The variable mkvalt is adjusted beforehand in order to mitigate the risk of division by zero due to missing and zero observations. We assume that every stock would have at least 0.001 shares outstanding and that all common shares would trade for at least $0.01, so in Excel we set mkvalt = IF(mkvalt=0,((MAX(0.001,csho)) *(MAX(0.01,prcc_f_adj))),mkvalt)<br>where mkvalt = Total Market Value of Equity,<br>csho = Number of Common Shares Outstanding, and<br>prcc_f = Closing Price (Annual, Fiscal)<br>Next, we adjust mkvalt for inflation. Next, we winsorize the calculated LnSize2 at the 1% and 99% percentile levels to create lnsize2_w. (Ferris & Pritchard, 2001). | Compustat |
| mktretf | Market Return (Fiscal Year): the annualized past year of monthly returns, as of the end of the fiscal year immediately prior to the litigation filing date, of the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by CRSP. (A modification of Huang et al., 2019). (This variable was used in robustness tests only and was not reported.) | CRSP |
| mktretl | Market Return: the annualized past year of monthly returns, as of the end of the last complete calendar month immediately prior to the litigation filing date, of the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by CRSP. (A modification of Huang et al., 2019). (This variable was used in robustness tests only and was not reported.) | CRSP |
| mktshr | Market Share: the percentage of an entire industry's annual revenues that are produced by a single given firm in that industry. (Cooper et al., 2010). | Compustat |
| mss | Market Share Squared: the square of a firm's Market Share. (Cooper et al., 2010). | Compustat |
| newvar | Newvar: a categorical variable by which we can consider industry fixed effects in regressions, after having categorized firms using their Fama-French 48-Industry Classification, based on their four-digit SIC codes. | Fama-French |

| | | |
|---|---|---|
| nyse | New York Stock Exchange: a dummy variable equal to one if the firm is listed on the NYSE or the American Stock Exchange; or zero if the firm trades on the NASDAQ, the Over-The-Counter market, or the Pink Sheets. (A modification of Kim & Skinner, 2012). | Compustat |
| ppe_w | Property, Plant, and Equipment Expenditure Intensity, calculated as ppent_adj/at_adj, where ppent_adj = Total (Net) Property, Plant and Equipment. Next, we winsorize at the 1% and 99% percentile levels. (Li et al., 2016). | Compustat |
| regul | Regulated Industry: a dummy variable equal to one if the firm has an SIC code categorized among the utilities or financial industries, or zero otherwise. (Cooper et al., 2010). | Compustat |
| retexf | Excess Return—Fiscal Year: the firm's annualized past year of monthly stock returns, as of the end of the fiscal year immediately prior to the litigation filing date, excess relative to the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by the Center for Research in Security Prices (CRSP). (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012)). (This variable was used in robustness tests only and was not reported.) | CRSP |
| retvolatf | Return Volatility—Fiscal Year: the Standard Deviation of the firm's past year of raw monthly stock returns as of the end of the fiscal year immediately prior to the litigation filing date. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). (This variable was used in robustness tests only and was not reported.) | CRSP |
| retskewf | Return Skewness—Fiscal Year: estimate of the Skewness, or third moment, of the firm's past year of raw monthly stock returns as of the end of the fiscal year immediately prior to the litigation filing date. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). (This variable was used in robustness tests only and was not reported.) | CRSP |
| retexl_w | Excess Return: the firm's annualized past year of monthly stock returns, as of the end of the last complete calendar month immediately prior to the litigation filing date, excess relative to the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by CRSP. Next, we winsorize the calculated Excess Return at the 1% and 99% percentile levels to create retexl_w. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). | CRSP |
| retvolatl_w | Return Volatility—the Standard Deviation of the firm's past year of raw monthly stock returns as of the end of the last complete calendar month immediately prior to the litigation filing date. Next, we winsorize the calculated Return Volatility at the 1% and 99% percentile levels to create retvolatl_w. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). | CRSP |
| retskewl_w | Return Skewness—estimate of the Skewness, or third moment, of the firm's past year of raw monthly stock returns as of the end of the last complete calendar month immediately prior to the litigation filing date. Next, we winsorize the calculated Return Skewness at the 1% and 99% percentile levels to create retskewl_w. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). | CRSP |
| rnd_w | Research and Development Expenditure Intensity, calculated as xrd_adj/at_adj, where xrd_adj = Research and Development Expense. Next, we winsorize at the 1% and 99% percentile levels. (Li et al., 2016). | Compustat |

| | | |
|---|---|---|
| roa_w | Return on Assets, calculated as ni_adj[t]/at_adj[t-1]. Where ni_adj = Net Income; at_adj[t-1] = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that. Next, we winsorize the calculated Return on Assets at the 1% and 99% percentile levels to create roa_w. (A modification of Kim & Skinner (2012) ). | Compustat |
| salesgr_w | Sales Growth, calculated as ((revt_adj in year t)-(revt_adj in year t-1)) / (revt_adj in year t-1), where revt_adj = Total Revenue of a firm, t=most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that. Next, we winsorize the calculated Sales Growth at the 1% and 99% percentile levels to create salesgrth_w. (A modification of Kim & Skinner (2012). | Compustat |
| turnovrf | Share Turnover—Fiscal Year: calculated as (the sum of the monthly share volumes in the most recent six calendar months as of end of the fiscal year immediately prior to the litigation filing date)/(the outstanding shares as of that fiscal year end date). (This variable was used in robustness tests only and was not reported.) (Ferris & Pritchard, 2001). | CRSP |
| turnovrl_w | Share Turnover: calculated as (the sum of the monthly share volumes in the most recent six calendar months as of end of the last complete calendar month immediately prior to the litigation filing date)/(the outstanding shares as of that last complete calendar month end date). Next, we winsorize the calculated Share Turnover at the 1% and 99% percentile levels to create turnovrl_w. (Ferris & Pritchard, 2001). | CRSP |
| unrate | Unionization Rate: the average annual percentage of industry employees belonging to a labor union, from Hirsch and Macpherson (2021), www.unionstats.com (as in Cooper et al., 2010). | Unionstats.com |

**Table 2: Correlation Matrix**

This table reports the Pearson correlation coefficients for all variable pairs, computed using the entire sample. ***, **, and * indicate statistical significances at the 1%, 5%, and 10% levels, respectively.

| | status | preld | durld | preordur | postld | totld | firmdon | jdg | convicns_w | cu | sc | days_w | cong | roa_w |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| status | 1 | | | | | | | | | | | | | |
| preld | 0.04 | 1 | | | | | | | | | | | | |
| durld | -0.14*** | 0.45*** | 1 | | | | | | | | | | | |
| preordur | -0.06*** | 0.76*** | 0.83*** | 1 | | | | | | | | | | |
| postld | 0.03 | 0.42*** | 0.46*** | 0.50*** | 1 | | | | | | | | | |
| totld | -0.05** | 0.70*** | 0.77*** | 0.92*** | 0.67*** | 1 | | | | | | | | |
| firmdon | -0.04** | 0.62*** | 0.67*** | 0.86*** | 0.59*** | 0.96*** | 1 | | | | | | | |
| jdg | -0.05** | -0.01 | 0.04* | -0.01 | 0.05** | 0.01 | 0 | 1 | | | | | | |
| convicns_w | -0.01 | 0.03 | 0.04* | 0.04* | 0.09*** | 0.06*** | 0.05** | 0.14*** | 1 | | | | | |
| cu | 0.37*** | 0.12*** | -0.08*** | 0.01 | -0.04 | 0.01 | 0.02 | -0.15*** | 0.01 | 1 | | | | |
| sc | -0.05** | -0.07*** | -0.01 | -0.04* | -0.02 | -0.03 | -0.03 | 0.07*** | 0.03 | -0.25*** | 1 | | | |
| days_w | -0.62*** | -0.02 | 0.27*** | 0.16*** | 0.02 | 0.13*** | 0.11*** | -0.03 | -0.01 | -0.49*** | 0.10*** | 1 | | |
| cong | 0.03 | -0.06*** | -0.10*** | -0.09*** | -0.05** | -0.08*** | -0.07*** | -0.04** | -0.02 | 0.09*** | -0.41*** | -0.09*** | 1 | |
| roa_w | 0.07*** | 0.13*** | 0.12*** | 0.13*** | 0.12*** | 0.15*** | 0.12*** | 0.11*** | 0.04* | 0.02 | 0 | -0.11*** | -0.01 | 1 |
| home | -0.04 | 0.05** | 0.06** | 0.05** | -0.02 | 0.04* | 0.03 | 0.17*** | -0.07*** | -0.03 | -0.05** | -0.05** | 0.03 | 0.06*** |
| pai | -0.02 | 0.03 | 0.04* | 0.03 | 0.03 | 0.02 | 0.02 | 0.16*** | 0.03 | 0 | 0.08*** | -0.03 | -0.09*** | 0.04* |
| credit | -0.14*** | 0 | 0.04* | 0.02 | -0.01 | 0.01 | 0.01 | -0.18*** | -0.02 | -0.14*** | 0.02 | 0.13*** | -0.03 | -0.02 |
| gdpgr | -0.12*** | -0.04* | -0.02 | -0.04* | 0.01 | -0.03 | -0.03 | 0.01 | -0.14*** | -0.19*** | -0.08*** | 0.11*** | 0.38*** | -0.01 |
| red | 0.04* | 0.05** | 0.03 | 0.04* | 0.02 | 0.04* | 0.04 | 0.21*** | 0.01 | 0.07*** | -0.02 | -0.07*** | 0.02 | 0.08*** |
| duopoly | 0.01 | 0.13*** | 0.17*** | 0.17*** | 0.11*** | 0.17*** | 0.16*** | -0.06*** | 0.21*** | 0.17*** | -0.01 | -0.01 | -0.23*** | 0.02 |
| retexl_w | 0.16*** | 0.03 | -0.02 | 0.01 | 0.03 | 0.02 | 0.01 | -0.06*** | 0 | 0.21*** | -0.02 | -0.22*** | 0 | 0.05** |
| retvolatl_w | -0.16*** | -0.23*** | -0.15*** | -0.20*** | -0.20*** | -0.22*** | -0.19*** | -0.09*** | -0.10*** | -0.25*** | 0.13*** | 0.26*** | -0.13*** | -0.35*** |
| retskewl_w | 0.05** | -0.09*** | -0.11*** | -0.12*** | -0.08*** | -0.12*** | -0.11*** | -0.11*** | -0.05** | 0.09*** | -0.02 | -0.05** | 0.03 | -0.11*** |
| turnovrl_w | -0.03 | 0.02 | -0.04* | -0.01 | -0.05** | 0 | 0.01 | -0.06*** | -0.09*** | 0.01 | 0.04* | 0.03 | -0.08*** | -0.10*** |
| fcf_w | 0.01 | 0.11*** | 0.09*** | 0.11*** | 0.13*** | 0.13*** | 0.11*** | 0.12*** | 0.07*** | 0 | -0.04* | -0.04* | 0.01 | 0.43*** |
| debtfin_w | -0.04* | -0.02 | 0 | 0 | 0.01 | 0 | 0 | 0.05** | 0 | -0.01 | -0.02 | 0.02 | 0.04* | -0.10*** |
| eqfin_w | -0.09*** | -0.12*** | -0.09*** | -0.11*** | -0.13*** | -0.13*** | -0.10*** | -0.09*** | -0.05** | -0.09*** | 0.04 | 0.12*** | 0.02 | -0.51*** |
| fps | -0.02 | -0.10*** | -0.09*** | -0.09*** | -0.12*** | -0.09*** | -0.07*** | -0.11*** | -0.09*** | -0.04** | 0.06** | 0.07*** | 0.05** | -0.19*** |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| uer | -0.08*** | 0.07*** | 0.08*** | 0.08*** | 0.04* | 0.08*** | 0.08*** | 0 | -0.01 | 0.10*** | 0.14*** | 0.07*** | -0.39*** | 0.04* |
| salesgr_w | -0.10*** | -0.07*** | -0.05** | -0.07*** | -0.10*** | -0.08*** | -0.08*** | -0.07*** | 0 | -0.12*** | 0.03 | 0.19*** | 0.01 | -0.22*** |
| presid | 0.10*** | -0.01 | -0.01 | 0.01 | 0 | 0 | 0 | -0.30*** | 0 | -0.14*** | 0.09*** | -0.03 | 0.05** | -0.04* |
| lnsize_w | 0.02 | 0.37*** | 0.39*** | 0.43*** | 0.38*** | 0.45*** | 0.38*** | 0.06** | 0.13*** | 0.01 | -0.04* | 0.07*** | -0.06*** | 0.26*** |
| rnd_w | 0.04 | -0.15*** | -0.13*** | -0.14*** | -0.13*** | -0.15*** | -0.12*** | -0.16*** | -0.14*** | 0.02 | 0.02 | -0.01 | 0.02 | -0.46*** |
| repeatoff | 0.07*** | 0.10*** | 0.10*** | 0.10*** | 0.13*** | 0.13*** | 0.14*** | -0.06*** | 0 | 0.14*** | -0.04* | -0.05** | 0 | 0.02 |
| distrsk | 0.08*** | -0.04** | -0.04** | -0.05** | 0.01 | -0.06*** | -0.05** | -0.07*** | 0.02 | 0.15*** | -0.05** | -0.10*** | -0.03 | -0.21*** |
| dac | 0.04 | 0.07*** | 0.07*** | 0.08*** | 0.07*** | 0.09*** | 0.07*** | 0.08*** | 0.05** | 0.04 | 0.01 | -0.09*** | -0.02 | 0.50*** |
| lev_w | 0.08*** | 0.13*** | 0.10*** | 0.13*** | 0.15*** | 0.15*** | 0.13*** | 0.08*** | 0.10*** | 0.12*** | -0.07*** | -0.11*** | 0.01 | 0.06*** |
| audit | -0.02 | 0.11*** | 0.16*** | 0.15*** | 0.15*** | 0.17*** | 0.16*** | 0.03 | -0.01 | -0.17*** | 0 | 0.14*** | 0.02 | 0.09*** |
| nyse | 0.06*** | 0.18*** | 0.20*** | 0.22*** | 0.22*** | 0.22*** | 0.17*** | 0.11*** | 0.14*** | 0.06*** | -0.03 | -0.04* | -0.03 | 0.20*** |
| ppe_w | 0.02 | 0.04 | 0.04* | 0.04* | 0.07*** | 0.05** | 0.03 | 0.11*** | -0.06*** | 0.04* | -0.03 | -0.06*** | 0.02 | 0.07*** |
| bm_w | -0.04* | -0.02 | -0.02 | -0.02 | -0.01 | -0.03 | -0.03 | -0.01 | 0.05** | 0 | 0.03 | 0.05** | -0.12*** | 0.01 |
| newvar | -0.01 | 0.02 | -0.03 | -0.01 | 0.03 | 0 | -0.01 | 0.01 | 0.05** | -0.07*** | 0.01 | 0.01 | 0.02 | 0.11*** |
| ltyr | 0.41*** | 0.15*** | -0.06*** | 0.04** | -0.02 | 0.04* | 0.05** | -0.23*** | 0.01 | 0.91*** | -0.22*** | -0.54*** | 0.05** | 0.03 |

| (continued) | home | pai | credit | gdpgr | red | duopoly | retexl_w | retvolatl_w | retskewl_w | turnovrl_w | fcf_w | debtfin_w | eqfin_w | fps |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| home | 1 | | | | | | | | | | | | | |
| pai | 0.03 | 1 | | | | | | | | | | | | |
| credit | 0.21*** | -0.02 | 1 | | | | | | | | | | | |
| gdpgr | 0.13*** | -0.05** | 0.10*** | 1 | | | | | | | | | | |
| red | -0.17*** | 0.24*** | -0.31*** | -0.06*** | 1 | | | | | | | | | |
| duopoly | 0.10*** | 0.07*** | 0.10*** | -0.23*** | -0.01 | 1 | | | | | | | | |
| retexl_w | -0.01 | 0.03 | -0.04* | -0.04* | 0.04* | 0.05** | 1 | | | | | | | |
| retvolatl_w | -0.09*** | -0.06*** | 0.03 | -0.04* | -0.07*** | -0.15*** | 0.02 | 1 | | | | | | |
| retskewl_w | -0.06*** | -0.06*** | -0.06*** | 0 | -0.02 | -0.08*** | 0.25*** | 0.40*** | 1 | | | | | |
| turnovrl_w | 0.05** | 0.01 | 0.11*** | 0 | -0.05** | 0.04* | 0.04* | 0.30*** | 0.05** | 1 | | | | |
| fcf_w | -0.01 | 0.04* | -0.07*** | 0.02 | 0.11*** | 0.02 | 0.06*** | -0.20*** | -0.08*** | -0.08*** | 1 | | | |
| debtfin_w | 0.02 | -0.01 | -0.01 | 0 | -0.01 | -0.03 | 0 | 0.02 | -0.04* | 0.08*** | -0.09*** | 1 | | |
| eqfin_w | -0.04* | -0.06*** | 0.03 | 0.06*** | -0.09*** | -0.03 | -0.01 | 0.25*** | 0.05** | 0.15*** | -0.25*** | 0.02 | 1 | |
| fps | 0.07*** | -0.04* | 0.15*** | 0.09*** | -0.15*** | -0.01 | 0.01 | 0.20*** | 0.08*** | 0.18*** | -0.21*** | -0.04* | 0.14*** | 1 |
| uer | 0.20*** | 0.18*** | 0.44*** | -0.03 | -0.14*** | 0.38*** | 0.02 | -0.06*** | -0.08*** | 0.10*** | -0.02 | -0.03 | -0.02 | 0.03 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| salesgr_w | -0.08*** | -0.04* | 0.01 | 0.04* | -0.07*** | -0.04* | -0.07*** | 0.15*** | 0.02 | 0.09*** | -0.07*** | 0.08*** | 0.26*** | 0.11*** |
| presid | -0.17*** | -0.15*** | -0.14*** | -0.07*** | 0.10*** | -0.10*** | 0.03 | 0.03 | 0.07*** | -0.02 | 0 | -0.02 | 0.01 | 0.01 |
| lnsize_w | -0.01 | 0.04* | -0.04* | -0.10*** | 0.07*** | 0.09*** | -0.05** | -0.43*** | -0.19*** | -0.12*** | 0.27*** | 0 | -0.23*** | -0.27*** |
| rnd_w | 0.06*** | -0.07*** | 0.14*** | 0.06*** | -0.22*** | 0.01 | 0.04* | 0.25*** | 0.07*** | 0.10*** | -0.37*** | 0.02 | 0.22*** | 0.44*** |
| repeatoff | 0 | -0.05** | 0.07*** | -0.04* | -0.06*** | 0.08*** | 0.02 | -0.09*** | -0.01 | 0.06*** | 0.01 | -0.01 | -0.05** | 0.06*** |
| distrsk | -0.07*** | 0.01 | -0.15*** | -0.13*** | 0.06*** | 0.01 | -0.03 | 0.08*** | 0.07*** | -0.10*** | -0.08*** | 0.08*** | -0.03 | -0.20*** |
| dac | 0.04* | 0.01 | -0.04* | 0 | 0.03 | 0.01 | 0.09*** | -0.25*** | -0.11*** | -0.05** | 0.23*** | 0.04* | -0.08*** | -0.14*** |
| lev_w | -0.06*** | 0.05** | -0.15*** | -0.13*** | 0.15*** | -0.02 | 0.02 | -0.15*** | -0.03 | -0.10*** | 0.19*** | 0.22*** | -0.19*** | -0.31*** |
| audit | 0.03 | -0.01 | 0.08*** | 0.10*** | -0.03 | -0.05** | -0.07*** | -0.05** | -0.08*** | 0.04* | 0.10*** | -0.02 | -0.08*** | 0.05** |
| nyse | -0.06*** | 0.03 | -0.14*** | -0.09*** | 0.13*** | 0.04* | 0.02 | -0.27*** | -0.11*** | -0.15*** | 0.19*** | -0.02 | -0.18*** | -0.29*** |
| ppe_w | -0.05** | 0.06** | -0.14*** | -0.03 | 0.23*** | -0.08*** | 0.02 | -0.03 | 0.03 | -0.03 | 0.18*** | 0.01 | -0.10*** | -0.18*** |
| bm_w | -0.04* | -0.02 | -0.09*** | -0.10*** | 0.05** | 0.02 | -0.12*** | 0.12*** | 0.07*** | -0.10*** | 0.14*** | -0.08*** | -0.09*** | -0.17*** |
| newvar | -0.04 | 0.02 | -0.06*** | 0 | 0.09*** | -0.03 | -0.07*** | -0.05** | -0.02 | -0.06*** | 0.11*** | -0.09*** | -0.12*** | -0.01 |
| ltyr | -0.07*** | -0.03 | -0.20*** | -0.30*** | 0.10*** | 0.21*** | 0.21*** | -0.27*** | 0.07*** | 0.01 | 0 | 0 | -0.10*** | -0.07*** |

| (continued) | uer | salesgr_w | presid | lnsize_w | rnd_w | repeatoff | distrsk | dac | lev_w | audit | nyse | ppe_w | bm_w | newvar | ltyr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| uer | 1 | | | | | | | | | | | | | | |
| salesgr_w | -0.05** | 1 | | | | | | | | | | | | | |
| presid | -0.53*** | 0.02 | 1 | | | | | | | | | | | | |
| lnsize_w | 0.01 | -0.14*** | 0.02 | 1 | | | | | | | | | | | |
| rnd_w | 0.04** | 0.11*** | -0.01 | -0.40*** | 1 | | | | | | | | | | |
| repeatoff | 0.03 | -0.05** | 0.05** | 0.21*** | 0.03 | 1 | | | | | | | | | |
| distrsk | -0.07*** | -0.05** | 0.09*** | 0.14*** | 0.02 | -0.01 | 1 | | | | | | | | |
| dac | 0.01 | -0.03 | -0.04* | 0.20*** | -0.23*** | -0.02 | -0.12*** | 1 | | | | | | | |
| lev_w | -0.09*** | -0.13*** | 0.05** | 0.41*** | -0.25*** | 0.04* | 0.44*** | 0.08*** | 1 | | | | | | |
| audit | 0.02 | 0.02 | 0 | 0.25*** | 0 | 0.05** | -0.13*** | 0.01 | 0.03 | 1 | | | | | |
| nyse | -0.05** | -0.15*** | -0.01 | 0.49*** | -0.32*** | 0.05** | 0.05** | 0.11*** | 0.29*** | 0.13*** | 1 | | | | |
| ppe_w | -0.06** | -0.08*** | 0 | 0.06*** | -0.21*** | -0.07*** | 0.06*** | -0.09*** | 0.22*** | 0.06*** | 0.22*** | 1 | | | |
| bm_w | 0.01 | -0.05** | 0.03 | 0.14*** | -0.24*** | 0 | 0.27*** | -0.03 | 0.01 | -0.03 | 0.07*** | 0.08*** | 1 | | |
| newvar | -0.06** | -0.07*** | 0.03 | 0.22*** | -0.28*** | -0.01 | 0.15*** | -0.02 | 0.04** | 0 | 0.07*** | -0.08*** | 0.20*** | 1 | |
| ltyr | -0.12*** | -0.14*** | 0.15*** | 0.05** | 0 | 0.17*** | 0.18*** | 0.05** | 0.16*** | -0.19*** | 0.08*** | 0.03 | 0.01 | -0.07*** | 1 |

**Table 3 Panels A and B: Sample Distribution by Year and Industry**
**Table 3 Panel A: Sample Distribution across Litigation Filing Years.**
Panel A provides summary statistics on the number of sued firms by year. The full sample consists of 2,991 firms that were sued between 1997 and 2020. Closed-end and open-end funds are excluded. Other financial firms (from SIC codes 6000 to 6999) are included but are indicated in later data analysis as regulated with a dummy variable--along with utility stocks, as described in Table 1. Sued firms are identified through Stanford University's Securities Class Action Clearinghouse (http://securities.stanford.edu).

| Litigation Year | Obs. | Percent(%) |
|---|---|---|
| 1997 | 73 | 2.44 |
| 1998 | 83 | 2.77 |
| 1999 | 77 | 2.57 |
| 2000 | 86 | 2.88 |
| 2001 | 254 | 8.49 |
| 2002 | 111 | 3.71 |
| 2003 | 95 | 3.18 |
| 2004 | 111 | 3.71 |
| 2005 | 90 | 3.01 |
| 2006 | 62 | 2.07 |
| 2007 | 93 | 3.11 |
| 2008 | 87 | 2.91 |
| 2009 | 61 | 2.04 |
| 2010 | 90 | 3.01 |
| 2011 | 99 | 3.31 |
| 2012 | 77 | 2.57 |
| 2013 | 96 | 3.21 |
| 2014 | 105 | 3.51 |
| 2015 | 130 | 4.35 |
| 2016 | 184 | 6.15 |
| 2017 | 277 | 9.26 |
| 2018 | 257 | 8.59 |
| 2019 | 253 | 8.46 |
| 2020 | 140 | 4.68 |
| Total | 2991 | 100.00 |

**Table 3 Panel B: Sample Distribution across Fama-French 48-Industry Classification**

Panel B provides summary statistics classifying the firms by industry. This table panel also examines subsamples Pre-Citizens United (CU=0) and Post-Citizens United (CU=1), as defined in Table 1.

| | Obs. | Percent(%) |
|---|---|---|
| CU=0 | | |
| Agriculture | 1 | 0.03 |
| Food Products | 10 | 0.33 |
| Candy & Soda | 7 | 0.23 |
| Beer & Liquor | 2 | 0.07 |
| Tobacco Products | 0 | 0.00 |
| Recreation | 9 | 0.30 |
| Entertainment | 10 | 0.33 |
| Printing and Publishing | 3 | 0.10 |
| Consumer Goods | 14 | 0.47 |
| Apparel | 15 | 0.50 |
| Healthcare | 26 | 0.87 |
| Medical Equipment | 46 | 1.54 |
| Pharmaceutical Products | 102 | 3.41 |
| Chemicals | 5 | 0.17 |
| Rubber and Plastic Products | 6 | 0.20 |
| Textiles | 1 | 0.03 |
| Construction Materials | 3 | 0.10 |
| Construction | 10 | 0.33 |
| Steel Works Etc. | 5 | 0.17 |
| Fabricated Products | 2 | 0.07 |
| Machinery | 10 | 0.33 |
| Electrical Equipment | 7 | 0.23 |
| Automobiles and Trucks | 10 | 0.33 |
| Aircraft | 6 | 0.20 |
| Shipbuilding, Railroad Equipment | 0 | 0.00 |
| Defense | 4 | 0.13 |
| Precious Metals | 4 | 0.13 |
| Non-Metallic and Industrial Metal Mining | 2 | 0.07 |
| Coal | 2 | 0.07 |
| Petroleum and Natural Gas | 15 | 0.50 |
| Utilities | 25 | 0.84 |
| Communication | 70 | 2.34 |
| Personal Services | 15 | 0.50 |
| Business Services | 287 | 9.60 |
| Computers | 100 | 3.34 |
| Electronic Equipment | 135 | 4.51 |
| Measuring and Control Equipment | 19 | 0.64 |
| Business Supplies | 2 | 0.07 |
| Shipping Containers | 2 | 0.07 |
| Transportation | 10 | 0.33 |
| Wholesale | 34 | 1.14 |
| Retail | 60 | 2.01 |
| Restaurants, Hotels, Motels | 8 | 0.27 |
| Banking | 66 | 2.21 |
| Insurance | 51 | 1.71 |
| Real Estate | 1 | 0.03 |
| Trading | 38 | 1.27 |
| Almost Nothing | 27 | 0.90 |
| Total | 1287 | 43.03 |

(continued)

| | | |
|---|---|---|
| CU=1 | | |
| Agriculture | 2 | 0.07 |
| Food Products | 34 | 1.14 |
| Candy & Soda | 4 | 0.13 |
| Beer & Liquor | 6 | 0.20 |
| Tobacco Products | 4 | 0.13 |
| Recreation | 10 | 0.33 |
| Entertainment | 23 | 0.77 |
| Printing and Publishing | 4 | 0.13 |
| Consumer Goods | 23 | 0.77 |
| Apparel | 6 | 0.20 |
| Healthcare | 32 | 1.07 |
| Medical Equipment | 76 | 2.54 |
| Pharmaceutical Products | 270 | 9.03 |
| Chemicals | 29 | 0.97 |
| Rubber and Plastic Products | 1 | 0.03 |
| Textiles | 0 | 0.00 |
| Construction Materials | 15 | 0.50 |
| Construction | 11 | 0.37 |
| Steel Works Etc. | 12 | 0.40 |
| Fabricated Products | 1 | 0.03 |
| Machinery | 27 | 0.90 |
| Electrical Equipment | 22 | 0.74 |
| Automobiles and Trucks | 28 | 0.94 |
| Aircraft | 14 | 0.47 |
| Shipbuilding, Railroad Equipment | 1 | 0.03 |
| Defense | 5 | 0.17 |
| Precious Metals | 2 | 0.07 |
| Non-Metallic and Industrial Metal Mining | 9 | 0.30 |
| Coal | 3 | 0.10 |
| Petroleum and Natural Gas | 62 | 2.07 |
| Utilities | 40 | 1.34 |
| Communication | 34 | 1.14 |
| Personal Services | 23 | 0.77 |
| Business Services | 261 | 8.73 |
| Computers | 58 | 1.94 |
| Electronic Equipment | 97 | 3.24 |
| Measuring and Control Equipment | 19 | 0.64 |
| Business Supplies | 7 | 0.23 |
| Shipping Containers | 0 | 0.00 |
| Transportation | 25 | 0.84 |
| Wholesale | 33 | 1.10 |
| Retail | 81 | 2.71 |
| Restaurants, Hotels, Motels | 23 | 0.77 |
| Banking | 123 | 4.11 |
| Insurance | 50 | 1.67 |
| Real Estate | 6 | 0.20 |
| Trading | 63 | 2.11 |
| Almost Nothing | 25 | 0.84 |
| Total | 1704 | 56.97 |

(continued)

| | | |
|---|---|---|
| Total | | |
| Agriculture | 3 | 0.10 |
| Food Products | 44 | 1.47 |
| Candy & Soda | 11 | 0.37 |
| Beer & Liquor | 8 | 0.27 |
| Tobacco Products | 4 | 0.13 |
| Recreation | 19 | 0.64 |
| Entertainment | 33 | 1.10 |
| Printing and Publishing | 7 | 0.23 |
| Consumer Goods | 37 | 1.24 |
| Apparel | 21 | 0.70 |
| Healthcare | 58 | 1.94 |
| Medical Equipment | 122 | 4.08 |
| Pharmaceutical Products | 372 | 12.44 |
| Chemicals | 34 | 1.14 |
| Rubber and Plastic Products | 7 | 0.23 |
| Textiles | 1 | 0.03 |
| Construction Materials | 18 | 0.60 |
| Construction | 21 | 0.70 |
| Steel Works Etc. | 17 | 0.57 |
| Fabricated Products | 3 | 0.10 |
| Machinery | 37 | 1.24 |
| Electrical Equipment | 29 | 0.97 |
| Automobiles and Trucks | 38 | 1.27 |
| Aircraft | 20 | 0.67 |
| Shipbuilding, Railroad Equipment | 1 | 0.03 |
| Defense | 9 | 0.30 |
| Precious Metals | 6 | 0.20 |
| Non-Metallic and Industrial Metal Mining | 11 | 0.37 |
| Coal | 5 | 0.17 |
| Petroleum and Natural Gas | 77 | 2.57 |
| Utilities | 65 | 2.17 |
| Communication | 104 | 3.48 |
| Personal Services | 38 | 1.27 |
| Business Services | 548 | 18.32 |
| Computers | 158 | 5.28 |
| Electronic Equipment | 232 | 7.76 |
| Measuring and Control Equipment | 38 | 1.27 |
| Business Supplies | 9 | 0.30 |
| Shipping Containers | 2 | 0.07 |
| Transportation | 35 | 1.17 |
| Wholesale | 67 | 2.24 |
| Retail | 141 | 4.71 |
| Restaurants, Hotels, Motels | 31 | 1.04 |
| Banking | 189 | 6.32 |
| Insurance | 101 | 3.38 |
| Real Estate | 7 | 0.23 |
| Trading | 101 | 3.38 |
| Almost Nothing | 52 | 1.74 |
| Total | 2991 | 100.00 |

**Table 4: Characteristics of Settled (Status=0) and Dismissed (Status=1) Lawsuits**

The full sample consists of 2,991 lawsuits that were filed between 1997 and 2020. The number of observations for the settle and dismissed subsamples varies because the very nature of our study limits of scope to firms that have all been sued and are all drawn from the same original sample, and, as such, we cannot use one-to-one matching techniques such as propensity score matching in order to attempt to match the two subsamples more closely with each other in size and composition. We compare our two subsamples of settled and dismissed lawsuits along all our variables, including political campaign contributions, political ideology proxies, firm characteristics; board characteristics; CEO traits and compensation; and firm ownership characteristics. Definitions for all variables are described in detail in Table 14. Firm characteristics are obtained from Compustat. Information on stock prices—used in calculating return variables—is obtained from the Center for Research in Securities Prices (CRSP) database. Executive compensation data is obtained from ExecuComp; firm ownership data from Thomson Reuters 13F; and data on board and CEO traits from BoardEx. All dollar values are based on inflation-adjusted 1997 dollars. The last two columns show p-values for a t-test and a Wilcoxon test for the difference in mean and median values between our settled and dismissed subsamples. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | **Status=0 Sample** | | | **Status=1 Sample** | | | **P-value** | |
|---|---|---|---|---|---|---|---|---|
| **Variables** | **Mean** | **Median** | **Obs.** | **Mean** | **Median** | **Obs.** | **T-test** | **Wilcoxon test** |
| cu | 0.365 | 0 | 1259 | 0.718 | 1 | 1732 | 0.000*** | . |
| preld | -11.69 | -13.82 | 1259 | -11.26 | -13.82 | 1732 | 0.001*** | 0.001*** |
| durld | -10.45 | -13.82 | 1259 | -11.34 | -13.82 | 1732 | 0.000*** | 0.000*** |
| preordur | -9.8 | -13.82 | 1259 | -10.14 | -13.82 | 1732 | 0.030** | 0.131 |
| postld | -11.81 | -13.82 | 1259 | -11.52 | -13.82 | 1732 | 0.024** | 0.039** |
| totld | -9.392 | -8.195 | 1259 | -9.608 | -8.343 | 1732 | 0.173 | 0.163 |
| firmdon | 0.533 | 1 | 1259 | 0.516 | 1 | 1732 | 0.348 | . |
| jdg | 0.435 | 0.364 | 1259 | 0.431 | 0.364 | 1732 | 0.666 | 0.000*** |
| convicns_w | 2.978 | 2.602 | 1123 | 2.948 | 2.602 | 1555 | 0.456 | 0.697 |
| presid | 0.567 | 1 | 1259 | 0.637 | 1 | 1732 | 0.000*** | . |
| sc | 0.552 | 0.556 | 1259 | 0.55 | 0.556 | 1732 | 0.001*** | 0.149 |
| days w | 1468 | 1231 | 1259 | 458 | 378 | 1732 | 0.000*** | 0.000*** |
| cong | 0.512 | 0.513 | 1259 | 0.515 | 0.518 | 1732 | 0.021** | 0.000*** |
| retexl w | -0.172 | -0.264 | 1025 | 0.022 | -0.061 | 1499 | 0.000*** | 0.000*** |
| retvolatl_w | 0.206 | 0.171 | 1118 | 0.162 | 0.135 | 1584 | 0.000*** | 0.000*** |
| retskewl_w | 0.212 | 0.131 | 1113 | 0.303 | 0.26 | 1582 | 0.022** | 0.009*** |
| turnovrl_w | 19.27 | 13.41 | 1126 | 18.77 | 14.24 | 1590 | 0.476 | 0.102 |
| home | 0.561 | 1 | 1259 | 0.577 | 1 | 1732 | 0.383 | . |
| pai | 0.469 | 0.453 | 1121 | 0.471 | 0.393 | 1554 | 0.829 | 0.107 |
| gdpgr | 4.525 | 4.5 | 1259 | 3.924 | 4.1 | 1732 | 0.000*** | 0.000*** |
| credit | 3.387 | 3 | 1247 | 2.833 | 3 | 1728 | 0.000*** | 0.19 |
| uer | 5.629 | 5 | 1259 | 5.351 | 4.8 | 1732 | 0.000*** | 0.000*** |
| red | 0.281 | 0 | 1123 | 0.332 | 0 | 1555 | 0.005*** | 0.005*** |
| duopoly | 0.474 | 0.481 | 1123 | 0.475 | 0.481 | 1555 | 0.276 | 0.014** |
| salesgr w | 0.646 | 0.178 | 1224 | 0.277 | 0.072 | 1685 | 0.000*** | 0.000*** |
| roa w | -0.212 | 0.008 | 1259 | -0.086 | 0.015 | 1731 | 0.000*** | 0.011** |

(continued)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| rnd w | 0.073 | 0.02 | 1258 | 0.081 | 0.007 | 1731 | 0.118 | 0.005*** |
| ppe w | 0.168 | 0.093 | 1258 | 0.188 | 0.098 | 1731 | 0.008*** | 0.382 |
| lnsize w | 6.486 | 6.04 | 1258 | 6.735 | 6.533 | 1731 | 0.004*** | 0.000*** |
| lnsize2 w | 6.704 | 6.523 | 1215 | 6.813 | 6.707 | 1703 | 0.161 | 0.047** |
| audit | 0.832 | 1 | 1259 | 0.83 | 1 | 1732 | 0.844 | . |
| nyse | 0.359 | 0 | 1259 | 0.432 | 0 | 1732 | 0.000*** | 0.000*** |
| bm w | 0.551 | 0.376 | 1217 | 0.523 | 0.386 | 1704 | 0.208 | 0.691 |
| repeatoff | 0.185 | 0 | 1259 | 0.269 | 0 | 1732 | 0.000*** | 0.000*** |
| fps | 0.485 | 0 | 1259 | 0.443 | 0 | 1732 | 0.023** | 0.023** |
| distrsk | 0.328 | 0 | 1259 | 0.411 | 0 | 1732 | 0.000*** | 0.000*** |
| debtfin w | 0.065 | 0 | 1259 | 0.036 | 0 | 1731 | 0.001*** | 0.052* |
| eqfin w | 0.498 | 0.008 | 1259 | 0.166 | 0 | 1731 | 0.000*** | 0.000*** |
| fcf w | 0.043 | 0.042 | 1073 | 0.046 | 0.055 | 1630 | 0.728 | 0.001*** |
| dac | -0.005 | 0.032 | 1247 | 0.004 | 0.031 | 1719 | 0.202 | 0.828 |
| lev w | 0.29 | 0.21 | 1259 | 0.343 | 0.308 | 1732 | 0.000*** | 0.000*** |
| bage | 57.62 | 58.14 | 623 | 59.12 | 59.36 | 816 | 0.000*** | 0.000*** |
| bagesd | 8.57 | 8.455 | 623 | 8.305 | 8.162 | 809 | 0.043** | 0.049** |
| bnet | 6.619 | 6.726 | 623 | 6.86 | 6.978 | 816 | 0.000*** | 0.000*** |
| bdindep | 0.703 | 0.75 | 623 | 0.748 | 0.778 | 815 | 0.000*** | 0.000*** |
| bdfem | 0.113 | 0.111 | 623 | 0.141 | 0.143 | 815 | 0.000*** | 0.000*** |
| lnbsize | 2.108 | 2.079 | 623 | 2.134 | 2.079 | 815 | 0.141 | 0.142 |
| ceoage | 54.42 | 54 | 580 | 55.41 | 56 | 768 | 0.031** | 0.028** |
| ceolder | -0.379 | -0.5 | 580 | -0.471 | -0.526 | 767 | 0.055* | 0.688 |
| dual | 0.518 | 1 | 622 | 0.45 | 0 | 816 | 0.011** | 0.011** |
| cfratio | 0.041 | 0 | 592 | 0.054 | 0 | 775 | 0.208 | 0.097* |
| anly | 2.04 | 2.026 | 921 | 2.087 | 2.09 | 1392 | 0.131 | 0.176 |
| sox | 0.645 | 1 | 1259 | 0.891 | 1 | 1732 | 0.000*** | . |
| salary | 0.233 | 0.158 | 286 | 0.253 | 0.171 | 437 | 0.257 | 0.377 |
| bonus | 0.083 | 0 | 286 | 0.068 | 0 | 437 | 0.166 | 0.006*** |
| ltip | 0.011 | 0 | 286 | 0.006 | 0 | 437 | 0.094* | 0.004*** |
| options | 0.337 | 0.288 | 286 | 0.285 | 0.191 | 437 | 0.028** | 0.009*** |
| toteqwlth | 57000 | 0 | 290 | 150000 | 4945 | 458 | 0.116 | 0.453 |
| busydir | 5.171 | 4 | 592 | 4.929 | 4 | 775 | 0.327 | 0.425 |
| bcid | 0.171 | 0.143 | 623 | 0.138 | 0.111 | 815 | 0.000*** | 0.006*** |
| insto | 0.55 | 0.58 | 974 | 0.64 | 0.71 | 1490 | 0.00*** | 0.00*** |
| blockn | 2.01 | 2 | 974 | 2.54 | 3 | 1491 | 0.00*** | 0.00*** |
| blocko | 0.17 | 0.14 | 974 | 0.22 | 0.21 | 1491 | 0.00*** | 0.00*** |
| concen | 0.09 | 0.08 | 974 | 237 | 0.09 | 1491 | 0.32 | 0.00*** |
| concensq | 0.01 | 0.01 | 974 | 8.40e+07 | 0.01 | 1491 | 0.32 | 0.00*** |
| top5concen | 0.25 | 0.24 | 974 | 632.9 | 0.29 | 1491 | 0.32 | 0.00*** |

**Table 5: Characteristics of Pre-Citizens United (CU=0) and Post-Citizens United (CU=1) Lawsuits**
The data is as described for Table 4. Also, all variables are again as described in Table 14. However, in this case, the subsamples are now divided based on the CU variable. Again, the number of observations for the CU=0 and CU=1 subsamples varies because the very nature of our study limits of scope to firms that have all been sued and are all drawn from the same original sample, and, as such, we cannot use one-to-one matching techniques such as propensity score matching in order to attempt to match the two subsamples more closely with each other in size and composition. The last two columns show p-values for a t-test and a Wilcoxon test for the difference in mean and median values between our CU=0 and CU=1 subsamples. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | **CU=0 Sample** | | | **CU=1 Sample** | | | **P-value** | |
|---|---|---|---|---|---|---|---|---|
| **Variables** | **Mean** | **Median** | **Obs.** | **Mean** | **Median** | **Obs.** | **T-test** | **Wilcoxon test** |
| status | 0.379 | 0 | 1287 | 0.73 | 1 | 1704 | 0.000*** | . |
| preld | -11.9 | -13.82 | 1287 | -11.09 | -13.82 | 1704 | 0.000*** | 0.000*** |
| durld | -10.57 | -13.82 | 1287 | -11.26 | -13.82 | 1704 | 0.000*** | 0.000*** |
| preordur | -9.97 | -13.82 | 1287 | -10.02 | -13.82 | 1704 | 0.768 | 0.874 |
| postld | -11.41 | -13.82 | 1287 | -11.82 | -13.82 | 1704 | 0.002*** | 0.001*** |
| totld | -9.476 | -8.29 | 1287 | -9.548 | -8.29 | 1704 | 0.653 | 0.45 |
| firmdon | 0.525 | 1 | 1287 | 0.521 | 1 | 1704 | 0.823 | . |
| jdg | 0.473 | 0.437 | 1287 | 0.402 | 0.357 | 1704 | 0.000*** | 0.000*** |
| convicns w | 2.963 | 2.602 | 1196 | 2.959 | 2.602 | 1482 | 0.913 | 0.795 |
| presid | 0.702 | 1 | 1287 | 0.536 | 1 | 1704 | 0.000*** | . |
| sc | 0.556 | 0.556 | 1287 | 0.547 | 0.556 | 1704 | 0.000*** | 0.799 |
| days w | 1330 | 1035 | 1287 | 546.1 | 426 | 1704 | 0.000*** | 0.000*** |
| cong | 0.51 | 0.518 | 1287 | 0.516 | 0.513 | 1704 | 0.000*** | 0.000*** |
| retexl w | -0.198 | -0.301 | 1043 | 0.043 | -0.044 | 1481 | 0.000*** | 0.000*** |
| retvolatl_w | 0.215 | 0.183 | 1135 | 0.155 | 0.129 | 1567 | 0.000*** | 0.000*** |
| retskewl w | 0.187 | 0.135 | 1132 | 0.323 | 0.264 | 1563 | 0.001*** | 0.020** |
| turnovrl w | 18.25 | 13.16 | 1140 | 19.51 | 14.27 | 1576 | 0.061* | 0.024** |
| home | 0.591 | 1 | 1287 | 0.554 | 1 | 1704 | 0.041** | . |
| pai | 0.461 | 0.425 | 1194 | 0.478 | 0.409 | 1481 | 0.183 | 0.808 |
| gdpgr | 4.722 | 4.5 | 1287 | 3.766 | 4 | 1704 | 0.000*** | 0.000*** |
| credit | 3.336 | 3 | 1271 | 2.863 | 2 | 1704 | 0.000*** | 0.036** |
| uer | 5.173 | 4.9 | 1287 | 5.691 | 4.8 | 1704 | 0.000*** | 0.000*** |
| red | 0.273 | 0 | 1196 | 0.342 | 0 | 1482 | 0.000*** | 0.000*** |
| duopoly | 0.467 | 0.473 | 1196 | 0.481 | 0.482 | 1482 | 0.000*** | 0.000*** |
| salesgr w | 0.647 | 0.188 | 1269 | 0.266 | 0.06 | 1640 | 0.000*** | 0.000*** |
| roa w | -0.186 | 0.014 | 1287 | -0.104 | 0.012 | 1703 | 0.000*** | 0.631 |
| rnd w | 0.07 | 0.022 | 1286 | 0.083 | 0.006 | 1703 | 0.008*** | 0.000*** |
| ppe w | 0.174 | 0.105 | 1286 | 0.184 | 0.085 | 1703 | 0.169 | 0.001*** |
| lnsize w | 6.603 | 6.042 | 1286 | 6.651 | 6.516 | 1703 | 0.576 | 0.000*** |
| lnsize2 w | 6.868 | 6.63 | 1253 | 6.692 | 6.621 | 1665 | 0.024** | 0.911 |
| audit | 0.901 | 1 | 1287 | 0.778 | 1 | 1704 | 0.000*** | . |

(continued)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| nyse | 0.368 | 0 | 1287 | 0.427 | 0 | 1704 | 0.001*** | 0.001*** |
| bm w | 0.53 | 0.368 | 1256 | 0.538 | 0.396 | 1665 | 0.691 | 0.12 |
| repeatoff | 0.169 | 0 | 1287 | 0.282 | 0 | 1704 | 0.000*** | 0.000*** |
| fps | 0.481 | 0 | 1287 | 0.446 | 0 | 1704 | 0.058* | 0.058* |
| distrsk | 0.305 | 0 | 1287 | 0.429 | 0 | 1704 | 0.000*** | 0.000*** |
| debtfin w | 0.054 | 0 | 1287 | 0.044 | 0 | 1703 | 0.248 | 0.068* |
| eqfin w | 0.494 | 0.01 | 1287 | 0.164 | 0 | 1703 | 0.000*** | 0.000*** |
| fcf w | 0.053 | 0.044 | 1122 | 0.039 | 0.057 | 1581 | 0.107 | 0.000*** |
| dac | -0.005 | 0.033 | 1277 | 0.003 | 0.031 | 1689 | 0.227 | 0.376 |
| lev w | 0.285 | 0.182 | 1287 | 0.348 | 0.322 | 1704 | 0.000*** | 0.000*** |
| bage | 56.03 | 56.73 | 568 | 60.06 | 60.29 | 871 | 0.000*** | 0.000*** |
| bagesd | 8.45 | 8.276 | 568 | 8.4 | 8.289 | 864 | 0.701 | 0.914 |
| bnet | 6.46 | 6.488 | 568 | 6.948 | 7.064 | 871 | 0.000*** | 0.000*** |
| bdindep | 0.677 | 0.714 | 568 | 0.762 | 0.8 | 870 | 0.000*** | 0.000*** |
| bdfem | 0.092 | 0.091 | 568 | 0.153 | 0.143 | 870 | 0.000*** | 0.000*** |
| lnbsize | 2.157 | 2.079 | 568 | 2.101 | 2.079 | 870 | 0.002*** | 0.943 |
| ceoage | 53.59 | 53 | 540 | 55.91 | 56 | 808 | 0.000*** | 0.000*** |
| ceolder | -0.292 | -0.416 | 540 | -0.524 | -0.573 | 807 | 0.000*** | 0.001*** |
| dual | 0.598 | 1 | 567 | 0.402 | 0 | 871 | 0.000*** | 0.000*** |
| cfratio | 0.041 | 0 | 552 | 0.054 | 0 | 815 | 0.178 | 0.996 |
| anly | 2.077 | 2.079 | 909 | 2.062 | 2.058 | 1404 | 0.633 | 0.669 |
| sox | 0.507 | 1 | 1287 | 1 | 1 | 1704 | 0.000*** | . |
| salary | 0.24 | 0.148 | 304 | 0.249 | 0.176 | 419 | 0.616 | 0.054* |
| bonus | 0.126 | 0.067 | 304 | 0.036 | 0 | 419 | 0.000*** | 0.000*** |
| ltip | 0.018 | 0 | 304 | 0 | 0 | 419 | 0.000*** | 0.000*** |
| options | 0.434 | 0.447 | 304 | 0.212 | 0.058 | 419 | 0.000*** | 0.000*** |
| toteqwlth | 150000 | 14000 | 304 | 88000 | 0 | 444 | 0.454 | 0.000*** |
| busydir | 4.777 | 4 | 552 | 5.207 | 4 | 815 | 0.070* | 0.74 |
| bcid | 0.215 | 0.182 | 568 | 0.112 | 0.0910 | 870 | 0.000*** | 0.000*** |
| insto | 0.525 | 0.547 | 942 | 0.653 | 0.744 | 1522 | 0.000*** | 0.000*** |
| blockn | 1.756 | 1 | 942 | 2.689 | 3 | 1523 | 0.000*** | 0.000*** |
| blocko | 0.147 | 0.12 | 942 | 0.238 | 0.23 | 1523 | 0.000*** | 0.000*** |
| concen | 0.083 | 0.077 | 942 | 232 | 0.094 | 1523 | 0.317 | 0.000*** |
| concensq | 0.009 | 0.006 | 942 | 8.20E+07 | 0.009 | 1523 | 0.317 | 0.000*** |
| top5concen | 0.231 | 0.227 | 942 | 619.6 | 0.306 | 1523 | 0.317 | 0.000*** |

**Table 6: The Effects of Political Campaign Finance and Political Ideology on Shareholder Litigation Outcomes – Including CU**

This table reports the logistic regression results of a series of models in which Litigation Status is regressed on political, judicial, and key other variables. This does not include Year fixed effects. Litigation Status is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Model 1 excludes Donation variables. Models 2-5 exclude Political Ideology variables. Models 6-9 include all variables. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| Home=1 | 1.723*** | 1.482*** | 1.571*** | 1.487*** | 1.502*** | 0.970*** | 0.900*** | 0.790*** | 0.794*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.002) | (0.002) |
| CU=1 | 2.606*** | 1.172*** | 2.162*** | 2.129*** | 2.137*** | 0.992*** | 2.215*** | 2.171*** | 2.178*** |
| | (<0.001) | (0.002) | (<0.001) | (<0.001) | (<0.001) | (0.005) | (<0.001) | (<0.001) | (<0.001) |
| Home=1 # CU=1 | -1.246*** | -0.995*** | -1.103*** | -1.093*** | -1.101*** | | | | |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | | | | |
| Convictions | -0.043 | 0.180** | 0.192** | 0.181** | 0.182** | -0.043 | -0.046 | -0.032 | -0.034 |
| | (0.427) | (0.036) | (0.027) | (0.037) | (0.035) | (0.432) | (0.384) | (0.542) | (0.525) |
| Presid.=1 | 0.799*** | | | | | 0.829*** | 0.859*** | 0.827*** | 0.827*** |
| | (<0.001) | | | | | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Duopoly | 77.384** | -6.067*** | -6.463*** | -5.442*** | -5.507*** | 69.311** | 62.487* | 58.168* | 59.506* |
| | (0.031) | (<0.001) | (<0.001) | (0.002) | (0.001) | (0.044) | (0.072) | (0.098) | (0.088) |
| Congress | 79.832** | | | | | 73.031** | 65.158* | 60.826* | 62.223* |
| | (0.021) | | | | | (0.027) | (0.051) | (0.071) | (0.064) |
| Duopoly # Congress | -158.605** | | | | | -144.646** | -130.482* | -121.704* | -124.353* |
| | (0.021) | | | | | (0.029) | (0.051) | (0.071) | (0.064) |
| Supreme Ct. | 4.385 | | | | | 5.068 | 4.329 | 4.285 | 4.375 |
| | (0.153) | | | | | (0.106) | (0.162) | (0.162) | (0.152) |
| Judges | 2.567*** | | | | | 2.183*** | 2.387*** | 2.327*** | 2.349*** |
| | (<0.001) | | | | | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Rep. Offender=1 | 0.499** | 0.200 | 0.148 | 0.212* | 0.210* | 0.627** | 0.565** | 0.616** | 0.623** |
| | (0.047) | (0.109) | (0.225) | (0.082) | (0.085) | (0.015) | (0.030) | (0.016) | (0.015) |
| Home=1 # Judges | -2.514*** | | | | | -2.075*** | -1.845*** | -1.687*** | -1.698*** |
| | (<0.001) | | | | | (<0.001) | (0.001) | (0.002) | (0.002) |
| Rep. Offender=1 # Judges | -0.952* | | | | | -1.127** | -1.025** | -1.047** | -1.068** |
| | (0.059) | | | | | (0.031) | (0.046) | (0.039) | (0.035) |
| Excess Return | 0.349*** | 0.380*** | 0.399*** | 0.408*** | 0.407*** | 0.348*** | 0.356*** | 0.373*** | 0.372*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Return Vol. | -1.275** | -1.850*** | -1.748*** | -2.123*** | -2.072*** | -1.436*** | -1.562*** | -1.728*** | -1.670*** |
| | (0.011) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.005) | (0.002) | (0.001) | (0.001) |
| GDP Growth | -0.085*** | -0.091*** | -0.090*** | -0.090*** | -0.090*** | -0.090*** | -0.093*** | -0.088*** | -0.088*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| State Credit Risk | -0.104*** | -0.118*** | -0.117*** | -0.120*** | -0.120*** | -0.117*** | -0.111*** | -0.109*** | -0.109*** |
| | (0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.001) | (0.001) |
| Auditor Quality=1 | 0.329** | 0.350** | 0.252* | 0.351** | 0.343** | 0.330** | 0.308** | 0.347** | 0.338** |
| | (0.020) | (0.013) | (0.070) | (0.012) | (0.014) | (0.021) | (0.031) | (0.015) | (0.018) |
| R&D | 1.701*** | 1.683*** | 1.978*** | 1.796*** | 1.812*** | 1.529*** | 1.590*** | 1.565*** | 1.585*** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0.003) | (0.004) | (<0.001) | (0.001) | (0.001) | (0.009) | (0.007) | (0.007) | (0.007) |
| ROA | 0.384** | 0.437*** | 0.432*** | 0.450*** | 0.448*** | 0.416*** | 0.430*** | 0.428*** | 0.425*** |
| | (0.016) | (0.007) | (0.006) | (0.005) | (0.005) | (0.010) | (0.007) | (0.007) | (0.007) |
| Pre-LD | | 0.076*** | | | | 0.072*** | | | |
| | | (0.002) | | | | (0.004) | | | |
| CU=1 # Pre-LD | | -0.077*** | | | | -0.062** | | | |
| | | (0.007) | | | | (0.031) | | | |
| Dur-LD | | -0.108*** | | | | -0.116*** | | | |
| | | (<0.001) | | | | (<0.001) | | | |
| Post-LD | | 0.066*** | 0.027* | | | 0.076*** | 0.072*** | | |
| | | (<0.001) | (0.065) | | | (<0.001) | (<0.001) | | |
| Home=1 # Convictions | | -0.311*** | -0.325*** | -0.302*** | -0.306*** | | | | |
| | | (0.003) | (0.002) | (0.004) | (0.004) | | | | |
| Tot-LD | | | | -0.039*** | | | | -0.039*** | |
| | | | | (0.002) | | | | (0.002) | |
| Firm-Don=1 | | | | | -0.314*** | | | | -0.308*** |
| | | | | | (0.003) | | | | (0.005) |
| Pre-Or-Dur | | | | | | | -0.072*** | | |
| | | | | | | | (<0.001) | | |
| CU=1 # Judges | | | | | | | -1.003** | -1.034** | -1.040** |
| | | | | | | | (0.031) | (0.025) | (0.025) |
| Constant | -43.028** | 2.846*** | 2.855*** | 1.778* | 2.341** | -38.428** | -34.688** | -32.947* | -33.183* |
| | (0.018) | (0.009) | (0.006) | (0.083) | (0.019) | (0.027) | (0.048) | (0.064) | (0.061) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 |
| Pseudo R-Squared | 0.1976 | 0.1961 | 0.1770 | 0.1791 | 0.1787 | 0.2101 | 0.1998 | 0.1928 | 0.1923 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 7: The Effects of Political Campaign Finance and Political Ideology on Shareholder Litigation Outcomes – Including Year fixed effects**

This table reports the logistic regression results of a series of models in which Litigation Status is regressed on political, judicial, and key other variables. The Citizens United variable is excluded. Year fixed effects are included. Litigation Status is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Model 1 excludes Donation variables. Models 2-5 exclude Political Ideology variables. Models 6-9 include all variables. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| Judges | 0.990* | | | | | 1.185** | 1.091** | 0.985* | 0.995* |
| | (0.068) | | | | | (0.029) | (0.044) | (0.069) | (0.067) |
| Home=1 | 0.543** | 0.050 | 0.050 | 0.006 | 0.007 | 0.672** | 0.663** | 0.542** | 0.546** |
| | (0.049) | (0.683) | (0.681) | (0.960) | (0.956) | (0.016) | (0.017) | (0.049) | (0.047) |
| Home=1 # Judges | -1.225** | | | | | -1.435** | -1.403** | -1.231** | -1.240** |
| | (0.031) | | | | | (0.012) | (0.014) | (0.030) | (0.029) |
| Convictions | -0.046 | -0.059 | -0.062 | -0.044 | -0.046 | -0.056 | -0.057 | -0.040 | -0.042 |
| | (0.406) | (0.290) | (0.260) | (0.424) | (0.407) | (0.324) | (0.309) | (0.471) | (0.454) |
| Presid.=1 | 0.772 | | | | | 0.620 | 0.737 | 0.682 | 0.709 |
| | (0.284) | | | | | (0.364) | (0.298) | (0.343) | (0.321) |
| Duopoly | -1.503 | -1.064 | -1.127 | -1.068 | -1.097 | -1.534 | -1.583 | -1.480 | -1.510 |
| | (0.575) | (0.671) | (0.649) | (0.681) | (0.674) | (0.534) | (0.521) | (0.570) | (0.564) |
| Supreme Ct. | 2.663 | | | | | 2.926 | 1.811 | 2.611 | 2.603 |
| | (0.517) | | | | | (0.482) | (0.662) | (0.524) | (0.523) |
| Congress | -50.924** | | | | | -58.652*** | -57.326** | -56.555** | -55.576** |
| | (0.025) | | | | | (0.008) | (0.011) | (0.013) | (0.014) |
| Rep. Offender=1 | 0.069 | 0.097 | 0.069 | 0.106 | 0.104 | 0.086 | 0.061 | 0.101 | 0.099 |
| | (0.577) | (0.444) | (0.580) | (0.390) | (0.399) | (0.500) | (0.626) | (0.413) | (0.422) |
| Excess Return | 0.317*** | 0.309*** | 0.312*** | 0.328*** | 0.326*** | 0.302*** | 0.303*** | 0.321*** | 0.319*** |
| | (0.002) | (0.003) | (0.003) | (0.002) | (0.002) | (0.004) | (0.004) | (0.002) | (0.002) |
| Return Vol. | -0.912 | -1.026* | -1.044* | -1.228** | -1.160** | -0.931 | -0.955* | -1.163** | -1.096* |
| | (0.103) | (0.070) | (0.067) | (0.029) | (0.039) | (0.103) | (0.096) | (0.040) | (0.052) |
| GDP Growth | -0.076** | -0.074** | -0.074** | -0.069** | -0.071** | -0.075** | -0.076** | -0.070** | -0.072** |
| | (0.017) | (0.019) | (0.019) | (0.029) | (0.026) | (0.020) | (0.018) | (0.028) | (0.025) |
| State Credit Risk | -0.115*** | -0.115*** | -0.113*** | -0.113*** | -0.113*** | -0.118*** | -0.119*** | -0.117*** | -0.117*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Auditor Quality=1 | 0.384*** | 0.420*** | 0.414*** | 0.454*** | 0.444*** | 0.414*** | 0.408*** | 0.449*** | 0.439*** |
| | (0.007) | (0.004) | (0.004) | (0.002) | (0.002) | (0.004) | (0.005) | (0.002) | (0.002) |
| R&D | 1.636*** | 1.513*** | 1.567*** | 1.520*** | 1.548*** | 1.470** | 1.512** | 1.475** | 1.503** |
| | (0.004) | (0.010) | (0.008) | (0.009) | (0.008) | (0.013) | (0.011) | (0.012) | (0.010) |
| ROA | 0.370** | 0.394** | 0.399** | 0.394** | 0.392** | 0.381** | 0.389** | 0.381** | 0.379** |
| | (0.022) | (0.021) | (0.019) | (0.018) | (0.018) | (0.024) | (0.020) | (0.021) | (0.021) |
| Pre-LD | | 0.028 | | | | 0.029* | | | |
| | | (0.106) | | | | (0.091) | | | |
| Dur-LD | | -0.113*** | | | | -0.115*** | | | |
| | | (<0.001) | | | | (<0.001) | | | |
| Post-LD | | 0.080*** | 0.074*** | | | 0.083*** | 0.077*** | | |
| | | (<0.001) | (<0.001) | | | (<0.001) | (<0.001) | | |
| Pre-Or-Dur | | | -0.073*** | | | | -0.074*** | | |
| | | | (<0.001) | | | | (<0.001) | | |
| Tot-LD | | | | -0.039*** | | | | -0.039*** | |
| | | | | (0.003) | | | | (0.004) | |
| Firm-Don=1 | | | | | -0.299*** | | | | -0.299*** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (0.008) | | | | (0.008) |
| Constant | 26.118** | 0.537 | 0.616 | 0.060 | 0.622 | 29.984*** | 30.033** | 28.622** | 28.653** |
| | (0.030) | (0.666) | (0.614) | (0.962) | (0.618) | (0.009) | (0.011) | (0.017) | (0.017) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 | 2251 |
| Pseudo R-Squared | 0.2098 | 0.2261 | 0.2175 | 0.2103 | 0.2097 | 0.2290 | 0.2203 | 0.2126 | 0.2121 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 8: Event Study Cumulative Abnormal Returns**

This table reports the results of a series of event studies using either the A) litigation filing date, B) dismissal date, or C) settlement date as the event date. The event date is Day 0. Reported are the mean cumulative abnormal returns (CARs) for the various event windows in the two subsamples CU=0 (Pre-CU) and CU=1 (Post-CU). We conduct a t-test of mean differences between the Pre-CU and Post-CU subsamples, with p values reported. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

**Panel A: Cumulative Abnormal Returns around the Litigation Filing Date**

| | Pre-CU mean | Post-CU mean | t-test p |
|---|---|---|---|
| (-5,-2) | -0.03937 | -0.03743 | 0.739 |
| (-1,+1) | -0.04099 | -0.01762 | <0.001*** |
| (+2,+5) | -0.00394 | -0.00141 | 0.505 |
| (-2,+2) | -0.05538 | -0.02973 | <0.001*** |
| (-3,+3) | -0.06855 | -0.03918 | <0.001*** |
| Observations | 1144 | 1608 | 2752 |

**Panel B: Cumulative Abnormal Returns around the Litigation Dismissal Date**

| | Pre-CU mean | Post-CU mean | t-test p |
|---|---|---|---|
| (-5,-2) | -0.00528 | -0.00722 | 0.611 |
| (-1,+1) | 0.00486 | -0.00129 | 0.112 |
| (+2,+5) | -0.00119 | 0.00258 | 0.361 |
| (-2,+2) | 0.00311 | -<0.00174 | 0.391 |
| (-3,+3) | 0.00152 | -0.00468 | 0.259 |
| Observations | 379 | 821 | 1200 |

**Panel C: Cumulative Abnormal Returns around the Litigation Settlement Date**

| | Pre-CU mean | Post-CU mean | t-test p |
|---|---|---|---|
| (-5,-2) | 0.00144 | -0.00646 | 0.103 |
| (-1,+1) | <0.00194 | -<0.00195 | 0.708 |
| (+2,+5) | -0.00324 | -0.00252 | 0.895 |
| (-2,+2) | -0.00138 | -0.00486 | 0.584 |
| (-3,+3) | <0.00189 | -0.00171 | 0.702 |
| Observations | 495 | 329 | 824 |

**Table 9: Event Study CAR Regressions**

This table reports the results from the OLS regressions in which the Cumulative Abnormal Return(-1,+1) is the dependent variable. In Model (1), the CAR is for Litigation Filing Date as event date. In Model (2), the CAR is for Litigation Dismissal Date as event date. And for Model (3), the CAR is for Litigation Settlement Date as event date. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) |
|---|---|---|---|
| CU | 0.023*** | -0.008** | |
| | (0.003) | (0.050) | |
| Home | -0.011* | | |
| | (0.054) | | |
| PAI | -0.014* | 0.008 | |
| | (0.057) | (0.216) | |
| GDP Growth | -0.002* | | -0.001 |
| | (0.086) | | (0.140) |
| Excess Return | -0.015** | | |
| | (0.015) | | |
| Return Vol. | -0.084** | | |
| | (0.015) | | |
| Debt Fin. | -0.060** | | |
| | (0.010) | | |
| Presid. | 0.014** | -0.007 | |
| | (0.014) | (0.107) | |
| Leverage | 0.016* | | |
| | (0.075) | | |
| BM | 0.019*** | | |
| | (<0.001) | | |
| Supreme Ct. | | -0.115 | |
| | | (0.127) | |
| ROA | | -0.019 | |
| | | (0.105) | |
| Red State | | -0.007* | |
| | | (0.081) | |
| Return Skew | | -0.006** | |
| | | (0.013) | |
| Sales Growth | | -0.002 | |
| | | (0.141) | |
| Disc. Accruals | | 0.029 | |
| | | (0.187) | |
| NYSE | | -0.006 | |
| | | (0.101) | |
| Convictions | | 0.002 | |
| | | (0.202) | |
| Rep. Offender=1 | | | 0.006 |
| | | | (0.215) |
| ln(Assets) | | | -0.002 |
| | | | (0.215) |
| R&D | | | -0.051** |
| | | | (0.031) |
| PP&E | | | -0.033** |
| | | | (0.029) |
| Constant | -0.018 | 0.070* | -0.088*** |
| | (0.290) | (0.092) | (<0.001) |
| Industry Fixed Effects | Yes | Yes | Yes |
| Observations | 2228 | 980 | 824 |
| Adj. R-Squared | 0.047 | 0.027 | 0.003 |

**Table 10 Panels A and B: The Home State Advantage**

**Table 10 Panel A: Lawsuits outside of the defendant firm's home state.** This table reports the results of logistic regressions of a subsample of the full sample in which the US state in which the litigation is occurring is different than the US state in which the firm is headquartered (i.e., the firm's "home" state). Model 1 excludes Donation variables. Models 2-5 exclude Political Ideology variables. Models 6-9 include all variables. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|---|---|---|---|---|---|---|---|---|
| | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status |
| Judges | 2.640*** | | | | | 2.682*** | 2.703*** | 2.588*** | 2.610*** |
| | (<0.001) | | | | | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| CU=1 | 3.765*** | 1.862*** | 2.019*** | 1.979*** | 1.989*** | 3.686*** | 3.951*** | 3.715*** | 3.736*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| CU=1 # Judges | -3.734*** | | | | | -3.803*** | -4.061*** | -3.624*** | -3.650*** |
| | (0.006) | | | | | (0.005) | (0.002) | (0.007) | (0.007) |
| Presid.=1 | 0.349 | | | | | 0.321 | 0.344 | 0.362 | 0.359 |
| | (0.204) | | | | | (0.243) | (0.211) | (0.188) | (0.190) |
| Congress | -1.062 | | | | | -1.665 | -2.357 | -1.259 | -1.114 |
| | (0.815) | | | | | (0.733) | (0.614) | (0.782) | (0.806) |
| Supreme Ct. | 3.629 | | | | | 3.358 | 3.665 | 3.800 | 4.017 |
| | (0.603) | | | | | (0.653) | (0.607) | (0.588) | (0.566) |
| Convictions | 0.135 | 0.139 | 0.136 | 0.143 | 0.143 | 0.121 | 0.123 | 0.131 | 0.130 |
| | (0.172) | (0.169) | (0.180) | (0.150) | (0.150) | (0.226) | (0.217) | (0.181) | (0.183) |
| Duopoly | -9.622** | -11.626*** | -11.169** | -10.604** | -10.646** | -9.690** | -9.448** | -8.974** | -8.937** |
| | (0.021) | (0.006) | (0.012) | (0.012) | (0.012) | (0.019) | (0.028) | (0.029) | (0.031) |
| Rep. Offender=1 | 0.218 | 0.372 | 0.329 | 0.364 | 0.365 | 0.270 | 0.225 | 0.263 | 0.266 |
| | (0.427) | (0.193) | (0.242) | (0.185) | (0.183) | (0.348) | (0.426) | (0.345) | (0.340) |
| Excess Return | 0.702*** | 0.756*** | 0.740*** | 0.729*** | 0.727*** | 0.730*** | 0.712*** | 0.700*** | 0.698*** |
| | (0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Return Vol. | -3.250*** | -4.096*** | -4.145*** | -4.279*** | -4.222*** | -3.266*** | -3.363*** | -3.553*** | -3.503*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.001) | (<0.001) | (<0.001) | (<0.001) |
| GDP Growth | -0.195*** | -0.203*** | -0.203*** | -0.194*** | -0.193*** | -0.207*** | -0.204*** | -0.197*** | -0.197*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Credit Risk | -0.267*** | -0.326*** | -0.333*** | -0.320*** | -0.321*** | -0.274*** | -0.278*** | -0.261*** | -0.262*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.001) | (0.001) |
| Auditor Quality=1 | 0.303 | 0.195 | 0.274 | 0.300 | 0.291 | 0.266 | 0.348 | 0.373 | 0.371 |
| | (0.285) | (0.496) | (0.341) | (0.297) | (0.310) | (0.355) | (0.225) | (0.190) | (0.193) |
| Pre-LD | | 0.043 | | | | 0.041 | | | |
| | | (0.251) | | | | (0.267) | | | |
| Dur-LD | | -0.155*** | | | | -0.153*** | | | |
| | | (<0.001) | | | | (<0.001) | | | |
| Post-LD | | 0.101*** | 0.100*** | | | 0.113*** | 0.112*** | | |
| | | (0.004) | (0.003) | | | (0.001) | (0.001) | | |
| Pre-Or-Dur | | | -0.104*** | | | | -0.105*** | | |
| | | | (0.001) | | | | (0.001) | | |
| Tot-LD | | | | -0.045* | | | | -0.040 | |
| | | | | (0.085) | | | | (0.131) | |
| Firm-Don=1 | | | | | -0.367* | | | | -0.348 |
| | | | | | (0.092) | | | | (0.121) |
| Constant | 1.472 | 5.900** | 5.712** | 4.952** | 5.541** | 2.231 | 2.291 | 0.944 | 1.250 |
| | (0.796) | (0.012) | (0.015) | (0.027) | (0.012) | (0.713) | (0.695) | (0.868) | (0.826) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 782 | 782 | 782 | 782 | 782 | 782 | 782 | 782 | 782 |
| Pseudo R-Squared | 0.3955 | 0.4023 | 0.3919 | 0.3811 | 0.3808 | 0.4197 | 0.4104 | 0.3976 | 0.3977 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 10 Panel B: Lawsuits from the defendant firm's home state**

This table reports the results of logistic regressions of a subsample of the full sample in which the US state in which the litigation is occurring is the same as the US state in which the firm is headquartered (i.e., the firm's "home" state). Model 1 excludes Donation variables. Models 2-5 exclude Political Ideology variables. Models 6-9 include all variables. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| CU=1 | 1.397*** | 1.420*** | 1.119*** | 1.075*** | 1.076*** | 1.420*** | 1.460*** | 1.390*** | 1.391*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Judges | 0.119 | 0.107 | | | | 0.107 | 0.057 | 0.089 | 0.091 |
| | (0.670) | (0.700) | | | | (0.700) | (0.838) | (0.748) | (0.744) |
| Presid.=1 | 0.813*** | 0.892*** | | | | 0.892*** | 0.864*** | 0.817*** | 0.814*** |
| | (<0.001) | (<0.001) | | | | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Congress | 1.278 | 1.089 | | | | 1.089 | 0.950 | 0.880 | 0.930 |
| | (0.542) | (0.604) | | | | (0.604) | (0.654) | (0.676) | (0.658) |
| Supreme Ct. | 4.371 | 4.696 | | | | 4.696 | 4.181 | 3.949 | 3.989 |
| | (0.202) | (0.174) | | | | (0.174) | (0.224) | (0.250) | (0.244) |
| Convictions | -0.153** | -0.157** | -0.162** | -0.142** | -0.145** | -0.157** | -0.165** | -0.144** | -0.147** |
| | (0.022) | (0.020) | (0.013) | (0.029) | (0.026) | (0.020) | (0.014) | (0.033) | (0.029) |
| Duopoly | -2.820 | -2.328 | -2.341 | -2.209 | -2.261 | -2.328 | -2.378 | -2.195 | -2.249 |
| | (0.188) | (0.279) | (0.230) | (0.255) | (0.244) | (0.279) | (0.262) | (0.299) | (0.288) |
| Rep. Offender=1 | 0.028 | 0.033 | 0.125 | 0.160 | 0.158 | 0.033 | 0.016 | 0.063 | 0.061 |
| | (0.842) | (0.824) | (0.380) | (0.258) | (0.263) | (0.824) | (0.912) | (0.660) | (0.670) |
| Excess Return | 0.274** | 0.235** | 0.294*** | 0.316*** | 0.314*** | 0.235** | 0.252** | 0.279** | 0.277** |
| | (0.016) | (0.042) | (0.010) | (0.005) | (0.006) | (0.042) | (0.030) | (0.015) | (0.015) |
| Return Vol. | -0.765 | -0.752 | -1.367** | -1.519*** | -1.466** | -0.752 | -0.887 | -1.065* | -1.004* |
| | (0.195) | (0.222) | (0.019) | (0.009) | (0.011) | (0.222) | (0.146) | (0.077) | (0.094) |
| GDP Growth | -0.043 | -0.048* | -0.052** | -0.047* | -0.047* | -0.048* | -0.048* | -0.042 | -0.042 |
| | (0.132) | (0.096) | (0.043) | (0.066) | (0.067) | (0.096) | (0.098) | (0.146) | (0.144) |
| Credit Risk | -0.061* | -0.064* | -0.075** | -0.079** | -0.079** | -0.064* | -0.064* | -0.067* | -0.067* |
| | (0.078) | (0.062) | (0.019) | (0.014) | (0.014) | (0.062) | (0.063) | (0.052) | (0.053) |
| Auditor Quality=1 | 0.386** | 0.440*** | 0.331** | 0.378** | 0.369** | 0.440*** | 0.408** | 0.455*** | 0.444*** |
| | (0.018) | (0.008) | (0.041) | (0.020) | (0.022) | (0.008) | (0.014) | (0.006) | (0.007) |
| Pre-LD | | 0.030 | | | | 0.030 | | | |
| | | (0.121) | | | | (0.121) | | | |
| Dur-LD | | -0.105*** | | | | -0.105*** | | | |
| | | (<0.001) | | | | (<0.001) | | | |
| Post-LD | | 0.076*** | 0.055*** | | | 0.076*** | 0.068*** | | |
| | | (<0.001) | (0.008) | | | (<0.001) | (0.001) | | |
| Pre-Or-Dur | | | -0.056*** | | | | -0.064*** | | |
| | | | (0.001) | | | | (<0.001) | | |
| Tot-LD | | | | -0.036** | | | | -0.037** | |
| | | | | (0.014) | | | | (0.014) | |
| Firm-Don=1 | | | | | -0.294** | | | | -0.293** |
| | | | | | (0.018) | | | | (0.022) |
| Constant | -1.375 | -1.577 | 2.243* | 1.725 | 2.274** | -1.577 | -1.129 | -1.593 | -1.082 |
| | (0.629) | (0.580) | (0.062) | (0.143) | (0.048) | (0.580) | (0.691) | (0.574) | (0.703) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1446 | 1446 | 1446 | 1446 | 1446 | 1446 | 1446 | 1446 | 1446 |
| Pseudo R-Squared | 0.1136 | 0.1324 | 0.0985 | 0.0947 | 0.0944 | 0.1324 | 0.1231 | 0.1168 | 0.1164 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 11: The Effects of Political Campaign Finance and Political Ideology on Shareholder Litigation Outcomes – Including CU and all control variables**

This table reports the logistic regression results of a series of models in which Litigation Status is regressed on political, judicial, firm-related, and state-related variables. Litigation Status is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Model 1 excludes Donation variables. Models 2-5 exclude Political Ideology variables. Models 6-9 include all explanatory and control variables. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| CU=1 | 2.644*** | 6.457*** | 7.957*** | 7.641*** | 7.551*** | 0.992*** | 2.429*** | 1.712*** | 2.192*** |
| | (<0.001) | (0.003) | (<0.001) | (<0.001) | (<0.001) | (0.005) | (<0.001) | (<0.001) | (<0.001) |
| Home=1 | 1.540*** | 1.489*** | 1.548*** | 1.481*** | 1.490*** | 0.846*** | 0.753*** | 1.532*** | 1.467*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.002) | (0.007) | (<0.001) | (<0.001) |
| CU=1 # Home=1 | -1.227*** | -0.971*** | -1.016*** | -1.047*** | -1.057*** | | | | |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | | | | |
| Judges | 2.356*** | | | | | 1.954*** | 2.325*** | 1.698*** | 2.018*** |
| | (<0.001) | | | | | (<0.001) | (<0.001) | (0.001) | (<0.001) |
| Rep. Offender=1 | 0.442* | 0.080 | 0.055 | 0.080 | 0.089 | 0.529** | 0.468* | 0.556** | 0.506* |
| | (0.087) | (0.545) | (0.675) | (0.537) | (0.495) | (0.045) | (0.079) | (0.032) | (0.054) |
| Rep. Offender=1 # Judges | -0.865* | | | | | -1.004* | -0.897* | -1.101** | -0.962* |
| | (0.091) | | | | | (0.057) | (0.083) | (0.035) | (0.062) |
| Home=1 # Judges | -2.163*** | | | | | -1.785*** | -1.467** | -1.377** | -1.187** |
| | (<0.001) | | | | | (0.002) | (0.010) | (0.015) | (0.039) |
| Presid.=1 | 0.748*** | | | | | 0.842*** | 0.772*** | 0.830*** | 0.850*** |
| | (<0.001) | | | | | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Supreme Ct. | 5.508* | | | | | 89.911* | 5.038 | 85.659* | 81.959* |
| | (0.089) | | | | | (0.054) | (0.120) | (0.059) | (0.076) |
| PAI | -0.029 | -0.094 | -0.078 | -0.079 | -0.081 | -0.030 | <0.001 | -0.052 | -0.091 |
| | (0.868) | (0.586) | (0.648) | (0.641) | (0.636) | (0.861) | (0.999) | (0.762) | (0.600) |
| Convictions | -0.061 | 0.166* | 0.167* | 0.171* | 0.172* | -0.059 | -0.055 | 0.135* | 0.139* |
| | (0.288) | (0.072) | (0.070) | (0.063) | (0.062) | (0.290) | (0.321) | (0.096) | (0.087) |
| GDP Growth | -0.085*** | -0.089*** | -0.091*** | -0.084*** | -0.085*** | -0.091*** | -0.088*** | -0.091*** | -0.094*** |
| | (0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Credit Risk | -0.098*** | -0.089*** | -0.089** | -0.092*** | -0.092*** | -0.110*** | -0.101*** | -0.101*** | -0.092** |
| | (0.008) | (0.010) | (0.011) | (0.008) | (0.008) | (0.002) | (0.005) | (0.006) | (0.011) |
| Red State=1 | -0.165 | -0.151 | -0.139 | -0.151 | -0.149 | -0.141 | -0.094 | -0.127 | -0.105 |
| | (0.226) | (0.259) | (0.300) | (0.258) | (0.264) | (0.295) | (0.484) | (0.341) | (0.429) |
| Duopoly | 74.109* | 12.424* | 13.306** | 12.526** | 12.124* | 181.685** | 9.954* | 173.837** | 158.867* |
| | (0.064) | (0.057) | (0.039) | (0.047) | (0.055) | (0.028) | (0.064) | (0.032) | (0.052) |
| Congress | 64.580* | | | | | 87.409** | -2.345 | 83.451* | 72.841* |
| | (0.095) | | | | | (0.044) | (0.288) | (0.054) | (0.093) |
| Unemp. | 1.036** | 1.185** | 1.186** | 1.103* | 1.086* | -0.020 | 1.572*** | -0.023 | -0.013 |
| | (0.049) | (0.047) | (0.046) | (0.059) | (0.063) | (0.653) | (0.005) | (0.608) | (0.780) |
| Duopoly # Congress | -131.901* | | | | | -176.213** | | -168.849* | -147.860* |
| | (0.087) | | | | | (0.044) | | (0.052) | (0.089) |
| Duopoly # Unemp. | -2.155** | -2.530** | -2.529** | -2.355** | -2.319** | | -3.229*** | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0.043) | (0.034) | (0.034) | (0.044) | (0.047) | | (0.004) | | |
| Excess Return | 0.346*** | 0.352*** | 0.364*** | 0.376*** | 0.377*** | 0.334*** | 0.345*** | 0.356*** | 0.355*** |
| | (0.001) | (0.001) | (0.001) | (<0.001) | (<0.001) | (0.002) | (0.002) | (0.001) | (0.001) |
| Return Vol. | -1.962*** | -2.000*** | -2.235*** | -2.301*** | -2.321*** | -2.011*** | -2.206*** | -2.326*** | -2.300*** |
| | (0.003) | (0.002) | (<0.001) | (<0.001) | (<0.001) | (0.002) | (0.001) | (<0.001) | (<0.001) |
| Return Skew | 0.099* | 0.086 | 0.085 | 0.090 | 0.088 | 0.095 | 0.105* | 0.097 | 0.103* |
| | (0.100) | (0.156) | (0.156) | (0.134) | (0.141) | (0.123) | (0.082) | (0.109) | (0.087) |
| Share Turnover | -0.001 | -0.001 | <0.001 | <0.001 | 0.001 | -<0.001 | 0.001 | 0.001 | 0.001 |
| | (0.866) | (0.737) | (0.906) | (0.888) | (0.877) | (0.891) | (0.807) | (0.743) | (0.846) |
| ROA | 0.378 | 0.393 | 0.388 | 0.378 | 0.376 | 0.431* | 0.436* | 0.393 | 0.405 |
| | (0.117) | (0.104) | (0.103) | (0.110) | (0.112) | (0.089) | (0.084) | (0.113) | (0.103) |
| Sales Growth | -0.028 | -0.044 | -0.047 | -0.054 | -0.055 | -0.042 | -0.042 | -0.055 | -0.052 |
| | (0.571) | (0.365) | (0.328) | (0.256) | (0.253) | (0.383) | (0.392) | (0.249) | (0.285) |
| R&D | 1.847*** | 1.738*** | 1.894*** | 1.902*** | 1.895*** | 1.767** | 1.806*** | 1.962*** | 1.939*** |
| | (0.006) | (0.009) | (0.004) | (0.004) | (0.004) | (0.010) | (0.009) | (0.004) | (0.004) |
| PP&E | -0.061 | -0.028 | -0.051 | 0.002 | 0.006 | -0.158 | -0.163 | -0.051 | -0.042 |
| | (0.878) | (0.943) | (0.896) | (0.997) | (0.988) | (0.682) | (0.676) | (0.896) | (0.915) |
| Auditor Quality=1 | 0.396** | 0.427*** | 0.383** | 0.401*** | 0.404*** | 0.381** | 0.355** | 0.351** | 0.361** |
| | (0.012) | (0.006) | (0.013) | (0.009) | (0.009) | (0.015) | (0.023) | (0.024) | (0.021) |
| NYSE=1 | 0.114 | 0.103 | 0.100 | 0.112 | 0.113 | 0.118 | 0.104 | 0.142 | 0.130 |
| | (0.399) | (0.454) | (0.462) | (0.407) | (0.402) | (0.387) | (0.443) | (0.292) | (0.336) |
| BM | -0.033 | -0.100 | -0.085 | -0.085 | -0.080 | -0.050 | -0.041 | -0.037 | -0.021 |
| | (0.771) | (0.372) | (0.451) | (0.438) | (0.470) | (0.659) | (0.716) | (0.735) | (0.849) |
| ln(Assets) | -0.066* | -0.032 | -0.035 | -0.022 | -0.035 | -0.047 | -0.043 | -0.028 | -0.038 |
| | (0.079) | (0.433) | (0.385) | (0.580) | (0.366) | (0.248) | (0.277) | (0.473) | (0.320) |
| FPS=1 | 0.208 | 0.267 | 0.209 | 0.204 | 0.212 | 0.214 | 0.160 | 0.139 | 0.144 |
| | (0.378) | (0.250) | (0.370) | (0.377) | (0.359) | (0.368) | (0.505) | (0.556) | (0.540) |
| Distress Risk=1 | 0.084 | 0.124 | 0.100 | 0.091 | 0.101 | 0.115 | 0.095 | 0.090 | 0.107 |
| | (0.589) | (0.427) | (0.516) | (0.551) | (0.511) | (0.461) | (0.543) | (0.558) | (0.487) |
| Debt Fin. | -0.358 | -0.395 | -0.414 | -0.422 | -0.426 | -0.327 | -0.351 | -0.344 | -0.345 |
| | (0.213) | (0.192) | (0.157) | (0.141) | (0.137) | (0.284) | (0.228) | (0.232) | (0.228) |
| Equity Fin. | -0.038 | -0.074 | -0.093 | -0.100 | -0.099 | -0.023 | -0.034 | -0.058 | -0.045 |
| | (0.685) | (0.449) | (0.329) | (0.292) | (0.299) | (0.820) | (0.741) | (0.569) | (0.658) |
| Payout Ratio | 0.174 | 0.208 | -0.015 | 0.011 | -0.013 | 0.576 | 0.214 | 0.449 | 0.425 |
| | (0.843) | (0.808) | (0.986) | (0.989) | (0.988) | (0.503) | (0.806) | (0.603) | (0.623) |
| Disc. Accruals | -0.029 | -0.014 | -0.050 | -0.047 | -0.039 | -0.016 | -0.101 | -0.010 | -0.030 |
| | (0.945) | (0.974) | (0.904) | (0.910) | (0.925) | (0.969) | (0.810) | (0.982) | (0.943) |
| Leverage | 0.212 | 0.084 | 0.131 | 0.167 | 0.174 | 0.148 | 0.214 | 0.218 | 0.226 |
| | (0.389) | (0.735) | (0.596) | (0.495) | (0.477) | (0.555) | (0.390) | (0.375) | (0.357) |
| Pre-LD | | 0.069*** | | | | 0.075*** | | | |
| | | (0.006) | | | | (0.003) | | | |
| CU=1 # Pre-LD | | -0.068** | | | | -0.062** | | | |
| | | (0.019) | | | | (0.035) | | | |
| Dur-LD | | -0.112*** | | | | -0.116*** | | | |
| | | (<0.001) | | | | (<0.001) | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Post-LD | | 0.064*** | 0.061*** | | | 0.070*** | 0.068*** | | |
| | | (<0.001) | (0.001) | | | (<0.001) | (<0.001) | | |
| Home=1 # Convictions | | -0.308*** | -0.317*** | -0.303*** | -0.304*** | | | -0.296*** | -0.296*** |
| | | (0.007) | (0.005) | (0.007) | (0.007) | | | (0.005) | (0.005) |
| CU=1 # Duopoly | | -10.703** | -12.045*** | -11.440*** | -11.245*** | | | | |
| | | (0.014) | (0.005) | (0.008) | (0.009) | | | | |
| Pre-Or-Dur | | | -0.073*** | | | | -0.075*** | | |
| | | | (<0.001) | | | | (<0.001) | | |
| Tot-LD | | | | -0.048*** | | | | -0.043*** | |
| | | | | (0.001) | | | | (0.003) | |
| Firm-Don=1 | | | | | -0.367*** | | | | -0.325*** |
| | | | | | (0.002) | | | | (0.006) |
| Duopoly # Supreme Ct. | | | | | | -173.399* | | -164.906* | -157.494* |
| | | | | | | (0.073) | | (0.080) | (0.099) |
| CU=1 # Judges | | | | | | | -1.340*** | | -1.077** |
| | | | | | | | (0.005) | | (0.026) |
| Constant | -40.173** | -5.751* | -6.521** | -6.635** | -5.719* | -92.289** | -7.166** | -89.692** | -81.787** |
| | (0.048) | (0.088) | (0.048) | (0.040) | (0.074) | (0.023) | (0.039) | (0.025) | (0.042) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 2168 | 2168 | 2168 | 2168 | 2168 | 2168 | 2168 | 2168 | 2168 |
| Pseudo R-Squared | 0.2050 | 0.2118 | 0.2010 | 0.1959 | 0.1954 | 0.2164 | 0.2077 | 0.2009 | 0.2023 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 12 Panels A and B: The Home State Advantage - Including all control variables**

**Table 12 – Panel A: Lawsuits outside of the defendant firm's home state – Including all control variables**

This table reports the results of logistic regressions of a subsample of the full sample in which the US state in which the litigation is occurring is different than the US state in which the firm is headquartered (i.e., the firm's "home" state). Model 1 excludes Donation variables. Models 2-5 exclude Political Ideology variables. Models 6-9 include all explanatory and control variables. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| Judges | 2.347*** | | | | | 2.111*** | 2.118*** | 1.931** | 2.044*** |
| | (0.003) | | | | | (0.009) | (0.008) | (0.018) | (0.006) |
| CU=1 | 3.158*** | 1.887*** | 1.980*** | 1.911*** | 1.987*** | 3.650*** | 3.776*** | 3.537*** | 3.824*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| CU=1 # Judges | -4.154*** | | | | | -3.792*** | -3.817*** | -3.483** | -3.784*** |
| | (0.003) | | | | | (0.007) | (0.006) | (0.013) | (0.007) |
| Rep. Offender=1 | 0.094 | 0.131 | 0.125 | 0.133 | 0.206 | 0.088 | 0.077 | 0.077 | 0.150 |
| | (0.762) | (0.672) | (0.689) | (0.668) | (0.473) | (0.777) | (0.806) | (0.803) | (0.602) |
| Presid.=1 | 0.329 | | | | | 0.365 | 0.384 | 0.417 | 0.520 |
| | (0.378) | | | | | (0.346) | (0.316) | (0.271) | (0.157) |
| Congress | -2.730 | | | | | -3.970 | -3.933 | -2.679 | -2.532 |
| | (0.561) | | | | | (0.443) | (0.431) | (0.577) | (0.595) |
| Supreme Ct. | 0.665 | | | | | -2.631 | -0.647 | -0.691 | -0.151 |
| | (0.932) | | | | | (0.752) | (0.936) | (0.931) | (0.984) |
| PAI | -1.358** | -0.344 | -0.414 | -0.398 | -0.350 | -0.417 | -0.483 | -0.463 | -0.392 |
| | (0.024) | (0.383) | (0.290) | (0.294) | (0.331) | (0.291) | (0.219) | (0.225) | (0.273) |
| CU=1 # PAI | 1.330* | | | | | | | | |
| | (0.069) | | | | | | | | |
| Convictions | 0.148 | 0.128 | 0.134 | 0.133 | 0.153 | 0.127 | 0.133 | 0.133 | 0.132 |
| | (0.199) | (0.258) | (0.235) | (0.230) | (0.158) | (0.263) | (0.237) | (0.234) | (0.219) |
| GDP Growth | -0.183*** | -0.186*** | -0.187*** | -0.180*** | -0.176*** | -0.182*** | -0.181*** | -0.176*** | -0.169*** |
| | (0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Credit Risk | -0.247** | -0.282*** | -0.289*** | -0.263*** | -0.261*** | -0.257*** | -0.259*** | -0.236** | -0.221** |
| | (0.012) | (0.002) | (0.001) | (0.004) | (0.006) | (0.007) | (0.007) | (0.016) | (0.029) |
| Unemp. | -0.056 | -0.097 | -0.093 | -0.116 | -0.068 | -0.040 | -0.038 | -0.053 | -0.002 |
| | (0.628) | (0.292) | (0.304) | (0.204) | (0.438) | (0.743) | (0.751) | (0.653) | (0.987) |
| Red State=1 | -0.156 | -0.127 | -0.094 | -0.173 | -0.190 | -0.122 | -0.091 | -0.181 | -0.217 |
| | (0.549) | (0.627) | (0.721) | (0.501) | (0.440) | (0.641) | (0.731) | (0.484) | (0.383) |
| Duopoly | -8.224 | -8.994 | -9.389* | -6.881 | -9.283* | -9.121 | -9.478 | -6.672 | -8.926 |
| | (0.149) | (0.106) | (0.090) | (0.193) | (0.071) | (0.141) | (0.122) | (0.248) | (0.124) |
| Excess Return | 0.587*** | 0.576*** | 0.552*** | 0.552*** | | 0.523** | 0.497** | 0.504** | |
| | (0.010) | (0.006) | (0.008) | (0.007) | | (0.022) | (0.027) | (0.023) | |
| Return Vol. | -4.066*** | -3.978*** | -4.087*** | -4.424*** | -4.826*** | -3.254** | -3.434** | -3.817*** | -4.183*** |
| | (0.002) | (0.001) | (0.001) | (<0.001) | (<0.001) | (0.017) | (0.013) | (0.004) | (0.001) |
| Return Skew | 0.151 | 0.066 | 0.078 | 0.097 | 0.235* | 0.082 | 0.099 | 0.113 | 0.232* |
| | (0.298) | (0.647) | (0.580) | (0.488) | (0.075) | (0.590) | (0.508) | (0.445) | (0.087) |
| Share Turnover | 0.005 | 0.010 | 0.010 | 0.011 | 0.008 | 0.004 | 0.004 | 0.006 | 0.004 |
| | (0.499) | (0.204) | (0.209) | (0.159) | (0.243) | (0.603) | (0.614) | (0.474) | (0.593) |
| ROA | -0.092 | -0.068 | -0.075 | -0.096 | 0.609 | -0.022 | -0.026 | -0.056 | -0.019 |
| | (0.811) | (0.847) | (0.835) | (0.782) | (0.420) | (0.957) | (0.950) | (0.884) | (0.960) |
| Sales Growth | -0.184** | -0.205** | -0.210** | -0.219** | -0.160* | -0.179** | -0.183** | -0.194** | -0.177** |
| | (0.031) | (0.016) | (0.015) | (0.011) | (0.066) | (0.035) | (0.035) | (0.024) | (0.037) |
| R&D | 0.689 | 0.635 | 0.668 | 0.431 | 0.184 | 0.748 | 0.778 | 0.505 | 0.908 |
| | (0.558) | (0.594) | (0.574) | (0.716) | (0.886) | (0.537) | (0.523) | (0.673) | (0.436) |
| PP&E | 0.540 | 0.776 | 0.741 | 0.793 | 1.352* | 0.479 | 0.447 | 0.543 | 1.050 |
| | (0.530) | (0.356) | (0.386) | (0.363) | (0.088) | (0.566) | (0.597) | (0.530) | (0.176) |
| Auditor Quality=1 | -0.163 | -0.181 | -0.169 | -0.121 | 0.156 | -0.172 | -0.160 | -0.108 | 0.034 |
| | (0.642) | (0.616) | (0.636) | (0.732) | (0.660) | (0.637) | (0.659) | (0.763) | (0.923) |
| NYSE=1 | 0.292 | 0.408 | 0.398 | 0.376 | 0.408 | 0.313 | 0.302 | 0.287 | 0.378 |
| | (0.318) | (0.161) | (0.166) | (0.193) | (0.145) | (0.277) | (0.289) | (0.327) | (0.184) |
| BM | -0.016 | -0.196 | -0.203 | -0.173 | -0.285 | -0.114 | -0.124 | -0.091 | -0.246 |
| | (0.944) | (0.371) | (0.364) | (0.430) | (0.226) | (0.618) | (0.598) | (0.694) | (0.288) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ln(Assets) | -0.061 | 0.011 | -0.011 | -0.006 | -0.035 | 0.016 | -0.006 | 0.002 | -0.036 |
| | (0.442) | (0.896) | (0.893) | (0.946) | (0.661) | (0.846) | (0.947) | (0.982) | (0.639) |
| FPS=1 | 0.035 | 0.019 | -0.031 | 0.015 | 0.084 | 0.062 | 0.015 | 0.041 | 0.041 |
| | (0.944) | (0.971) | (0.952) | (0.977) | (0.868) | (0.904) | (0.976) | (0.937) | (0.933) |
| Distress Risk=1 | -0.309 | -0.218 | -0.259 | -0.186 | -0.225 | -0.335 | -0.370 | -0.289 | -0.292 |
| | (0.323) | (0.494) | (0.407) | (0.555) | (0.474) | (0.290) | (0.235) | (0.361) | (0.347) |
| Debt Fin. | -1.647* | -1.788* | -1.834* | -1.751** | -2.066** | -1.701* | -1.737* | -1.643* | -1.575* |
| | (0.071) | (0.052) | (0.052) | (0.042) | (0.011) | (0.078) | (0.087) | (0.069) | (0.087) |
| Equity Fin. | -0.533** | -0.681** | -0.680** | -0.716** | -1.156*** | -0.568* | -0.568** | -0.618** | -0.589** |
| | (0.041) | (0.014) | (0.013) | (0.010) | (0.002) | (0.051) | (0.049) | (0.033) | (0.019) |
| FCF | -0.525 | -0.711 | -0.672 | -0.565 | -0.047 | -0.617 | -0.568 | -0.463 | -0.091 |
| | (0.399) | (0.268) | (0.278) | (0.356) | (0.937) | (0.321) | (0.346) | (0.436) | (0.869) |
| Disc. Accruals | 0.638 | 0.699 | 0.731 | 0.845 | 0.494 | 0.620 | 0.639 | 0.758 | 0.462 |
| | (0.450) | (0.421) | (0.396) | (0.339) | (0.588) | (0.496) | (0.480) | (0.406) | (0.539) |
| Leverage | 1.098* | 0.832 | 0.940* | 0.873 | 0.797 | 0.943 | 1.053* | 0.956* | 0.937* |
| | (0.056) | (0.149) | (0.098) | (0.123) | (0.141) | (0.107) | (0.069) | (0.095) | (0.083) |
| Pre-LD | | -0.032 | | | | -0.026 | | | |
| | | (0.433) | | | | (0.519) | | | |
| Dur-LD | | -0.140*** | | | | -0.138*** | | | |
| | | (<0.001) | | | | (<0.001) | | | |
| Post-LD | | 0.088** | 0.085** | | | 0.100** | 0.096** | | |
| | | (0.029) | (0.032) | | | (0.016) | (0.016) | | |
| Pre-Or-Dur | | | -0.131*** | | | | -0.127*** | | |
| | | | (<0.001) | | | | (0.001) | | |
| Tot-LD | | | | -0.089*** | | | | -0.080** | |
| | | | | (0.008) | | | | (0.021) | |
| CU=1 # ROA | | | | | -2.539** | | | | |
| | | | | | (0.012) | | | | |
| Firm-Don=1 | | | | | -0.644** | | | | -0.584** |
| | | | | | (0.022) | | | | (0.036) |
| Constant | 4.508 | 4.146 | 4.929* | 3.380 | 5.432** | 6.112 | 5.728 | 3.392 | 4.823 |
| | (0.478) | (0.178) | (0.098) | (0.230) | (0.032) | (0.380) | (0.393) | (0.602) | (0.453) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 685 | 685 | 685 | 685 | 735 | 685 | 685 | 685 | 735 |
| Pseudo R-Squared | 0.3927 | 0.3991 | 0.3938 | 0.3864 | 0.3962 | 0.4103 | 0.4053 | 0.3961 | 0.3977 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 12 – Panel B: Lawsuits from the defendant firm's home state – Including all control variables**

This table reports the results of logistic regressions of a subsample of the full sample in which the US state in which the litigation is occurring is the same as the US state in which the firm is headquartered (i.e., the firm's "home" state). Model 1 excludes Donation variables. Models 2-5 exclude Political Ideology variables. Models 6-9 include all explanatory and control variables. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| Judges | 0.404 | | | | | 0.387 | 0.320 | 0.380 | 0.380 |
| | (0.203) | | | | | (0.232) | (0.319) | (0.231) | (0.231) |
| Presid.=1 | 0.863*** | | | | | 0.925*** | 0.909*** | 0.868*** | 0.867*** |
| | (<0.001) | | | | | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Congress | -0.715 | | | | | -0.934 | -1.081 | -1.099 | -0.992 |
| | (0.776) | | | | | (0.715) | (0.673) | (0.664) | (0.694) |
| Supreme Ct. | 6.525* | | | | | 7.027* | 6.201 | 6.321* | 6.365* |
| | (0.080) | | | | | (0.066) | (0.102) | (0.092) | (0.089) |
| CU=1 | 1.538*** | 1.162*** | 1.203*** | 1.156*** | 1.151*** | 1.590*** | 1.617*** | 1.556*** | 1.549*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| PAI | -0.089 | -0.160 | -0.152 | -0.143 | -0.142 | -0.092 | -0.085 | -0.090 | -0.089 |
| | (0.676) | (0.437) | (0.460) | (0.486) | (0.488) | (0.669) | (0.689) | (0.673) | (0.674) |
| Convictions | -0.167** | -0.167** | -0.176** | -0.159** | -0.159** | -0.174** | -0.181** | -0.166** | -0.167** |
| | (0.023) | (0.019) | (0.013) | (0.026) | (0.025) | (0.018) | (0.014) | (0.024) | (0.023) |
| GDP Growth | -0.052* | -0.069** | -0.069** | -0.062** | -0.063** | -0.054* | -0.055* | -0.047 | -0.049 |
| | (0.093) | (0.014) | (0.013) | (0.026) | (0.024) | (0.079) | (0.073) | (0.127) | (0.114) |
| Credit Risk | -0.052 | -0.029 | -0.027 | -0.035 | -0.034 | -0.053 | -0.052 | -0.056 | -0.056 |
| | (0.214) | (0.454) | (0.497) | (0.379) | (0.383) | (0.199) | (0.207) | (0.177) | (0.179) |
| Unemp. | -0.043 | -0.131*** | -0.130*** | -0.123*** | -0.122*** | -0.048 | -0.047 | -0.045 | -0.044 |
| | (0.400) | (<0.001) | (<0.001) | (0.001) | (0.001) | (0.355) | (0.368) | (0.381) | (0.395) |
| Red State=1 | -0.121 | 0.041 | 0.051 | 0.031 | 0.029 | -0.110 | -0.088 | -0.115 | -0.117 |
| | (0.499) | (0.809) | (0.765) | (0.854) | (0.865) | (0.548) | (0.628) | (0.522) | (0.516) |
| Duopoly | -1.666 | 1.003 | 0.467 | 0.605 | 0.459 | -0.918 | -1.459 | -1.112 | -1.263 |
| | (0.476) | (0.654) | (0.833) | (0.780) | (0.832) | (0.702) | (0.536) | (0.630) | (0.585) |
| Excess Return | 0.262* | 0.277** | 0.292** | 0.309** | 0.307** | 0.231* | 0.244* | 0.264* | 0.263* |
| | (0.055) | (0.039) | (0.031) | (0.021) | (0.022) | (0.092) | (0.077) | (0.054) | (0.056) |
| Return Vol. | -1.473* | -1.679** | -1.959** | -1.988** | -2.005** | -1.066 | -1.398 | -1.466* | -1.482* |
| | (0.094) | (0.042) | (0.018) | (0.017) | (0.016) | (0.224) | (0.112) | (0.095) | (0.092) |
| Return Skew | 0.102 | 0.094 | 0.093 | 0.099 | 0.099 | 0.092 | 0.090 | 0.099 | 0.099 |
| | (0.151) | (0.189) | (0.194) | (0.165) | (0.162) | (0.202) | (0.209) | (0.167) | (0.164) |
| Share Turnover | -0.004 | -0.003 | -0.002 | -0.002 | -0.002 | -0.004 | -0.003 | -0.003 | -0.003 |
| | (0.405) | (0.492) | (0.703) | (0.632) | (0.629) | (0.305) | (0.487) | (0.433) | (0.432) |
| ROA | 0.640* | 0.678** | 0.668** | 0.643** | 0.637** | 0.695** | 0.690** | 0.665* | 0.659* |
| | (0.066) | (0.035) | (0.037) | (0.044) | (0.046) | (0.045) | (0.046) | (0.055) | (0.058) |
| Sales Growth | 0.062 | 0.076 | 0.071 | 0.057 | 0.057 | 0.082 | 0.077 | 0.062 | 0.062 |
| | (0.438) | (0.331) | (0.354) | (0.446) | (0.450) | (0.333) | (0.352) | (0.444) | (0.449) |
| R&D | 2.765*** | 2.405*** | 2.489*** | 2.584*** | 2.580*** | 2.600*** | 2.687*** | 2.807*** | 2.803*** |
| | (0.003) | (0.006) | (0.004) | (0.003) | (0.003) | (0.004) | (0.003) | (0.002) | (0.002) |
| PP&E | -0.316 | -0.474 | -0.519 | -0.422 | -0.427 | -0.303 | -0.353 | -0.264 | -0.271 |
| | (0.517) | (0.320) | (0.274) | (0.373) | (0.368) | (0.538) | (0.469) | (0.587) | (0.578) |
| Rep. Offender=1 | -0.066 | -<0.001 | -0.012 | 0.016 | 0.020 | -0.088 | -0.099 | -0.064 | -0.059 |
| | (0.666) | (0.999) | (0.936) | (0.914) | (0.896) | (0.564) | (0.517) | (0.677) | (0.698) |
| Auditor Quality=1 | 0.506*** | 0.506*** | 0.471** | 0.478*** | 0.480*** | 0.564*** | 0.521*** | 0.523*** | 0.525*** |
| | (0.007) | (0.006) | (0.010) | (0.009) | (0.009) | (0.002) | (0.005) | (0.005) | (0.005) |
| NYSE=1 | 0.089 | 0.039 | 0.031 | 0.042 | 0.043 | 0.071 | 0.063 | 0.075 | 0.076 |
| | (0.592) | (0.815) | (0.850) | (0.794) | (0.790) | (0.672) | (0.708) | (0.650) | (0.648) |
| BM | -0.014 | 0.007 | 0.038 | 0.020 | 0.026 | -0.041 | -0.005 | -0.023 | -0.017 |
| | (0.922) | (0.965) | (0.795) | (0.888) | (0.858) | (0.788) | (0.975) | (0.872) | (0.906) |
| ln(Assets) | -0.064 | -0.044 | -0.050 | -0.031 | -0.042 | -0.044 | -0.051 | -0.031 | -0.042 |
| | (0.159) | (0.373) | (0.303) | (0.523) | (0.376) | (0.373) | (0.301) | (0.527) | (0.372) |
| FPS=1 | 0.202 | 0.251 | 0.244 | 0.231 | 0.234 | 0.216 | 0.208 | 0.192 | 0.195 |
| | (0.497) | (0.381) | (0.394) | (0.418) | (0.412) | (0.476) | (0.491) | (0.523) | (0.515) |
| Distress Risk=1 | 0.167 | 0.234 | 0.231 | 0.201 | 0.210 | 0.154 | 0.151 | 0.127 | 0.138 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | (0.391) | (0.217) | (0.222) | (0.285) | (0.263) | (0.440) | (0.444) | (0.516) | (0.481) |
| Debt Fin. | -0.213 | -0.271 | -0.281 | -0.253 | -0.255 | -0.244 | -0.247 | -0.218 | -0.219 |
| | (0.554) | (0.471) | (0.440) | (0.486) | (0.482) | (0.513) | (0.495) | (0.544) | (0.541) |
| Equity Fin. | 0.230 | 0.190 | 0.196 | 0.178 | 0.180 | 0.239 | 0.249 | 0.229 | 0.230 |
| | (0.231) | (0.324) | (0.307) | (0.352) | (0.347) | (0.214) | (0.198) | (0.234) | (0.232) |
| FCF | -0.101 | -0.170 | -0.181 | -0.132 | -0.126 | -0.143 | -0.154 | -0.101 | -0.095 |
| | (0.811) | (0.682) | (0.661) | (0.745) | (0.757) | (0.741) | (0.721) | (0.809) | (0.821) |
| Disc. Accruals | -0.164 | -0.214 | -0.259 | -0.275 | -0.257 | -0.166 | -0.222 | -0.233 | -0.212 |
| | (0.759) | (0.680) | (0.617) | (0.592) | (0.618) | (0.756) | (0.679) | (0.662) | (0.691) |
| Leverage | 0.030 | -0.039 | -0.028 | 0.004 | 0.006 | -0.007 | 0.003 | 0.039 | 0.041 |
| | (0.923) | (0.897) | (0.926) | (0.989) | (0.985) | (0.983) | (0.991) | (0.897) | (0.894) |
| Pre-LD | | 0.024 | | | | 0.027 | | | |
| | | (0.224) | | | | (0.191) | | | |
| Dur-LD | | -0.086*** | | | | -0.094*** | | | |
| | | (<0.001) | | | | (<0.001) | | | |
| Post-LD | | 0.068*** | 0.062*** | | | 0.075*** | 0.069*** | | |
| | | (0.002) | (0.004) | | | (0.001) | (0.001) | | |
| Pre-Or-Dur | | | -0.049*** | | | | -0.056*** | | |
| | | | (0.010) | | | | (0.003) | | |
| Tot-LD | | | | -0.031* | | | | -0.033* | |
| | | | | (0.073) | | | | (0.056) | |
| Firm-Don=1 | | | | | -0.210 | | | | -0.232 |
| | | | | | (0.136) | | | | (0.106) |
| Constant | -1.551 | 1.654 | 2.030 | 1.262 | 1.816 | -2.019 | -1.089 | -2.044 | -1.523 |
| | (0.612) | (0.242) | (0.140) | (0.340) | (0.151) | (0.519) | (0.726) | (0.505) | (0.618) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1349 | 1349 | 1349 | 1349 | 1349 | 1349 | 1349 | 1349 | 1349 |
| Pseudo R-Squared | 0.1381 | 0.1329 | 0.1259 | 0.1213 | 0.1207 | 0.1539 | 0.1462 | 0.1402 | 0.1396 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 13: Politics and Litigation Duration - Cox models**

This table reports the results of Cox Proportional Hazards model regressions in which the dependent variable in all models is Litigation Duration, measured in days. Definitions for all variables are given in Table 1. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Pre-LD | 0.017** | | | |
| | (0.024) | | | |
| CU=1 | 5.685*** | 6.076*** | 5.644*** | 6.350*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Dur-LD | -0.059*** | | | |
| | (<0.001) | | | |
| Duopoly | 2.882*** | 2.792*** | 2.464*** | 2.446*** |
| | (0.001) | (0.002) | (0.008) | (0.007) |
| CU=1 # Dur-LD | -0.055*** | | | |
| | (<0.001) | | | |
| CU=1 # Duopoly | -10.633*** | -10.961*** | -10.220*** | -10.281*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Post-LD | 0.031*** | 0.029*** | | |
| | (0.001) | (0.002) | | |
| Judges | 0.631*** | 0.599*** | 0.621*** | 0.618*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Rep. Offender=1 | 0.265** | 0.255** | 0.312*** | 0.318*** |
| | (0.011) | (0.013) | (0.002) | (0.001) |
| Rep. Offender=1 # Judges | -0.690*** | -0.678*** | -0.699*** | -0.728*** |
| | (0.001) | (0.002) | (0.001) | (0.001) |
| Congress | 2.395*** | 2.123*** | 2.212*** | 2.282*** |
| | (0.001) | (0.003) | (0.002) | (0.002) |
| Supreme Ct. | 3.325*** | 3.093** | 3.504*** | 3.534*** |
| | (0.008) | (0.014) | (0.006) | (0.005) |
| Home=1 | 0.108** | 0.100** | 0.090* | 0.077* |
| | (0.028) | (0.036) | (0.053) | (0.098) |
| Pre-Or-Dur | | -0.040*** | | |
| | | (<0.001) | | |
| CU=1 # Pre-Or-Dur | | -0.041*** | | |
| | | (<0.001) | | |
| Tot-LD | | | -0.018*** | |
| | | | (0.005) | |
| CU=1 # Tot-LD | | | -0.051*** | |
| | | | (<0.001) | |
| Firm-Don=1 | | | | -0.139** |
| | | | | (0.012) |
| CU=1 # Firm-Don=1 | | | | -0.394*** |
| | | | | (<0.001) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes |
| Observations | 2678 | 2678 | 2678 | 2678 |
| Pseudo R-Squared | 0.0316 | 0.0285 | 0.0275 | 0.0267 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 14: Variable Definitions – Essay 2**

Note that wherever variables have been adjusted for inflation, the source for inflation data was the Consumer Price Index (All Urban Consumers) from the US Bureau of Labor Statistics. The suffix "_adj" indicates that a variable has been adjusted for inflation to 1997 US dollars.

| Variable | Definition | Source |
|---|---|---|
| | Litigation Variables: | |
| status | Litigation Status: the primary dependent variable; a dummy variable equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. (Huang et al., 2019). | Stanford University Securities Class Action Clearinghouse (SCAC) |
| days_w | Litigation Duration: a dependent variable; the number of days elapsing before a lawsuit resolves. Next, we winsorize the calculated Litigation Duration at the 1% and 99% percentile levels to create days_w. | SCAC |
| repeatoff | Repeat Offender: a dummy variable equal to one if the firm has faced similar shareholder litigation previously in the sample time period; or equal to zero otherwise. | SCAC |
| | Corporate Governance Variables: | |
| anly | Analyst Coverage, for a given firm, is proxied-for by the number of analysts who have at the time issued an Earnings Per Share estimate for the firm's upcoming fiscal quarter. | I/B/E/S |
| bage | First, board member ages are calculated as the ages of every board member from every firm—as of the date of the firm's annual meeting. Then the average board member age is calculated amongst all the board members for each given firm in a given year—i.e., Board Age. (A modification of Xu et al., 2018.) | BoardEx |
| bagesd | Standard deviation of Board Age, for a given firm in a given year. (A modification of Xu et al., 2018.) | BoardEx |
| bcid | Board Certified Inside Directors, for a given firm's board, is the proportion of the total directors on the board—as of the date of firm's annual meeting—who are non-CEO insider directors also serving on outside boards i.e., "certified inside directors." (A modification of Masulis & Mobbs, 2011.) | BoardEx |
| bdfem | Board Female Ratio, for a given firm's board, is the proportion of the total directors on the board—as of the date of firm's annual meeting—who are female. | BoardEx |
| bdindep | Board Independence, for a given firm's board, is the proportion of the total directors on the board—as of the date of firm's annual meeting—who are independent directors. (Ferris & Pritchard, 2001). | BoardEx |
| blockn | Number of Blockholders—those investors also meeting the criteria of the Thomson 13f database i.e., those with $100 million or more in assets under management. (Pukthuanthong et al., 2017). | Thomson Reuters 13F |
| blocko | Institutional Blockholder Ownership: the proportion—each blockholders' of which is >5%—of the firm's outstanding shares that are owned by institutional blockholder investors—those investors also meeting the criteria of the Thomson | Thomson Reuters 13F |

| | | |
|---|---|---|
| | 13f database i.e., those with $100 million or more in assets under management. (Pukthuanthong et al., 2017). | |
| bnet | First, all the board member network sizes are calculated as ln (1 + network size) = the natural log of (1 + firm board member's network size—as of the date of firm's annual meeting). Then the average board network size is calculated amongst all the board members for each given firm in a given year. | BoardEx |
| lnbsize | Ln(BoardSize)—calculated as the natural log of the number of directors on a firm's board, as of the date of the firm's annual meeting. (Li et al., 2016). | BoardEx |
| ceoage | CEO Age: the age of the firm's CEO—or the average age of the Co-CEOs, if applicable, as of the date of the firm's annual meeting (Xu et al., 2018). | BoardEx |
| ceolder | CEO Older: calculated as the d-statistic, or the standardized mean difference = (ceoage – bage) / (stdevage) = the directional difference between the age of the CEO (or the average age of the Co-CEOs, if applicable) and the average board member age of the firm, scaled by the standard deviation of the ages of the board members, as of the date of the firm's annual meeting (Xu et al., 2018). | BoardEx |
| cfratio | CEO/CFO Female Ratio: for a given firm's board, is the proportion of the firm's CEO and CFO total—as of the date of firm's annual meeting—who are female. | BoardEx |
| concen | Concentration: the proportion of the firm's outstanding shares that are owned by the firm's single largest institutional investor. | Thomson Reuters 13F |
| concensq | Concentration Squared: the square of concen. | Thomson Reuters 13F |
| dual | Dual: is equal to one if, for a given firm—as of the date of the firm's annual meeting—the firm's CEO serves a dual role as both CEO and Chair of the firm's Board of Directors, and is equal to zero otherwise. | BoardEx |
| Executive Comp Variables created:<br><br>salary, bonus, ltip, and options | First, label the following variables from query results as follows:<br>From ExecuComp Query Results:<br>ESAL= Salary ($)<br>EBON= Bonus ($)<br>EOTHCOMP= All Other Compensation ($)<br>ERSTKGRNT= Restricted Stock Grant ($)<br>OAFV= Grant Date Fair Value of Options Granted ($ - as valued by company)<br>OA= Value of Option Awards - FAS 123R ($)<br>OARPTVL= Options Granted ($ - As Reported by Company)<br>OABLKVL= Options Granted ($ - Compustat Black Scholes value)<br>ELTIP= LTIP Payouts<br>STKAFV= Grant Date Fair Value of Stock Awarded Under Plan-Based Awards ($)<br>STKA= Value of Stock Awards - FAS 123R ($)<br>TDC1= Total Compensation (Salary + Bonus + Other Annual + Restricted Stock Grants + LTIP Payouts + All Other + Value of Option Grants)<br><br>From BoardEx Query Results:<br>TOTEQWLTH= Total Value of Equity-Linked Wealth (in 000s) at the end of the year for the individual based on the closing stock price of the corresponding annual report date (Equals Estimated Value of Options Held plus Value of LTIP Held plus Value of Total Equity Held)<br><br>The data collected have no missing values of ESAL, EBON, or EOTHCOMP. | ExecuComp And BoardEx |

| | | |
|---|---|---|
| | Missing values of any of the other ten variables listed above are set to zero. Then, we set:<br><br>OPTVAL=MAX(OA,OAFV,OARPTVL,OABLVK), and<br>STKVAL=MAX(STKA,STKAFV).<br><br>Next, we adjust our variables for inflation—again using CPI, to 1997 US dollars. Then, on closer inspection of the resultant data, we note that when OPTVAL_ADJ and STKVAL_ADJ are effectively equal, the Value of the Stock Grants actually appears to be zero. However, when these values are not equal, the Value of the Stock Grants is accurately reflected by STKVAL_ADJ. Thus:<br><br>IF (STKVAL_ADJ-1)<=OPTVAL_ADJ<=(STKVAL_ADJ+1) THEN<br>TCNUMER=(ESAL_ADJ+EBON_ADJ+ERSTKGRNT_ADJ+EOTHCOMP_ADJ+ELTIP_ADJ);<br><br>ELSE<br>TCNUMER=(ESAL_ADJ+EBON_ADJ+ERSTKGRNT_ADJ+EOTHCOMP_ADJ+ELTIP_ADJ+STKVAL_ADJ);<br><br>TC=(TCNUMER)+(OPTVAL_ADJ);<br><br>IF ESAL_ADJ=0 THEN SALARY=0;<br>ELSE SALARY=ESAL_ADJ/((TCNUMER)+(OPTVAL_ADJ));<br><br>IF EBON_ADJ=0 THEN BONUS=0;<br>ELSE BONUS=EBON_ADJ/((TCNUMER)+(OPTVAL_ADJ));<br><br>IF ELTIP_ADJ=0 THEN LTIP=0;<br>ELSE LTIP=ELTIP_ADJ/((TCNUMER)+(OPTVAL_ADJ));<br><br>IF OPTVAL_ADJ=0 THEN OPTIONS=0;<br>ELSE OPTIONS=OPTVAL_ADJ/((TCNUMER)+(OPTVAL_ADJ));<br><br>Thus, our Executive Compensation variables SALARY, BONUS, LTIP, and OPTIONS are created—each a ratio of Total Compensation (TC)—as well as our variable Total Equity-Linked Wealth (TOTEQWLTH). | |
| insto | Institutional Ownership: the proportion of the firm's outstanding shares that are owned by institutional investors—these investors meeting the criteria of the Thomson 13f database i.e., those with $100 million or more in assets under management. (Ferris & Pritchard, 2001 and Pukthuanthong et al., 2017). | Thomson Reuters 13F |
| lnbage | Natural log of Board Age. | BoardEx |
| lnceoage | Natural log of CEO Age (Li et al., 2016). | BoardEx |
| sox | Sarbanes-Oxley: a dummy variable equal to one if the litigation's filing date is on or after July 30, 2002—the date that the Sarbanes-Oxley Act US federal law was enacted—or zero otherwise, www.congress.gov (Li et al., 2016). | Congress.gov |
| top5concen | Top 5 Concentration: the proportion of the firm's outstanding shares that are owned by the firm's 5 largest institutional investors. | Thomson Reuters 13F |

| | | |
|---|---|---|
| | Campaign Finance Variables: | |
| cu | Citizens United: a dummy variable equal to one if the litigation's filing date is on or after January 21, 2010—the date that the *Citizens United v. FEC* US Supreme Court campaign finance case was decided in favor of Citizens United—or zero otherwise. | US Supreme Court |
| durld | Calculated as the natural log of (0.000001 + During-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | US Federal Election Commission (FEC) |
| dmo | Actual During-Litigation Donations—defined as made between the lawsuit filing date and the date the lawsuit is resolved—either dismissed or settled, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| firmdon | Firm is a Donor: a dummy variable equal to one if a firm donates to a US Presidential, Senate, or House Candidate—or zero otherwise. | FEC |
| preld | Calculated as the natural log of (0.000001 + Pre-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| premo | Actual Pre-Litigation Donations—defined as political contributions made in the 365 calendar days before the firm is sued, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| preordur | Calculated as the natural log of (0.000001 + Pre- or During- Lit Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| pdmo | Actual Pre- or During- Lit Donations—defined as the sum of the Actual Pre-Litigation Donations and the Actual During-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| postld | Calculated as the natural log of (0.000001 + Post-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| postmo | Actual Post-Litigation Donations—defined as any donations made in the 365 calendar days after the date the lawsuit is resolved—either dismissed or settled, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |
| totld | Calculated as the natural log of (0.000001 + Total Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates). | FEC |
| tmo | Actual Total Donations—defined as the sum of Actual Pre-Litigation Donations, Actual During-Litigation Donations, and Actual Post-Litigation Donations, in millions of US dollars, from firms to US Presidential, Senate, or House Candidates. (This variable was used in robustness tests only and was not reported.) | FEC |

| | | |
|---|---|---|
| | Political Ideology Variables: | |
| cong | US Congress—composite variable: an average of a) the proportion of the US Senate that caucuses with the Republicans in the filing year, and b) the proportion of the US House of Representatives that caucuses with the Republicans in the filing year. | US Senate History, US House History |
| jdg | US District Court Judges: a binomial coefficient representing the probability that at least two US District Court Judges out of the three-judge panel assigned to a particular lawsuit being tried in a particular state of jurisdiction in a particular filing year will have been appointed by Republican US President, out of the total sitting US District Court Judges in the filing year and having jurisdiction in the state in which the litigation is being tried. This probability is calculated as [C(gop,3) + C(gop,2) * C(tot−gop,1)] / C(tot,3), where C(n,r) is a binomial coefficient indicating the number of possible combinations of $r$ objects from a set of $n$ distinct objects, gop = the number of Republican-appointed judges in the particular district court, and tot = the total number of judges in the particular district court. In this calculation, we modify the methodology of (Huang et al., 2019). | US Federal Judicial Center |
| presid | US President: a dummy variable equal to one if the President is a Republican in the given filing year, or zero otherwise. | FEC |
| sc | Supreme Court: the proportion of the US Supreme Court in the filing year who are widely considered to be conservative justices. Note that these are not necessarily the same as those who were appointed by Republican Presidents. For example, John Paul Stevens and David Souter were both appointed by Republican Presidents but are widely considered to be liberal justices because of their rulings. | The US Supreme Court Justices Database |
| scshock | Supreme Court Shock: a variable equal to one for dates in the six-month period beginning the day there is a sudden tilt toward conservatism of the proportion of justices on the US Supreme Court—an increase in SC of at least 5% of the total; or equal to negative one for dates in the six-month period beginning the day there is a sudden tilt toward liberalism of the proportion of justices on the US Supreme Court—a decrease in SC of at least 5% of the total; or equal to zero otherwise. (This variable was used in robustness tests only and was not reported.) | The US Supreme Court Justices Database |
| | State Characteristics: | |
| battle | Battleground State: a dummy variable equal to one if the difference in popular vote percentage in the state of headquarters was less than 5% in the most recent US Presidential election as of the time of the filing year, or zero otherwise. (This variable was used in robustness tests only and was not reported.) | FEC |
| convicns_w | Convictions: calculated as the average number of Corruption-related federal Convictions per million population in a given state of firm headquarters calculated over the period 1990 through 2011. We follow the methodology of Dass et al. (2016), except that we then right-winsorize the Convictions variable at the 99% percentile level only—because of its far-outlying Washington DC observations. | US Dept of Justice (DOJ) Public Integrity Section |
| credit | State Credit Risk Rating: calculated based on a particular year's US state credit rating provided by S&P Global, for the years 1996-2019, as of the filing year, for the litigation state. S&P Global ratings are converted to numbers as follows: "AAA": 1, "AA+": 2, "AA": 3, "AA-": 4, "A+": 5, "A": 6, "A-": 7, "BBB+": 8, "BBB": 9, "BBB-": 10, "BB+": 11, "BB": 12, "BB-": 13, "B+": 14, "B": 15, "B-": 16, "CCC+": 17, "CCC": 18, "CCC-": 19, "CC": 20, "C": 21, "D": 22. | S&P Global |

| | | |
|---|---|---|
| duopoly | Duopoly Power of the Democratic and Republican parties is proxied-for on a state-level using a calculation analogous to a "partial" Herfindahl–Hirschman Index (HHI) calculation. The HHI is normally a sum of all the market share squares of all the competing firms in a given industry (i.e., business data). However, in this duopoly power calculation, we instead sum the vote share squares (i.e., electoral data) of only the Democratic and Republican US Presidential candidates in the elections from 1996 through 2020 in all fifty states as well as Washington, DC. | FEC |
| gdpgr | State GDP Growth: the percentage change in GDP, as of the filing year, from the prior year, for the state of headquarters, for the years 1996-2019. (Bradley et al., 2016). | US Bureau of Economic Analysis |
| home | Home State: a dummy variable equal to one if the US state in which the litigation is occurring is the same as the US state in which the firm is headquartered (i.e., the firm's "home" state), or zero otherwise. | SCAC and Compustat |
| pai | Political Alignment Index: calculated as 0.25*S + 0.25*C + 0.25*G + 0.25*[0.5*ss + 0.5*sr],<br>where S= US Senators, C= US Representatives, G=Governors, ss=State Senators, and sr=State Representatives. We follow the methodology of Kim, Pantzalis, and Park (2012). PAI is a state-level measure of the political alignment of sitting politicians at various levels with the sitting US President. For a particular state, S is the fraction of the state's two US Senators that belong to the President's party, C is the percentage of US Representatives from the President's party, G is a dummy variable equal to one if the state's Governor is from the President's party (and zero otherwise), and ss and sr are dummy variables equal to one if the majority of the State Senators—or State Representatives, respectively—belong to the President's party (or zero otherwise). | US Senate History, US House History, State Records |
| red | Red measures the partisan political structure of a state. It is a dummy variable equal to one if the Republican candidate wins more of the popular vote than the Democratic candidate in the state of headquarters in the most recent US Presidential election as of the time of the filing year; or equal to zero otherwise. (A modification of Huang et al., 2019). | FEC |
| red5 | Red5: a categorical variable equal to two if the Republican candidate surpassed the Democratic candidate by more than 5% of the popular vote in the state of headquarters in the most recent US Presidential election as of the time of the filing year; or equal to one if the Democrat led by more than 5%; or equal to zero otherwise (i.e., a Battleground State). (This variable was used in robustness tests only and was not reported.) | FEC |
| redpct | Redpct: a continuous variable equal to the margin of victory, in percentage points, that the Republican candidate won ahead in the popular vote over the Democratic candidate in the state of headquarters in the most recent US Presidential election as of the time of the filing year. This is a negative number if the Democrat led. (This variable was used in robustness tests only and was not reported.) | FEC |
| uer | State Unemployment Rate: the unemployment rate in the state of headquarters as of the end of the year prior to the filing year. (Bradley et al., 2016 and Huang et al., 2019). | US Bureau of Labor Statistics |

| | | |
|---|---|---|
| | Firm Characteristics: | |
| altmanz | Altman Z Score of the firm, calculated as: (1.2)*(wcap_adj/at_adj) + (1.4)*(re_adj/at_adj) + (3.3)*(ebit_adj/at_adj) + (0.6)*(mkvalt_adj/lt_adj) + (revt_adj/at_adj)<br>where wcap_adj = Working Capital (Balance Sheet), at_adj = Total Assets, re_adj = Retained Earnings, ebit_adj = Earnings Before Interest and Taxes, lt_adj = Total Liabilities, and revt_adj = Total Revenues. (Li et al., 2016). (This variable was used in robustness tests only and was not reported.) | Compustat |
| distrsk | Distress Risk: a dummy variable equal to one if a firm's altmanz < 1.81; or equal to 0 if the altmanz >= 1.81. Altman advocates that 1.81 be the critical value, below which firms fall into a "distress zone." (Altman, 2013). | Compustat |
| audit | Auditor Quality: a dummy variable equal to one if the defendant firm is being audited by an auditing firm that either is or eventually becomes one of the Big 4 auditing firms; or equal to zero otherwise. (Li et al., 2016). | Compustat |
| bm_w | BM, Book-to-Market Ratio = book equity / market equity = (seq_adj+txdb_adj+itcb_adj-pstkrv_adj) / (mkvalt_adj),<br>where seq_adj = Total Stockholders' Equity; txdb = Deferred Taxes (Balance Sheet); itcb_adj = Investment Tax Credit (Balance Sheet); pstkrv_adj = Preferred Stock Redemption Value; and mkvalt_adj = Total Market Value of Equity. Variables here have each been adjusted in order to minimize missing values and also adjusted for inflation. Next, we winsorize the calculated Book-to-Market Ratio at the 1% and 99% percentile levels to create bm_w. (A modification of Davis et al., 2000 and Cooper et al., 2010). | Compustat |
| dac | Discretionary Accruals, calculated using the Modified Jones method (Dechow et al., 1995). Before calculating DAC, we create the variable Accruals (ACC): ACC=(ib_adj-oancf_adj)/(MAX(0.000001,at_adj)), where<br>ib_adj = Income Before Extraordinary Items, and oancf = Operating Activities' Net Cash Flow.<br><br>To prevent errors from division by zero in missing observations, we assume in the ACC calculation above that all firms have Total Assets of at least 0.000001—i.e., a minimum of $1, since Compustat reports Total Assets in units of millions of US dollars.<br><br>Next, for a given firm, we create the variables AccRegIndep1, AccRegIndep2, and AccRegIndep3:<br><br>AccRegIndep1 = Inverse Lag Assets = 1 / (at_adj in year t-1)<br><br>AccRegIndep2<br>= (Change in Revenues) - (Change in Receivables) * AccRegIndep1<br>where Change in Revenues = (revt_adj in year t) - (revt_adj in year t-1),<br>Change in Receivables = (rect_adj in year t) - (rect_adj in year t-1),<br>and rect_adj = Total Receivables.<br><br>AccRegIndep3 = ppegt_adj*AccRegIndep1,<br>where ppegt_adj = Total (Gross) Property, Plant and Equipment.<br><br>We then winsorize ACC at the 1% and 99% percentile levels to create the variable ACC_W. We then set ACC_W as the dependent variable in an OLS regression with AccRegIndep1, AccRegIndep2, and AccRegIndep3 as the only independent | Compustat |

| | | |
|---|---|---|
| | variables. The predicted residual of this regression is then the variable DAC. | |
| debtfin_w | Debt Financing: debtfin = (dltis_adj[t]-dltr_adj [t]+dlcch_adj [t]+fiao_adj [t]) / (at_adj[t-1]),<br><br>Where dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>Next, we winsorize at the 1% and 99% percentile levels. (A modification of Ayash et al., 2021 and Huang et al., 2019— taking note of the two separate Debt and Equity variables used in (Kim & Skinner (2012) ).<br><br>The original, single financing variable of Ayash et al., 2021 and Huang et al., 2019 was:<br><br>financing = (sstk_adj[t]-prstkc_adj [t]-dv_adj [t]+dltis_adj[t]-dltr_adj [t]+dlcch_adj [t]+fiao_adj [t]) / (at_adj[t-1]).<br><br>Where sstk_adj = Sale of Common and Preferred Stock; prstkc_adj Purchase of Common and Preferred Stock; dv_adj = Cash Dividends; dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>We have simply split this into two variables—the debt and equity components. | Compustat |
| debtgr_w | Debt Growth—calculated as: ((dltt_adj[t]+dlc_adj[t])-(dltt_adj[t-1]+dlc_adj[t-1])) / (dltt_adj[t-1]+dlc_adj[t-1]),<br><br>where dltt_adj = Total Long-Term Debt, dlc_adj = Total Debt in Current Liabilities, t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that. Next, we winsorize at the 1% and 99% percentile levels. (This variable was used in robustness tests only and was not reported.) | Compustat |
| eqfin_w | Equity Financing: eqfin = (sstk_adj[t]-prstkc_adj [t]-dv_adj [t]) / (at_adj[t-1]),<br><br>Where sstk_adj = Sale of Common and Preferred Stock; prstkc_adj Purchase of Common and Preferred Stock; dv_adj = Cash Dividends; dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>Next, we winsorize at the 1% and 99% percentile levels. (A modification of Ayash et al., 2021 and Huang et al., 2019—taking note of the two separate Debt and Equity variables used in (Kim & Skinner (2012) ).<br><br>The original, single financing variable of Ayash et al., 2021 and Huang et al., 2019 was:<br><br>financing = (sstk_adj[t]-prstkc_adj [t]-dv_adj [t]+dltis_adj[t]-dltr_adj [t]+dlcch_adj [t]+fiao_adj [t]) / (at_adj[t-1]). | Compustat |

| | | |
|---|---|---|
| | Where sstk_adj = Sale of Common and Preferred Stock; prstkc_adj Purchase of Common and Preferred Stock; dv_adj = Cash Dividends; dltis_adj = Issuance of Long-Term Debt; dltr_adj = Long-Term Debt Reduction; dlcch_adj = Current Debt Changes; fiao_adj = Other Financing Activities; and at_adj = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that.<br><br>We have simply split this into two variables—the debt and equity components. | |
| even | Even: a dummy variable equal to one in evenly numbered Litigation Years, and equal to zero in odd Litigation Years. | SCAC |
| fcf_w | Free Cash Flow, FCF = (oibdp_adj[t]-txt_adj[t]-tie_adj[t]-(txdb_adj[t]-txdb_adj[t-1])-dvp_adj[t]-dvc_adj[t]) / (mkvalt_adj[t-1]),<br><br>Where oibdp = Operating Income Before Depreciation; txt = Total Income Taxes; tie = Total Interest Expense; txdb = Deferred Taxes (Balance Sheet); dvp = Preferred Dividends; dvc = Common Dividends; mkvalt = Total Market Value of Equity; t=the most recent fiscal year before Litigation Filing Date; and t-1=the fiscal year trailing that.<br><br>Next, we winsorize the calculated Free Cash Flow at the 1% and 99% percentile levels to create fcf_w. Note that our calculation follows the original methodology of Lehn & Poulsen (1989), which scales by total market value of equity—rather than the methodology of Ferris & Pritchard (2001), which instead scales by total assets. | Compustat |
| fps | FPS: a dummy variable for firms belonging to "at-risk" industries (biotechnology, computers, electronics, and retail). These industries were first identified as facing higher litigation risk in a seminal paper by authors with these initials—Francis, Philbrick, and Schipper (Francis et al., 1994). An FPS variable can be found in more recent papers such as Kim & Skinner (2012), and Huang et al. (2019). | FPS (1994) |
| hhi | Herfindahl–Hirschman Index = sum of all the market share squares of all the competing firms in a given industry (i.e., business data). (Cooper et al., 2010). | Compustat |
| lev_w | Leverage: the Debt-to-Assets ratio of the firm, calculated as: (dltt_adj+dlc_adj) / (seq_adj+dltt_adj+dlc_adj),<br>where dltt_adj = Total Long-Term Debt, dlc_adj = Total Debt in Current Liabilities, and seq_adj = Total Stockholders' Equity. Next, we winsorize at the 1% and 99% percentile levels. (A modification of Ferris & Pritchard, 2001 and Bradley et al., 2016). | Compustat |
| lnbseg | The natural log of the number of Business Segments of the firm (as in Bradley et al., 2016). | Compustat |
| lngseg | The natural log of the number of Geographic Segments of the firm (as in Bradley et al., 2016). | Compustat |
| lnsales | Ln(Sales), calculated as ln(revt_adj) = the natural log of (the firm's Total Revenue). The variable revt is adjusted beforehand in order to mitigate the risk of division by zero due to missing observations. We assume that all firms have Total Revenue of at least 0.000001—i.e., a minimum of $1, since Compustat reports Total Revenue in units of millions of US dollars. (Cooper et al., 2010) | Compustat |
| lnsize_w | LnSize, calculated as ln(at_adj) = the natural log of (the firm's Total Assets). The | Compustat |

| | | |
|---|---|---|
| | variable AT is adjusted beforehand in order to mitigate the risk of division by zero due to missing and zero observations. We assume that all firms have Total Assets of at least 0.000001—i.e., a minimum of $1, since Compustat reports Total Assets in units of millions of US dollars. Next, we winsorize the calculated LnSize at the 1% and 99% percentile levels to create lnsize_w. (Li et al., 2016). | |
| lnsize2_w | As a robustness check, we calculate an alternative measure of Ln Firm Size called LnSize2, calculated as ln(mkvalt_adj)<br>= the natural log of (the firm's Market Capitalization).<br>The variable mkvalt is adjusted beforehand in order to mitigate the risk of division by zero due to missing and zero observations. We assume that every stock would have at least 0.001 shares outstanding and that all common shares would trade for at least $0.01, so in Excel we set mkvalt = IF(mkvalt=0,((MAX(0.001,csho)) *(MAX(0.01,prcc_f_adj))),mkvalt)<br>where mkvalt = Total Market Value of Equity,<br>csho = Number of Common Shares Outstanding, and<br>prcc_f = Closing Price (Annual, Fiscal)<br>Next, we adjust mkvalt for inflation. Next, we winsorize the calculated LnSize2 at the 1% and 99% percentile levels to create lnsize2_w. (Ferris & Pritchard, 2001). | Compustat |
| mktretf | Market Return (Fiscal Year): the annualized past year of monthly returns, as of the end of the fiscal year immediately prior to the litigation filing date, of the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by CRSP. (A modification of Huang et al., 2019). (This variable was used in robustness tests only and was not reported.) | CRSP |
| mktretl | Market Return: the annualized past year of monthly returns, as of the end of the last complete calendar month immediately prior to the litigation filing date, of the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by CRSP. (A modification of Huang et al., 2019). (This variable was used in robustness tests only and was not reported.) | CRSP |
| mktshr | Market Share: the percentage of an entire industry's annual revenues that are produced by a single given firm in that industry. (Cooper et al., 2010). | Compustat |
| mss | Market Share Squared: the square of a firm's Market Share. (Cooper et al., 2010). | Compustat |
| newvar | Newvar: a categorical variable by which we can consider industry fixed effects in regressions, after having categorized firms using their Fama-French 48-Industry Classification, based on their four-digit SIC codes. | Fama-French |
| nyse | New York Stock Exchange: a dummy variable equal to one if the firm is listed on the NYSE or the American Stock Exchange; or zero if the firm trades on the NASDAQ, the Over-The-Counter market, or the Pink Sheets. (A modification of Kim & Skinner, 2012). | Compustat |
| ppe_w | Property, Plant, and Equipment Expenditure Intensity, calculated as ppent_adj/at_adj, where ppent_adj = Total (Net) Property, Plant and Equipment. Next, we winsorize at the 1% and 99% percentile levels. (Li et al., 2016). | Compustat |
| regul | Regulated Industry: a dummy variable equal to one if the firm has an SIC code categorized among the utilities or financial industries, or zero otherwise. (Cooper et al., 2010). | Compustat |
| retexf | Excess Return—Fiscal Year: the firm's annualized past year of monthly stock returns, as of the end of the fiscal year immediately prior to the litigation filing date, | CRSP |

| | | |
|---|---|---|
| | excess relative to the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by the Center for Research in Security Prices (CRSP). (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012)). (This variable was used in robustness tests only and was not reported.) | |
| retvolatf | Return Volatility—Fiscal Year: the Standard Deviation of the firm's past year of raw monthly stock returns as of the end of the fiscal year immediately prior to the litigation filing date. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). (This variable was used in robustness tests only and was not reported.) | CRSP |
| retskewf | Return Skewness—Fiscal Year: estimate of the Skewness, or third moment, of the firm's past year of raw monthly stock returns as of the end of the fiscal year immediately prior to the litigation filing date. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). (This variable was used in robustness tests only and was not reported.) | CRSP |
| retexl_w | Excess Return: the firm's annualized past year of monthly stock returns, as of the end of the last complete calendar month immediately prior to the litigation filing date, excess relative to the CRSP NYSE / NYSE MKT / NASDAQ / Arca Value-Weighted Market Index, as reported by CRSP. Next, we winsorize the calculated Excess Return at the 1% and 99% percentile levels to create retexl_w. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). | CRSP |
| retvolatl_w | Return Volatility—the Standard Deviation of the firm's past year of raw monthly stock returns as of the end of the last complete calendar month immediately prior to the litigation filing date. Next, we winsorize the calculated Return Volatility at the 1% and 99% percentile levels to create retvolatl_w. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). | CRSP |
| retskewl_w | Return Skewness—estimate of the Skewness, or third moment, of the firm's past year of raw monthly stock returns as of the end of the last complete calendar month immediately prior to the litigation filing date. Next, we winsorize the calculated Return Skewness at the 1% and 99% percentile levels to create retskewl_w. (A modification of Ferris & Pritchard (2001) and Kim & Skinner (2012) ). | CRSP |
| rnd_w | Research and Development Expenditure Intensity, calculated as xrd_adj/at_adj, where xrd_adj = Research and Development Expense. Next, we winsorize at the 1% and 99% percentile levels. (Li et al., 2016). | Compustat |
| roa_w | Return on Assets, calculated as ni_adj[t]/at_adj[t-1]. Where ni_adj = Net Income; at_adj[t-1] = Total Assets (end-of-year); t=the most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that. Next, we winsorize the calculated Return on Assets at the 1% and 99% percentile levels to create roa_w. (A modification of Kim & Skinner (2012) ). | Compustat |
| salesgr_w | Sales Growth, calculated as ((revt_adj in year t)-(revt_adj in year t-1)) / (revt_adj in year t-1), where revt_adj = Total Revenue of a firm, t=most recent fiscal year before Litigation Filing Date, and t-1=the fiscal year trailing that. Next, we winsorize the calculated Sales Growth at the 1% and 99% percentile levels to create salesgrth_w. (A modification of Kim & Skinner (2012). | Compustat |
| turnovrf | Share Turnover—Fiscal Year: calculated as (the sum of the monthly share volumes in the most recent six calendar months as of end of the fiscal year immediately prior to the litigation filing date)/(the outstanding shares as of that fiscal year end date). (This variable was used in robustness tests only and was not reported.) (Ferris & | CRSP |

| | | |
|---|---|---|
| | Pritchard, 2001). | |
| turnovrl_w | Share Turnover: calculated as (the sum of the monthly share volumes in the most recent six calendar months as of end of the last complete calendar month immediately prior to the litigation filing date)/(the outstanding shares as of that last complete calendar month end date). Next, we winsorize the calculated Share Turnover at the 1% and 99% percentile levels to create turnovrl_w. (Ferris & Pritchard, 2001). | CRSP |
| Unrate | Unionization Rate: the average annual percentage of industry employees belonging to a labor union, from Hirsch and Macpherson (2021), www.unionstats.com (as in Cooper et al., 2010). | Unionstats.com |

**Table 15: Board and Executive Characteristics – Including CU**

This table reports the results of logistic regressions considering the impacts of Board and Executive Characteristics. This does not include Year fixed effects. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status | (10) Lit Status |
|---|---|---|---|---|---|---|---|---|---|---|
| ln(Bd Age) | 13.844** | 14.646** | | | | | | | | |
| | (0.025) | (0.018) | | | | | | | | |
| Bd Netwk. | 6.467* | 7.051** | | | | | | | | |
| | (0.067) | (0.046) | | | | | | | | |
| ln(Bd Age) # Bd | -1.542* | -1.686* | | | | | | | | |
| Netwk. | (0.075) | (0.052) | | | | | | | | |
| Bd Age S.D. | -0.066** | -0.069** | | | | | | | | |
| | (0.045) | (0.039) | | | | | | | | |
| ln(CEO Age) | -0.670 | -0.643 | | | | | | | | |
| | (0.667) | (0.684) | | | | | | | | |
| Convictions | -0.011 | -0.001 | -0.175* | -0.193* | -0.180* | -0.189* | 0.213** | 0.230** | -0.099 | -0.074 |
| | (0.885) | (0.994) | (0.087) | (0.058) | (0.075) | (0.062) | (0.023) | (0.015) | (0.337) | (0.461) |
| CEO Older | 0.112 | 0.086 | | | | | | | | |
| | (0.615) | (0.702) | | | | | | | | |
| CEO-Chair=1 | -0.246* | -0.251* | | | | | | | | |
| | (0.086) | (0.075) | | | | | | | | |
| CEO/CFO Fem. | 0.314 | 0.303 | | | | | | | | |
| | (0.447) | (0.462) | | | | | | | | |
| SOX=1 | 0.012 | 0.078 | 0.064 | 0.156 | 0.058 | 0.143 | 1.470*** | 1.746*** | -0.142 | <0.001 |
| | (0.965) | (0.777) | (0.819) | (0.568) | (0.836) | (0.604) | (0.003) | (<0.001) | (0.725) | (1.000) |
| Pre-LD | 0.043** | | 0.230*** | | 0.037* | | 0.090*** | | 0.110*** | |
| | (0.037) | | (0.005) | | (0.060) | | (0.002) | | (0.003) | |
| Dur-LD | -0.104*** | | -0.092*** | | -0.094*** | | -0.117*** | | -0.117*** | |
| | (<0.001) | | (<0.001) | | (<0.001) | | (<0.001) | | (<0.001) | |
| Post-LD | 0.055*** | | 0.061*** | | 0.062*** | | 0.074*** | | 0.053* | |
| | (0.010) | | (0.003) | | (0.002) | | (<0.001) | | (0.053) | |
| CU=1 | 1.336*** | 1.780*** | 1.847*** | 2.400*** | 2.249*** | 2.321*** | 1.715*** | 2.702*** | 1.584*** | 1.451*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.002) | (0.004) |
| Home=1 | 0.654*** | 0.625*** | 0.669*** | 0.597** | 0.622*** | 0.597** | 1.390*** | 1.409*** | -0.081 | -0.124 |
| | (0.008) | (0.010) | (0.006) | (0.010) | (0.010) | (0.010) | (0.001) | (0.001) | (0.715) | (0.563) |
| CU=1 # Home=1 | -0.928*** | -0.930*** | -1.079*** | -1.033*** | -0.978*** | -1.015*** | -0.860*** | -0.969*** | | |
| | (0.003) | (0.003) | (<0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (<0.001) | | |
| Judges | 0.170 | 0.688 | 0.034 | 0.719 | 0.631 | 0.694 | 1.043*** | 0.987*** | 1.606** | 1.427** |
| | (0.603) | (0.127) | (0.916) | (0.102) | (0.157) | (0.117) | (0.005) | (0.007) | (0.012) | (0.024) |
| Presid.=1 | 0.571*** | 0.468*** | 0.493*** | 0.424** | 0.507*** | 0.431** | 0.746*** | 0.695*** | 0.363 | 0.285 |
| | (0.002) | (0.009) | (0.007) | (0.017) | (0.005) | (0.015) | (<0.001) | (<0.001) | (0.156) | (0.250) |
| Congress | 0.231 | -0.084 | 0.811 | 0.253 | 0.239 | 0.180 | -0.869 | -1.053 | 2.372 | 1.689 |
| | (0.921) | (0.971) | (0.719) | (0.909) | (0.915) | (0.935) | (0.680) | (0.609) | (0.438) | (0.568) |
| Supreme Ct. | 6.059 | 5.899 | 5.520 | 5.276 | 5.324 | 5.164 | 2.732 | 1.742 | 12.315** | 10.732** |
| | (0.107) | (0.107) | (0.127) | (0.137) | (0.142) | (0.145) | (0.401) | (0.583) | (0.024) | (0.040) |
| Duopoly | -1.502 | -2.156 | -1.866 | -2.285 | -2.304 | -2.548 | -5.915** | -5.697** | -1.670 | -3.459 |
| | (0.556) | (0.396) | (0.458) | (0.355) | (0.355) | (0.300) | (0.010) | (0.019) | (0.646) | (0.316) |
| Rep. Offender=1 | 0.110 | 0.113 | 0.194 | 0.201 | 0.193 | 0.204 | 0.184 | 0.195 | 0.204 | 0.157 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (0.472) | (0.456) | (0.187) | (0.167) | (0.189) | (0.158) | (0.189) | (0.152) | (0.321) | (0.433) |
| Excess Return | 0.158 | 0.175 | 0.160 | 0.185 | 0.163 | 0.182 | 0.429*** | 0.443*** | 0.294 | 0.274 |
| | (0.214) | (0.171) | (0.186) | (0.132) | (0.182) | (0.133) | (<0.001) | (<0.001) | (0.239) | (0.263) |
| Return Vol. | -0.784 | -1.138 | -1.013 | -1.320* | -1.143 | -1.391* | -1.586** | -1.741*** | -1.841 | -2.380* |
| | (0.327) | (0.149) | (0.193) | (0.087) | (0.140) | (0.068) | (0.010) | (0.004) | (0.208) | (0.084) |
| GDP Growth | -0.061** | -0.059** | -0.076*** | -0.077*** | -0.073** | -0.070** | -0.075*** | -0.071*** | -0.092** | -0.080* |
| | (0.044) | (0.048) | (0.009) | (0.007) | (0.012) | (0.015) | (0.004) | (0.006) | (0.048) | (0.074) |
| State Credit Risk | -0.061 | -0.054 | -0.084** | -0.071* | -0.074** | -0.072* | -0.089*** | -0.092*** | -0.023 | -0.036 |
| | (0.108) | (0.165) | (0.023) | (0.058) | (0.047) | (0.052) | (0.009) | (0.007) | (0.661) | (0.492) |
| Auditor Quality=1 | 0.284 | 0.321 | 0.418** | 0.525*** | 0.435** | 0.492*** | 0.466*** | 0.477*** | 0.216 | 0.271 |
| | (0.156) | (0.111) | (0.026) | (0.005) | (0.019) | (0.009) | (0.006) | (0.005) | (0.524) | (0.414) |
| R&D | 2.569*** | 2.456*** | 2.007** | 1.864** | 1.981** | 2.003*** | 1.630** | 1.737** | 4.946*** | 4.802*** |
| | (0.002) | (0.003) | (0.010) | (0.016) | (0.010) | (0.009) | (0.022) | (0.013) | (0.006) | (0.006) |
| ROA | 0.540** | 0.518** | 0.338 | 0.312 | 0.356 | 0.347 | 0.336 | 0.338 | 0.939 | 0.864 |
| | (0.024) | (0.029) | (0.121) | (0.146) | (0.106) | (0.109) | (0.187) | (0.163) | (0.106) | (0.102) |
| Firm-Don=1 | | -0.407** | | 1.239* | | -0.302** | | -0.372*** | | -0.513** |
| | | (0.010) | | (0.057) | | (0.044) | | (0.004) | | (0.032) |
| CU=1 # Judges | | -1.043* | | -1.312** | -1.107* | -1.241** | -1.079** | -1.151** | -1.999** | -1.868** |
| | | (0.074) | | (0.020) | (0.051) | (0.028) | (0.029) | (0.018) | (0.014) | (0.022) |
| Bd Indep. | | | -2.182* | 1.897*** | | | | | | |
| | | | (0.073) | (0.009) | | | | | | |
| Bd Indep. # Pre-LD | | | -0.259** | | | | | | | |
| | | | (0.013) | | | | | | | |
| Busy Dir. | | | -0.130*** | -0.142*** | -0.132*** | -0.141*** | | | | |
| | | | (0.002) | (0.001) | (0.001) | (0.001) | | | | |
| Busy Dir. # Convictions | | | 0.032** | 0.037*** | 0.035*** | 0.038*** | | | | |
| | | | (0.013) | (0.006) | (0.007) | (0.004) | | | | |
| Bd Fem. | | | -0.309 | -0.398 | -0.306 | -0.245 | | | | |
| | | | (0.638) | (0.537) | (0.640) | (0.703) | | | | |
| ln(Bd Size) | | | 0.135 | 0.079 | 0.185 | 0.141 | | | | |
| | | | (0.582) | (0.741) | (0.437) | (0.548) | | | | |
| Firm-Don=1 # Bd Indep. | | | | -2.101** | | | | | | |
| | | | | (0.015) | | | | | | |
| Bd CID | | | | | -0.541 | -0.368 | | | | |
| | | | | | (0.229) | (0.410) | | | | |
| Analyst Covg. | | | | | | | 0.434** | 0.495*** | | |
| | | | | | | | (0.016) | (0.006) | | |
| SOX=1 # Analyst Covg. | | | | | | | -0.607*** | -0.662*** | | |
| | | | | | | | (0.002) | (0.001) | | |
| CU=1 # Pre-LD | | | | | | | -0.082** | | | |
| | | | | | | | (0.012) | | | |
| Home=1 # Convictions | | | | | | | -0.292** | -0.289** | | |
| | | | | | | | (0.012) | (0.013) | | |
| CEO Tenure | | | | | | | | | 0.011 | 0.012 |
| | | | | | | | | | (0.549) | (0.524) |
| CEO Salary | | | | | | | | | 0.428 | 0.450 |
| | | | | | | | | | (0.410) | (0.354) |
| CEO Bonus | | | | | | | | | 0.430 | -0.042 |
| | | | | | | | | | (0.559) | (0.955) |
| CEO LTIP | | | | | | | | | -2.209 | -2.535 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | (0.327) | (0.248) |
| CEO Options | | | | | | | | | -1.471* | 0.070 |
| | | | | | | | | | (0.066) | (0.854) |
| Pre-LD # CEO | | | | | | | | | -0.158** | |
| Options | | | | | | | | | (0.041) | |
| CEO Equity Wealth | | | | | | | | | <0.001 | <0.001 |
| | | | | | | | | | (0.330) | (0.461) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1133 | 1133 | 1219 | 1219 | 1219 | 1219 | 1868 | 1868 | 623 | 623 |
| Pseudo R-Squared | 0.1222 | 0.1094 | 0.1295 | 0.1171 | 0.1277 | 0.1129 | 0.2181 | 0.1967 | 0.1196 | 0.0979 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | 0.034 | 0.091 |

**Table 16: Board and Executive Characteristics – Including Year fixed effects**

This table reports the results of logistic regressions considering the impacts of Board and Executive Characteristics. The Citizens United variable is excluded. Year fixed effects are included. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| Lit Status | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| ln(Bd Age) | 14.979** | 15.527** | | | | | | | | |
| | (0.016) | (0.012) | | | | | | | | |
| Bd Netwk. | 7.390** | 7.839** | | | | | | | | |
| | (0.039) | (0.027) | | | | | | | | |
| ln(Bd Age) # Bd | -1.776** | -1.887** | | | | | | | | |
| Netwk. | (0.043) | (0.030) | | | | | | | | |
| Bd Age S.D. | -0.057* | -0.059* | | | | | | | | |
| | (0.083) | (0.076) | | | | | | | | |
| ln(CEO Age) | -0.277 | -0.175 | | | | | | | | |
| | (0.857) | (0.910) | | | | | | | | |
| Convictions | -0.012 | -0.010 | -0.168* | -0.182* | -0.173* | -0.186* | -0.001 | 0.017 | -0.079 | -0.045 |
| | (0.873) | (0.891) | (0.099) | (0.075) | (0.088) | (0.068) | (0.991) | (0.777) | (0.470) | (0.663) |
| CEO Older | 0.068 | 0.029 | | | | | | | | |
| | (0.757) | (0.896) | | | | | | | | |
| CEO-Chair=1 | -0.273* | -0.261* | | | | | | | | |
| | (0.060) | (0.067) | | | | | | | | |
| CEO/CFO Fem. | 0.204 | 0.223 | | | | | | | | |
| | (0.612) | (0.580) | | | | | | | | |
| SOX=1 | -1.016* | -0.893 | -0.656 | -0.542 | -0.700 | -0.590 | -0.456 | -0.269 | -1.352* | -0.937 |
| | (0.079) | (0.127) | (0.256) | (0.351) | (0.224) | (0.309) | (0.393) | (0.618) | (0.071) | (0.220) |
| Pre-LD | 0.040* | | 0.036* | | 0.037* | | 0.040** | | 0.110*** | |
| | (0.057) | | (0.075) | | (0.068) | | (0.037) | | (0.007) | |
| Dur-LD | -0.112*** | | -0.104*** | | -0.104*** | | -0.121*** | | -0.137*** | |
| | (<0.001) | | (<0.001) | | (<0.001) | | (<0.001) | | (<0.001) | |
| Post-LD | 0.062*** | | 0.068*** | | 0.069*** | | 0.094*** | | 0.074** | |
| | (0.004) | | (0.001) | | (0.001) | | (<0.001) | | (0.010) | |
| Judges | 0.173 | 0.104 | -0.029 | -0.074 | -0.010 | -0.054 | 1.473** | 1.144* | 0.832* | 1.829*** |
| | (0.629) | (0.772) | (0.933) | (0.834) | (0.978) | (0.877) | (0.014) | (0.059) | (0.083) | (0.008) |
| Home=1 | 0.073 | 0.023 | 0.006 | -0.047 | 0.005 | -0.047 | 0.695** | 0.533* | -0.179 | -0.167 |
| | (0.645) | (0.883) | (0.971) | (0.755) | (0.976) | (0.754) | (0.024) | (0.085) | (0.433) | (0.453) |
| Presid.=1 | -0.696 | -0.368 | -0.741 | -0.379 | -0.690 | -0.340 | 0.895 | 0.967 | -12.960*** | -12.994*** |
| | (0.507) | (0.741) | (0.424) | (0.699) | (0.465) | (0.733) | (0.193) | (0.174) | (<0.001) | (<0.001) |
| Congress | -46.770 | -28.383 | -21.992 | -7.770 | -22.503 | -9.910 | -66.411** | -58.689** | -2.485 | 1.765 |
| | (0.414) | (0.597) | (0.698) | (0.883) | (0.693) | (0.851) | (0.014) | (0.031) | (0.851) | (0.895) |
| Supreme Ct. | 4.040 | 3.350 | 3.520 | 3.202 | 3.489 | 3.161 | 0.735 | -0.045 | 15.160** | 13.827* |
| | (0.392) | (0.471) | (0.445) | (0.478) | (0.451) | (0.486) | (0.871) | (0.992) | (0.034) | (0.054) |
| Duopoly | -0.858 | -1.398 | -0.691 | -1.113 | -0.739 | -1.125 | -1.129 | -0.927 | -2.810 | -5.455 |
| | (0.764) | (0.628) | (0.796) | (0.681) | (0.783) | (0.679) | (0.679) | (0.748) | (0.587) | (0.286) |
| Rep. Offender=1 | 0.102 | 0.109 | 0.170 | 0.188 | 0.184 | 0.199 | 0.139 | 0.158 | 0.142 | 0.132 |
| | (0.505) | (0.469) | (0.251) | (0.196) | (0.216) | (0.173) | (0.331) | (0.256) | (0.503) | (0.524) |
| Excess Return | 0.141 | 0.154 | 0.149 | 0.164 | 0.149 | 0.164 | 0.383*** | 0.406*** | 0.321 | 0.321 |
| | (0.294) | (0.245) | (0.244) | (0.191) | (0.243) | (0.190) | (0.002) | (0.001) | (0.173) | (0.159) |
| Return Vol. | -0.694 | -1.015 | -1.020 | -1.280 | -1.085 | -1.335* | -1.234* | -1.417** | -2.535 | -2.759* |
| | (0.399) | (0.211) | (0.207) | (0.105) | (0.179) | (0.091) | (0.051) | (0.025) | (0.101) | (0.066) |
| GDP Growth | -0.027 | -0.030 | -0.037 | -0.036 | -0.035 | -0.035 | -0.070** | -0.066* | -0.039 | -0.065 |
| | (0.511) | (0.458) | (0.351) | (0.349) | (0.375) | (0.366) | (0.049) | (0.063) | (0.487) | (0.247) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| State Credit Risk | -0.061 | -0.062 | -0.084** | -0.083** | -0.084** | -0.083** | -0.122*** | -0.124*** | -0.031 | -0.036 |
| | (0.121) | (0.112) | (0.027) | (0.030) | (0.027) | (0.030) | (0.001) | (<0.001) | (0.567) | (0.519) |
| Auditor Quality=1 | 0.352* | 0.380* | 0.506*** | 0.548*** | 0.514*** | 0.559*** | 0.420** | 0.447*** | 0.303 | 0.310 |
| | (0.088) | (0.066) | (0.009) | (0.005) | (0.008) | (0.004) | (0.013) | (0.008) | (0.391) | (0.371) |
| R&D | 2.441*** | 2.441*** | 1.868** | 1.931** | 1.886** | 1.947** | 1.618** | 1.599** | 5.834*** | 5.179*** |
| | (0.004) | (0.004) | (0.020) | (0.015) | (0.019) | (0.014) | (0.019) | (0.017) | (0.003) | (0.005) |
| ROA | 0.571** | 0.553** | 0.358 | 0.345 | 0.360 | 0.349 | 0.357 | 0.357 | 1.057 | 0.882 |
| | (0.022) | (0.022) | (0.114) | (0.114) | (0.114) | (0.113) | (0.117) | (0.104) | (0.121) | (0.128) |
| Firm-Don=1 | | -0.425*** | | -0.315** | | -0.315** | | -0.294** | | -0.530** |
| | | (0.009) | | (0.041) | | (0.040) | | (0.024) | | (0.033) |
| Bd Indep. | | | 0.636 | 0.556 | | | | | | |
| | | | (0.185) | (0.244) | | | | | | |
| Busy Dir. | | | -0.124*** | -0.135*** | -0.127*** | -0.137*** | | | | |
| | | | (0.003) | (0.002) | (0.003) | (0.001) | | | | |
| Busy Dir. # Convictions | | | 0.031** | 0.035** | 0.032** | 0.036** | | | | |
| | | | (0.022) | (0.012) | (0.018) | (0.011) | | | | |
| Bd Fem. | | | -0.620 | -0.539 | -0.546 | -0.467 | | | | |
| | | | (0.349) | (0.403) | (0.407) | (0.466) | | | | |
| ln(Bd Size) | | | 0.074 | 0.045 | 0.156 | 0.112 | | | | |
| | | | (0.770) | (0.856) | (0.524) | (0.643) | | | | |
| Bd CID | | | | | -0.553 | -0.382 | | | | |
| | | | | | (0.239) | (0.406) | | | | |
| Analyst Covg. | | | | | | | -0.099 | -0.081 | | |
| | | | | | | | (0.286) | (0.360) | | |
| Home=1 # Judges | | | | | | | -1.617** | -1.335** | | |
| | | | | | | | (0.011) | (0.037) | | |
| CEO Tenure | | | | | | | | | 0.011 | 0.014 |
| | | | | | | | | | (0.603) | (0.498) |
| CEO Salary | | | | | | | | | 0.661 | 0.644 |
| | | | | | | | | | (0.256) | (0.232) |
| CEO Bonus | | | | | | | | | 0.583 | 0.009 |
| | | | | | | | | | (0.483) | (0.992) |
| CEO LTIP | | | | | | | | | -1.809 | -2.013 |
| | | | | | | | | | (0.449) | (0.381) |
| CEO Options | | | | | | | | | -1.433* | 0.202 |
| | | | | | | | | | (0.079) | (0.624) |
| Pre-LD # CEO Options | | | | | | | | | -0.167** | |
| | | | | | | | | | (0.036) | |
| CEO Equity Wealth | | | | | | | | | <0.001 | <0.001 |
| | | | | | | | | | (0.507) | (0.401) |
| CU=1 | | | | | | | | | | -12.782*** |
| | | | | | | | | | | (<0.001) |
| CU=1 # Judges | | | | | | | | | | -2.080** |
| | | | | | | | | | | (0.023) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1133 | 1133 | 1219 | 1219 | 1219 | 1219 | 1868 | 1868 | 620 | 620 |
| Pseudo R-Squared | 0.1315 | 0.1145 | 0.1367 | 0.1194 | 0.1363 | 0.1188 | 0.2309 | 0.2092 | 0.1562 | 0.1364 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | . |

**Table 17: Firm Institutional and Blockholder Ownership – Including CU**

This table reports the results of logistic regressions considering the impacts of Institutional and Blockholder Ownership. This does not include Year fixed effects. Models 1-3 include the Institutional Ownership variable. Models 4-6 include the Number of Blockholders variable. Models 7-9 include the Blockholder Ownership variable. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| CU=1 | 1.134* | 2.923*** | 2.939*** | 0.332 | 2.142*** | 2.147*** | 0.374 | 2.170*** | 2.176*** |
| | (0.060) | (<0.001) | (<0.001) | (0.474) | (<0.001) | (<0.001) | (0.420) | (<0.001) | (<0.001) |
| Inst. Own.(IO) | 1.275*** | 1.663*** | 1.675*** | | | | | | |
| | (0.007) | (<0.001) | (<0.001) | | | | | | |
| Pre-LD | 0.076*** | | | 0.083*** | | | 0.084*** | | |
| | (0.006) | | | (0.003) | | | (0.002) | | |
| Dur-LD | -0.068*** | | | -0.064** | | | -0.067*** | | |
| | (0.007) | | | (0.011) | | | (0.008) | | |
| Judges | 2.190*** | 2.025*** | 2.046*** | 2.456*** | 2.358*** | 2.379*** | 2.481*** | 2.384*** | 2.406*** |
| | (<0.001) | (0.001) | (0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| CU=1 # Inst. | -0.964** | -1.263*** | -1.276*** | | | | | | |
| Own.(IO) | (0.043) | (0.006) | (0.006) | | | | | | |
| CU=1 # Pre-LD | -0.058* | | | -0.069** | | | -0.071** | | |
| | (0.094) | | | (0.043) | | | (0.038) | | |
| CU=1 # Dur-LD | -0.090*** | | | -0.096*** | | | -0.094*** | | |
| | (0.005) | | | (0.003) | | | (0.003) | | |
| CU=1 # Judges | -0.997** | -1.038** | -1.046** | -1.087** | -1.164** | -1.172** | -1.090** | -1.165** | -1.174** |
| | (0.045) | (0.032) | (0.031) | (0.029) | (0.016) | (0.016) | (0.029) | (0.017) | (0.016) |
| Home=1 | 1.586*** | 1.594*** | 1.605*** | 1.336*** | 1.292*** | 1.299*** | 1.336*** | 1.286*** | 1.290*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Home=1 # Inst. | -1.303*** | -1.468*** | -1.481*** | | | | | | |
| Own.(IO) | (0.003) | (0.001) | (0.001) | | | | | | |
| Home=1 # Judges | -1.636** | -1.511** | -1.523** | -1.828*** | -1.751*** | -1.763*** | -1.861*** | -1.783*** | -1.795*** |
| | (0.011) | (0.019) | (0.018) | (0.004) | (0.006) | (0.006) | (0.003) | (0.005) | (0.005) |
| Post-LD | 0.066*** | | | 0.066*** | | | 0.065*** | | |
| | (<0.001) | | | (<0.001) | | | (<0.001) | | |
| Convictions | 0.007 | 0.014 | 0.012 | -<0.001 | 0.006 | 0.004 | -0.001 | 0.005 | 0.003 |
| | (0.897) | (0.796) | (0.824) | (0.999) | (0.914) | (0.942) | (0.980) | (0.930) | (0.956) |
| Presid.=1 | 0.720*** | 0.737*** | 0.737*** | 0.733*** | 0.773*** | 0.773*** | 0.750*** | 0.786*** | 0.785*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Congress | 0.699 | -0.011 | 0.057 | 0.680 | -0.168 | -0.109 | 0.825 | -0.015 | 0.046 |
| | (0.744) | (0.996) | (0.978) | (0.751) | (0.936) | (0.958) | (0.703) | (0.994) | (0.982) |
| Supreme Ct. | 2.680 | 1.987 | 2.017 | 2.863 | 2.125 | 2.170 | 2.690 | 1.987 | 2.037 |
| | (0.422) | (0.528) | (0.522) | (0.395) | (0.504) | (0.494) | (0.424) | (0.531) | (0.521) |
| Duopoly | -6.328*** | -5.598*** | -5.657*** | -6.162*** | -5.213*** | -5.282*** | -6.038*** | -5.052*** | -5.127*** |
| | (0.002) | (0.006) | (0.005) | (0.002) | (0.009) | (0.008) | (0.002) | (0.010) | (0.009) |
| Rep. Offender=1 | 0.224 | 0.237* | 0.233* | 0.213 | 0.223* | 0.219 | 0.203 | 0.214 | 0.210 |
| | (0.101) | (0.078) | (0.082) | (0.122) | (0.100) | (0.105) | (0.141) | (0.115) | (0.121) |
| Excess Return | 0.409*** | 0.423*** | 0.422*** | 0.437*** | 0.464*** | 0.463*** | 0.428*** | 0.457*** | 0.456*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Return Vol. | -1.603*** | -1.869*** | -1.802*** | -1.621*** | -1.998*** | -1.928*** | -1.633*** | -2.002*** | -1.930*** |
| | (0.009) | (0.002) | (0.002) | (0.006) | (<0.001) | (0.001) | (0.005) | (<0.001) | (0.001) |
| GDP Growth | -0.086*** | -0.081*** | -0.081*** | -0.088*** | -0.084*** | -0.084*** | -0.089*** | -0.085*** | -0.085*** |
| | (0.001) | (0.002) | (0.001) | (0.001) | (0.001) | (0.001) | (<0.001) | (0.001) | (0.001) |
| State Credit Risk | -0.109*** | -0.115*** | -0.116*** | -0.109*** | -0.116*** | -0.117*** | -0.108*** | -0.116*** | -0.116*** |
| | (0.001) | (0.001) | (0.001) | (0.002) | (0.001) | (0.001) | (0.002) | (0.001) | (0.001) |
| Auditor Quality=1 | 0.403** | 0.340** | 0.333** | 0.327** | 0.254 | 0.242 | 0.364** | 0.290* | 0.278* |
| | (0.018) | (0.041) | (0.045) | (0.045) | (0.106) | (0.122) | (0.025) | (0.065) | (0.076) |
| R&D | 1.784** | 1.920*** | 1.943*** | 1.915** | 2.087*** | 2.112*** | 1.939** | 2.116*** | 2.144*** |
| | (0.019) | (0.009) | (0.008) | (0.011) | (0.004) | (0.003) | (0.010) | (0.003) | (0.003) |
| ROA | 0.475** | 0.483** | 0.479** | 0.482** | 0.512** | 0.508** | 0.496** | 0.525** | 0.520** |
| | (0.048) | (0.036) | (0.037) | (0.034) | (0.019) | (0.019) | (0.029) | (0.016) | (0.016) |
| Tot-LD | | -0.039*** | | | -0.039*** | | | -0.039*** | |
| | | (0.005) | | | (0.006) | | | (0.005) | |
| Firm-Don=1 | | | -0.301** | | | -0.295** | | | -0.293** |
| | | | (0.011) | | | (0.012) | | | (0.013) |
| No. Block. | | | | 0.145** | 0.160*** | 0.163*** | | | |
| | | | | (0.014) | (0.006) | (0.005) | | | |
| Home=1 # No. Block. | | | | -0.202*** | -0.212*** | -0.213*** | | | |
| | | | | (0.004) | (0.002) | (0.002) | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Block. Own. | | | | | | | 1.226** | 1.404** | 1.432** |
| | | | | | | | (0.046) | (0.023) | (0.021) |
| Home=1 # Block. Own. | | | | | | | -2.255*** | -2.340*** | -2.348*** |
| | | | | | | | (0.002) | (0.002) | (0.002) |
| Constant | 0.126 | -0.760 | -0.273 | 0.447 | -0.387 | 0.097 | 0.442 | -0.413 | 0.073 |
| | (0.964) | (0.777) | (0.919) | (0.872) | (0.886) | (0.971) | (0.874) | (0.878) | (0.978) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 |
| Pseudo R-Squared | 0.2275 | 0.2018 | 0.2013 | 0.2257 | 0.1982 | 0.1976 | 0.2263 | 0.1986 | 0.1979 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 18: Firm Institutional and Blockholder Ownership – Including Year fixed effects**

This table reports the results of logistic regressions considering the impacts of Institutional and Blockholder Ownership. The Citizens United variable is excluded. Year fixed effects are included. Models 1-3 include the Institutional Ownership variable. Models 4-6 include the Number of Blockholders variable. Models 7-9 include the Blockholder Ownership variable. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|---|---|---|---|---|---|---|---|---|---|
| Lit Status | | | | | | | | | |
| Pre-LD | 0.035* | | | 0.035* | | | 0.035* | | |
| | (0.062) | | | (0.062) | | | (0.060) | | |
| Dur-LD | -0.116*** | | | -0.117*** | | | -0.118*** | | |
| | (<0.001) | | | (<0.001) | | | (<0.001) | | |
| Home=1 | 1.308*** | 0.789** | 0.792** | 1.019*** | 0.427* | 0.428** | 1.031*** | 0.911** | 0.911** |
| | (0.002) | (0.014) | (0.014) | (0.006) | (0.050) | (0.049) | (0.005) | (0.011) | (0.011) |
| Inst. Own.(IO) | 0.610 | 0.784** | 0.783** | | | | | | |
| | (0.120) | (0.044) | (0.044) | | | | | | |
| Judges | 1.089* | 0.038 | 0.040 | 1.177* | 0.071 | 0.072 | 1.213** | 1.029* | 1.033* |
| | (0.074) | (0.896) | (0.891) | (0.056) | (0.810) | (0.807) | (0.049) | (0.090) | (0.089) |
| Home=1 # Inst. | -1.200*** | -1.291*** | -1.299*** | | | | | | |
| Own.(IO) | (0.008) | (0.004) | (0.004) | | | | | | |
| Home=1 # Judges | -1.215* | | | -1.283** | | | -1.322** | -1.156* | -1.158* |
| | (0.058) | | | (0.046) | | | (0.040) | (0.068) | (0.068) |
| Post-LD | 0.085*** | | | 0.084*** | | | 0.084*** | | |
| | (<0.001) | | | (<0.001) | | | (<0.001) | | |
| Convictions | -0.017 | -0.009 | -0.011 | -0.026 | -0.019 | -0.021 | -0.026 | -0.015 | -0.017 |
| | (0.782) | (0.872) | (0.846) | (0.670) | (0.741) | (0.716) | (0.664) | (0.794) | (0.768) |
| Presid.=1 | 1.119 | 1.232* | 1.246* | 1.190 | 1.302* | 1.317* | 1.154 | 1.255* | 1.271* |
| | (0.121) | (0.080) | (0.079) | (0.101) | (0.067) | (0.065) | (0.107) | (0.069) | (0.068) |
| Congress | -53.435** | -47.739** | -46.992** | -49.470** | -43.735* | -42.847* | -51.490** | -47.385** | -46.456** |
| | (0.026) | (0.043) | (0.047) | (0.038) | (0.063) | (0.069) | (0.030) | (0.042) | (0.047) |
| Supreme Ct. | -0.967 | -0.902 | -0.909 | -0.946 | -0.888 | -0.888 | -1.115 | -0.979 | -0.980 |
| | (0.832) | (0.838) | (0.836) | (0.837) | (0.842) | (0.842) | (0.808) | (0.826) | (0.826) |
| Duopoly | -1.237 | -1.076 | -1.087 | -1.113 | -0.927 | -0.936 | -1.116 | -1.186 | -1.197 |
| | (0.640) | (0.708) | (0.706) | (0.678) | (0.751) | (0.749) | (0.668) | (0.674) | (0.673) |
| Rep. Offender=1 | 0.145 | 0.168 | 0.164 | 0.149 | 0.173 | 0.170 | 0.137 | 0.158 | 0.154 |
| | (0.299) | (0.219) | (0.230) | (0.287) | (0.205) | (0.215) | (0.330) | (0.248) | (0.259) |
| Excess Return | 0.406*** | 0.415*** | 0.415*** | 0.402*** | 0.417*** | 0.417*** | 0.392*** | 0.401*** | 0.400*** |
| | (0.001) | (<0.001) | (<0.001) | (0.001) | (<0.001) | (<0.001) | (0.001) | (0.001) | (0.001) |
| Return Vol. | -1.497** | -1.636*** | -1.571** | -1.380** | -1.571** | -1.500** | -1.374** | -1.510** | -1.437** |
| | (0.019) | (0.009) | (0.013) | (0.028) | (0.011) | (0.016) | (0.029) | (0.016) | (0.021) |
| GDP Growth | -0.077** | -0.072** | -0.073** | -0.079** | -0.074** | -0.075** | -0.079** | -0.074** | -0.076** |
| | (0.029) | (0.041) | (0.037) | (0.026) | (0.036) | (0.032) | (0.025) | (0.035) | (0.031) |
| State Credit Risk | -0.127*** | -0.124*** | -0.124*** | -0.126*** | -0.123*** | -0.123*** | -0.125*** | -0.125*** | -0.126*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Auditor Quality=1 | 0.371** | 0.348** | 0.340** | 0.334** | 0.326** | 0.315** | 0.372** | 0.367** | 0.356** |
| | (0.026) | (0.033) | (0.038) | (0.039) | (0.040) | (0.046) | (0.021) | (0.022) | (0.025) |
| R&D | 1.874** | 1.964*** | 1.992*** | 1.954*** | 2.035*** | 2.064*** | 1.972*** | 2.012*** | 2.043*** |
| | (0.012) | (0.007) | (0.006) | (0.008) | (0.005) | (0.004) | (0.008) | (0.006) | (0.005) |
| ROA | 0.480** | 0.473** | 0.470** | 0.476** | 0.480** | 0.476** | 0.491** | 0.479** | 0.475** |
| | (0.045) | (0.040) | (0.041) | (0.042) | (0.034) | (0.035) | (0.037) | (0.034) | (0.035) |
| Tot-LD | | -0.031** | | | -0.031** | | | -0.033** | |
| | | (0.034) | | | (0.032) | | | (0.025) | |
| Firm-Don=1 | | | -0.225* | | | -0.228* | | | -0.237* |
| | | | (0.067) | | | (0.063) | | | (0.054) |
| No. Block. | | | | 0.127** | 0.142** | 0.145** | | | |
| | | | | (0.037) | (0.017) | (0.015) | | | |
| Home=1 # No. Block. | | | | -0.185** | -0.190*** | -0.191*** | | | |
| | | | | (0.010) | (0.007) | (0.007) | | | |
| Block. Own. | | | | | | | 1.079* | 1.190* | 1.215* |
| | | | | | | | (0.086) | (0.059) | (0.054) |
| Home=1 # Block. | | | | | | | -2.121*** | -2.147*** | -2.152*** |
| Own. | | | | | | | (0.005) | (0.004) | (0.004) |
| Constant | 28.799** | 25.632** | 25.673** | 26.783** | 23.683* | 23.645* | 27.962** | 25.379** | 25.340** |
| | (0.022) | (0.041) | (0.041) | (0.033) | (0.058) | (0.060) | (0.025) | (0.040) | (0.041) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 |
| Pseudo R-Squared | 0.2390 | 0.2195 | 0.2190 | 0.2386 | 0.2191 | 0.2186 | 0.2394 | 0.2209 | 0.2203 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 19: Institutional Ownership Concentration – Including CU**

This table reports the results of logistic regressions considering the impacts of Institutional Ownership Concentration. This does not include Year fixed effects. Models 1-3 include the Largest Institutional Owner Concentration variable, and its Square. Models 4-6 include the Top 5 Institutional Owners' Concentration variable. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status |
| Dur-LD | -0.053** | | | -0.122*** | | |
| | (0.025) | | | (<0.001) | | |
| CU=1 | 0.855** | 2.214*** | 2.221*** | 2.244*** | 2.313*** | 2.309*** |
| | (0.033) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| CU=1 # Dur-LD | -0.126*** | | | | | |
| | (<0.001) | | | | | |
| Largest IO Concen. | 0.445 | 0.897 | 0.973 | | | |
| | (0.802) | (0.604) | (0.572) | | | |
| Concen. Sqrd. | -2.653 | -3.300 | -3.380 | | | |
| | (0.361) | (0.249) | (0.236) | | | |
| Pre-LD | 0.043** | | | 0.188*** | | |
| | (0.016) | | | (<0.001) | | |
| Post-LD | 0.067*** | | | 0.073*** | | |
| | (<0.001) | | | (<0.001) | | |
| Judges | 2.448*** | 2.403*** | 2.427*** | 2.516*** | 2.385*** | 2.498*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Home=1 | 0.812*** | 0.742*** | 0.745*** | 0.812*** | 1.413*** | 0.749*** |
| | (0.004) | (0.009) | (0.008) | (0.004) | (0.001) | (0.008) |
| CU=1 # Judges | -1.172** | -1.277*** | -1.287*** | -1.357*** | -1.399*** | -1.406*** |
| | (0.018) | (0.009) | (0.008) | (0.006) | (0.004) | (0.004) |
| Home=1 # Judges | -1.763*** | -1.710*** | -1.723*** | -1.786*** | -1.526** | -1.710*** |
| | (0.004) | (0.006) | (0.006) | (0.005) | (0.016) | (0.007) |
| Convictions | 0.003 | 0.009 | 0.007 | 0.008 | 0.155* | -0.002 |
| | (0.951) | (0.867) | (0.893) | (0.893) | (0.068) | (0.971) |
| Presid.=1 | 0.750*** | 0.779*** | 0.779*** | 0.819*** | 0.788*** | 0.785*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Congress | 0.201 | -0.474 | -0.409 | 0.335 | -0.143 | -0.153 |
| | (0.924) | (0.819) | (0.843) | (0.874) | (0.946) | (0.942) |
| Supreme Ct. | 2.396 | 1.662 | 1.700 | 2.368 | 1.859 | 1.673 |
| | (0.477) | (0.600) | (0.591) | (0.472) | (0.562) | (0.599) |
| Duopoly | -6.060*** | -5.178*** | -5.253*** | -5.774*** | -5.664*** | -5.348*** |
| | (0.002) | (0.007) | (0.007) | (0.002) | (0.003) | (0.006) |
| Rep. Offender=1 | 0.233* | 0.238* | 0.234* | 0.210 | 0.220 | 0.226* |
| | (0.092) | (0.079) | (0.084) | (0.128) | (0.104) | (0.095) |
| Excess Return | 0.435*** | 0.470*** | 0.470*** | 0.441*** | 0.453*** | 0.455*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Return Vol. | -1.731*** | -2.060*** | -1.988*** | -1.722*** | -1.933*** | -1.863*** |
| | (0.002) | (<0.001) | (<0.001) | (0.002) | (0.001) | (0.001) |
| GDP Growth | -0.087*** | -0.083*** | -0.083*** | -0.092*** | -0.086*** | -0.081*** |
| | (0.001) | (0.001) | (0.001) | (<0.001) | (0.001) | (0.001) |
| State Credit Risk | -0.110*** | -0.119*** | -0.119*** | -0.114*** | -0.107*** | -0.116*** |
| | (0.001) | (<0.001) | (<0.001) | (0.001) | (0.001) | (0.001) |
| Auditor Quality=1 | 0.326** | 0.260* | 0.249 | 0.226 | 0.261* | 0.251 |
| | (0.044) | (0.092) | (0.107) | (0.157) | (0.097) | (0.108) |
| R&D | 1.904** | 2.030*** | 2.058*** | 1.939*** | 1.959*** | 1.959*** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | (0.010) | (0.005) | (0.004) | (0.008) | (0.006) | (0.006) |
| ROA | 0.507** | 0.534** | 0.529** | 0.509** | 0.476** | 0.481** |
| | (0.023) | (0.013) | (0.014) | (0.021) | (0.022) | (0.021) |
| Tot-LD | | -0.040*** | | | 0.054 | |
| | | (0.004) | | | (0.112) | |
| Firm-Don=1 | | | -0.303*** | | | 0.468* |
| | | | (0.010) | | | (0.096) |
| Top 5 IO Concen. | | | | -5.908*** | -3.188*** | 1.267* |
| | | | | (<0.001) | (0.005) | (0.064) |
| Top 5 IO Concen. # Pre-LD | | | | -0.492*** | | |
| | | | | (<0.001) | | |
| Top 5 IO Concen. # Tot-LD | | | | | -0.319*** | |
| | | | | | (0.003) | |
| Home=1 # Convictions | | | | | -0.243** | |
| | | | | | (0.024) | |
| Firm-Don=1 # Top 5 IO Concen. | | | | | | -2.633*** |
| | | | | | | (0.003) |
| Constant | 0.887 | 0.257 | 0.761 | 1.751 | 0.605 | 0.306 |
| | (0.749) | (0.923) | (0.774) | (0.526) | (0.822) | (0.909) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 |
| Pseudo R-Squared | 0.2217 | 0.1953 | 0.1946 | 0.2197 | 0.1999 | 0.1973 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 20: Institutional Ownership Concentration – Including Year fixed effects**

This table reports the results of logistic regressions considering the impacts of Institutional Ownership Concentration. The Citizens United variable is excluded. Year fixed effects are included. Models 1-3 include the Largest Institutional Owner Concentration variable, and its Square. Models 4-6 include the Top 5 Institutional Owners' Concentration variable. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status |
| Largest IO Concen. | 0.478 | 0.868 | 0.934 | | | |
| | (0.792) | (0.623) | (0.596) | | | |
| Concen. Sqrd. | -2.800 | -3.483 | -3.554 | | | |
| | (0.361) | (0.247) | (0.236) | | | |
| Pre-LD | 0.034* | | | 0.185*** | | |
| | (0.064) | | | (<0.001) | | |
| Dur-LD | -0.118*** | | | -0.119*** | | |
| | (<0.001) | | | (<0.001) | | |
| Post-LD | 0.084*** | | | 0.081*** | | |
| | (<0.001) | | | (<0.001) | | |
| Judges | 1.125* | 0.076 | 0.078 | 1.110* | 0.100 | 0.104 |
| | (0.063) | (0.797) | (0.792) | (0.069) | (0.734) | (0.725) |
| Home=1 | 0.522* | -0.061 | -0.063 | 0.522* | -0.053 | -0.054 |
| | (0.090) | (0.648) | (0.639) | (0.091) | (0.693) | (0.689) |
| Home=1 # Judges | -1.224* | | | -1.230* | | |
| | (0.055) | | | (0.055) | | |
| Convictions | -0.023 | -0.017 | -0.019 | -0.018 | -0.031 | -0.033 |
| | (0.700) | (0.768) | (0.743) | (0.769) | (0.607) | (0.577) |
| Presid.=1 | 1.106 | 1.204* | 1.221* | 1.259* | 1.244* | 1.234* |
| | (0.127) | (0.084) | (0.082) | (0.076) | (0.066) | (0.073) |
| Congress | -51.312** | -46.443** | -45.514* | -47.252** | -45.013** | -45.009* |
| | (0.031) | (0.046) | (0.051) | (0.044) | (0.049) | (0.052) |
| Supreme Ct. | -1.486 | -1.385 | -1.397 | -1.472 | -1.294 | -1.413 |
| | (0.743) | (0.752) | (0.749) | (0.746) | (0.768) | (0.747) |
| Duopoly | -1.130 | -0.914 | -0.927 | -1.656 | -0.839 | -0.847 |
| | (0.657) | (0.737) | (0.735) | (0.509) | (0.757) | (0.755) |
| Rep. Offender=1 | 0.160 | 0.184 | 0.180 | 0.156 | 0.170 | 0.170 |
| | (0.253) | (0.180) | (0.189) | (0.264) | (0.216) | (0.214) |
| Excess Return | 0.405*** | 0.420*** | 0.419*** | 0.390*** | 0.399*** | 0.400*** |
| | (0.001) | (<0.001) | (<0.001) | (0.001) | (0.001) | (0.001) |
| Return Vol. | -1.357** | -1.555** | -1.483** | -1.236* | -1.366** | -1.316** |
| | (0.029) | (0.012) | (0.016) | (0.052) | (0.030) | (0.035) |
| GDP Growth | -0.079** | -0.075** | -0.076** | -0.078** | -0.073** | -0.074** |
| | (0.025) | (0.034) | (0.031) | (0.026) | (0.039) | (0.034) |
| State Credit Risk | -0.129*** | -0.126*** | -0.126*** | -0.127*** | -0.123*** | -0.124*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Auditor Quality=1 | 0.340** | 0.333** | 0.322** | 0.306* | 0.331** | 0.334** |
| | (0.033) | (0.033) | (0.039) | (0.062) | (0.037) | (0.035) |
| R&D | 1.873** | 1.958*** | 1.989*** | 1.834** | 1.868** | 1.865*** |
| | (0.011) | (0.006) | (0.006) | (0.013) | (0.010) | (0.010) |
| ROA | 0.491** | 0.493** | 0.488** | 0.457** | 0.437** | 0.433** |
| | (0.035) | (0.029) | (0.030) | (0.049) | (0.047) | (0.048) |
| Tot-LD | | -0.033** | | | 0.072** | |
| | | (0.026) | | | (0.044) | |
| Firm-Don=1 | | | -0.236* | | | 0.639** |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | (0.054) | | | (0.029) |
| Top 5 IO Concen. | | | | -5.994*** | -3.634*** | 1.308* |
| | | | | (<0.001) | (0.002) | (0.066) |
| Top 5 IO Concen. # Pre-LD | | | | -0.487*** | | |
| | | | | (<0.001) | | |
| Top 5 IO Concen. # Tot-LD | | | | | -0.355*** | |
| | | | | | (0.001) | |
| Firm-Don=1 # Top 5 IO Concen. | | | | | | -2.967*** |
| | | | | | | (0.001) |
| Constant | 28.341** | 25.658** | 25.624** | 28.206** | 25.963** | 25.023** |
| | (0.023) | (0.037) | (0.039) | (0.022) | (0.032) | (0.041) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1970 | 1970 | 1970 | 1970 | 1970 | 1970 |
| Pseudo R-Squared | 0.2368 | 0.2172 | 0.2166 | 0.2423 | 0.2207 | 0.2200 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 21: Board and Executive Characteristics – Including CU and all control variables**

This table reports the results of logistic regressions considering the impacts of Board and Executive Characteristics. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status | Lit Status |
| ln(Bd Age) | 17.649*** | 17.356*** | | | | | | | | |
| | (0.007) | (0.008) | | | | | | | | |
| Bd Netwk. | 7.939** | 8.043** | | | | | | | | |
| | (0.035) | (0.033) | | | | | | | | |
| ln(Bd Age) # Bd | -1.912** | -1.938** | | | | | | | | |
| Netwk. | (0.039) | (0.037) | | | | | | | | |
| Bd Age S.D. | -0.103*** | -0.104*** | | | | | | | | |
| | (0.005) | (0.004) | | | | | | | | |
| ln(CEO Age) | -5.053** | -4.769* | | | | | | | | |
| | (0.037) | (0.050) | | | | | | | | |
| Convictions | -3.286* | -3.348* | -0.237** | -0.243** | -0.234** | -0.235** | 0.237** | 0.245** | -0.098 | -0.059 |
| | (0.095) | (0.090) | (0.030) | (0.026) | (0.031) | (0.030) | (0.019) | (0.016) | (0.382) | (0.587) |
| ln(CEO Age) # | 0.815* | 0.835* | | | | | | | | |
| Convictions | (0.098) | (0.091) | | | | | | | | |
| CEO Older | 0.413* | 0.334 | | | | | | | | |
| | (0.091) | (0.172) | | | | | | | | |
| CEO-Chair=1 | -0.252 | -0.246 | | | | | | | | |
| | (0.108) | (0.108) | | | | | | | | |
| CEO/CFO Fem. | 0.535 | 0.528 | | | | | | | | |
| | (0.252) | (0.252) | | | | | | | | |
| ln(Assets) | -0.039 | -0.043 | -0.017 | -0.028 | -0.024 | -0.027 | -0.024 | -0.015 | -0.091 | -0.074 |
| | (0.506) | (0.442) | (0.787) | (0.638) | (0.700) | (0.657) | (0.707) | (0.801) | (0.286) | (0.354) |
| SOX=1 | 0.049 | 0.147 | 0.255 | 0.302 | 0.190 | 0.265 | -5.647* | -6.196** | -0.170 | -0.011 |
| | (0.876) | (0.632) | (0.413) | (0.323) | (0.544) | (0.389) | (0.063) | (0.041) | (0.700) | (0.980) |
| Pre-LD | 0.042* | | 0.037* | | 0.031 | | 0.094*** | | 0.128*** | |
| | (0.062) | | (0.094) | | (0.157) | | (0.002) | | (0.001) | |
| Dur-LD | -0.107*** | | 0.119 | | -0.097*** | | -0.113*** | | -0.120*** | |
| | (<0.001) | | (0.107) | | (<0.001) | | (<0.001) | | (<0.001) | |
| Post-LD | 0.056** | | 0.061*** | | 0.058*** | | 0.070*** | | 0.053* | |
| | (0.012) | | (0.005) | | (0.007) | | (0.001) | | (0.062) | |
| CU=1 | 2.151*** | 2.220*** | 2.549*** | 2.603*** | 2.435*** | 2.497*** | 1.815*** | 2.809*** | 1.541*** | 1.404*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (0.005) | (0.009) |
| Judges | 1.032** | 1.061** | 0.955** | 0.980** | 0.887* | 0.938** | 1.213*** | 1.120*** | 1.411** | 1.275** |
| | (0.032) | (0.026) | (0.040) | (0.034) | (0.057) | (0.044) | (0.003) | (0.005) | (0.033) | (0.049) |
| Home=1 | 0.547** | 0.513** | 0.511** | 0.463* | 0.490* | 0.447* | 1.421*** | 1.386*** | -0.132 | -0.156 |
| | (0.036) | (0.043) | (0.043) | (0.057) | (0.052) | (0.067) | (0.001) | (0.002) | (0.586) | (0.502) |
| CU=1 # Judges | -1.359** | -1.488** | -1.357** | -1.468** | -1.264** | -1.390** | -1.052* | -1.095** | -1.876** | -1.770** |
| | (0.033) | (0.019) | (0.027) | (0.016) | (0.037) | (0.022) | (0.050) | (0.039) | (0.030) | (0.040) |
| CU=1 # Home=1 | -0.873** | -0.918*** | -0.978*** | -1.007*** | -0.945*** | -0.963*** | -0.805*** | -0.876*** | | |
| | (0.012) | (0.007) | (0.004) | (0.002) | (0.005) | (0.003) | (0.006) | (0.002) | | |
| PAI | -0.038 | -0.031 | -0.125 | -0.114 | -0.100 | -0.084 | -0.248 | -0.243 | 0.261 | 0.207 |
| | (0.868) | (0.891) | (0.573) | (0.604) | (0.650) | (0.700) | (0.211) | (0.214) | (0.392) | (0.495) |
| Presid.=1 | 0.610** | 0.530** | 0.433* | 0.414* | 0.484** | 0.424* | 0.998*** | 0.980*** | 0.300 | 0.229 |
| | (0.011) | (0.023) | (0.063) | (0.067) | (0.037) | (0.060) | (<0.001) | (<0.001) | (0.339) | (0.450) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Congress | -2.859 | -3.203 | -2.927 | -2.803 | -2.680 | -2.869 | -3.517 | -3.861 | 0.662 | -0.110 |
| | (0.279) | (0.214) | (0.255) | (0.262) | (0.294) | (0.249) | (0.152) | (0.107) | (0.847) | (0.974) |
| Supreme Ct. | 6.184 | 6.146 | 6.359 | 6.073 | 5.979 | 5.926 | 2.268 | 1.566 | 14.222** | 12.256** |
| | (0.137) | (0.129) | (0.115) | (0.127) | (0.137) | (0.133) | (0.529) | (0.656) | (0.015) | (0.027) |
| GDP Growth | -0.047 | -0.044 | -0.060* | -0.062** | -0.057* | -0.053* | -0.083*** | -0.078*** | -0.087* | -0.081* |
| | (0.155) | (0.175) | (0.059) | (0.049) | (0.074) | (0.090) | (0.003) | (0.006) | (0.085) | (0.091) |
| Credit Risk | -0.013 | -0.018 | -0.044 | -0.046 | -0.046 | -0.046 | -0.076* | -0.081* | 0.011 | -0.001 |
| | (0.772) | (0.704) | (0.332) | (0.308) | (0.310) | (0.316) | (0.066) | (0.051) | (0.866) | (0.989) |
| Unemp. | -0.050 | -0.052 | -0.075 | -0.065 | -0.062 | -0.066 | -0.035 | -0.034 | -0.075 | -0.069 |
| | (0.392) | (0.364) | (0.179) | (0.236) | (0.261) | (0.226) | (0.504) | (0.508) | (0.349) | (0.381) |
| Red State=1 | -0.125 | -0.124 | -0.228 | -0.218 | -0.209 | -0.196 | -0.128 | -0.106 | -0.117 | -0.079 |
| | (0.497) | (0.497) | (0.209) | (0.223) | (0.244) | (0.271) | (0.418) | (0.495) | (0.640) | (0.749) |
| Duopoly | -0.315 | -0.918 | -0.377 | -0.493 | -0.489 | -0.721 | -16.418*** | -17.665*** | -0.206 | -2.248 |
| | (0.916) | (0.757) | (0.892) | (0.858) | (0.860) | (0.792) | (0.002) | (0.001) | (0.961) | (0.578) |
| Excess Return | 0.052 | 0.076 | 0.096 | 0.130 | 0.101 | 0.115 | 0.372*** | 0.403*** | 0.251 | 0.209 |
| | (0.710) | (0.582) | (0.492) | (0.350) | (0.467) | (0.401) | (0.007) | (0.004) | (0.367) | (0.451) |
| Return Vol. | -0.510 | -1.018 | -0.791 | -1.235 | -0.960 | -1.305 | -1.919** | -2.052** | -1.420 | -2.187 |
| | (0.645) | (0.344) | (0.475) | (0.238) | (0.370) | (0.207) | (0.017) | (0.010) | (0.471) | (0.234) |
| Return Skew | 0.106 | 0.106 | 0.070 | 0.073 | 0.076 | 0.077 | 0.166** | 0.163** | 0.094 | 0.101 |
| | (0.202) | (0.192) | (0.387) | (0.355) | (0.346) | (0.331) | (0.017) | (0.018) | (0.415) | (0.371) |
| Share Turnover | -0.008* | -0.006 | -0.005 | -0.003 | -0.005 | -0.003 | -0.001 | <0.001 | -0.012 | -0.009 |
| | (0.079) | (0.184) | (0.255) | (0.422) | (0.246) | (0.457) | (0.779) | (0.988) | (0.117) | (0.247) |
| ROA | 0.632* | 0.610* | 0.419 | 0.423 | 0.525 | 0.487 | 0.404 | 0.367 | 1.243* | 1.186 |
| | (0.061) | (0.074) | (0.236) | (0.242) | (0.129) | (0.160) | (0.227) | (0.253) | (0.096) | (0.110) |
| Sales Growth | 0.044 | 0.022 | 0.028 | 0.014 | 0.022 | 0.009 | 0.022 | 0.014 | 0.185 | 0.113 |
| | (0.577) | (0.771) | (0.701) | (0.849) | (0.767) | (0.906) | (0.733) | (0.831) | (0.276) | (0.513) |
| R&D | 3.296*** | 3.219*** | 2.984*** | 3.064*** | 3.108*** | 3.154*** | 2.004** | 2.203*** | 4.983** | 4.715** |
| | (0.001) | (0.002) | (0.002) | (0.002) | (0.001) | (0.001) | (0.020) | (0.010) | (0.014) | (0.015) |
| PP&E | -0.522 | -0.311 | -0.542 | -0.369 | -0.506 | -0.368 | -0.295 | -0.249 | -1.185 | -0.835 |
| | (0.291) | (0.538) | (0.262) | (0.454) | (0.293) | (0.455) | (0.511) | (0.583) | (0.112) | (0.257) |
| Rep. Offender=1 | -0.016 | 0.001 | -0.003 | 0.034 | 0.005 | 0.024 | 0.084 | 0.102 | 0.308 | 0.235 |
| | (0.923) | (0.997) | (0.986) | (0.831) | (0.973) | (0.881) | (0.574) | (0.490) | (0.172) | (0.282) |
| Auditor Quality=1 | 0.370 | 0.383* | 0.490** | 0.566*** | 0.475** | 0.520** | 0.519*** | 0.514*** | 0.252 | 0.317 |
| | (0.102) | (0.091) | (0.020) | (0.007) | (0.023) | (0.013) | (0.006) | (0.007) | (0.494) | (0.401) |
| NYSE=1 | 0.065 | 0.062 | -0.004 | 0.016 | 0.026 | 0.026 | 0.030 | 0.029 | 0.229 | 0.188 |
| | (0.724) | (0.735) | (0.983) | (0.928) | (0.882) | (0.880) | (0.845) | (0.844) | (0.384) | (0.472) |
| BM | 0.028 | -0.038 | 0.085 | 0.017 | 0.047 | 0.024 | -0.259* | -0.257* | -0.194 | -0.303 |
| | (0.882) | (0.829) | (0.619) | (0.917) | (0.780) | (0.887) | (0.097) | (0.096) | (0.524) | (0.308) |
| FPS=1 | -0.209 | -0.212 | -0.203 | -0.235 | -0.181 | -0.204 | 0.271 | 0.231 | -1.050* | -1.034* |
| | (0.534) | (0.527) | (0.537) | (0.483) | (0.585) | (0.540) | (0.328) | (0.401) | (0.056) | (0.065) |
| Distress Risk=1 | -0.131 | -0.120 | -0.216 | -0.166 | -0.149 | -0.151 | 0.192 | 0.130 | 0.179 | 0.237 |
| | (0.560) | (0.587) | (0.319) | (0.436) | (0.485) | (0.478) | (0.302) | (0.472) | (0.567) | (0.449) |
| Debt Fin. | -0.410 | -0.348 | -0.538 | -0.529 | -0.504 | -0.501 | -0.468 | -0.478 | -0.654 | -0.901 |
| | (0.314) | (0.356) | (0.165) | (0.152) | (0.196) | (0.179) | (0.209) | (0.154) | (0.367) | (0.187) |
| Equity Fin. | 0.243 | 0.208 | 0.174 | 0.143 | 0.213 | 0.162 | 0.021 | -0.028 | 0.570 | 0.649 |
| | (0.235) | (0.312) | (0.367) | (0.465) | (0.265) | (0.400) | (0.903) | (0.862) | (0.309) | (0.245) |
| Payout Ratio | 2.452* | 2.199* | 1.992 | 1.872 | 2.072 | 1.995 | 0.479 | 0.202 | 2.679 | 2.418 |
| | (0.073) | (0.097) | (0.121) | (0.134) | (0.107) | (0.110) | (0.630) | (0.841) | (0.159) | (0.181) |
| FCF | 0.326 | 0.374 | -0.154 | -0.027 | -0.078 | -0.056 | 0.033 | 0.149 | 0.188 | 0.343 |
| | (0.501) | (0.425) | (0.741) | (0.951) | (0.860) | (0.899) | (0.937) | (0.710) | (0.849) | (0.720) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Disc. Accruals | -0.364 | -0.511 | -0.443 | -0.571 | -0.559 | -0.641 | 0.444 | 0.300 | -0.276 | -0.355 |
| | (0.553) | (0.407) | (0.459) | (0.350) | (0.338) | (0.273) | (0.427) | (0.595) | (0.844) | (0.812) |
| Leverage | 0.210 | 0.191 | 0.418 | 0.375 | 0.359 | 0.349 | -0.088 | 0.022 | -0.106 | -0.152 |
| | (0.552) | (0.580) | (0.221) | (0.258) | (0.284) | (0.290) | (0.778) | (0.944) | (0.855) | (0.790) |
| Firm-Don=1 | | -0.412** | | 1.398** | | -0.391** | | -0.386*** | | -0.490* |
| | | (0.020) | | (0.047) | | (0.019) | | (0.006) | | (0.058) |
| Bd Indep. | | | -2.540** | 1.885** | | | | | | |
| | | | (0.014) | (0.017) | | | | | | |
| Bd Indep. # Dur-LD | | | -0.299*** | | | | | | | |
| | | | (0.002) | | | | | | | |
| Busy Dir. | | | -0.139*** | -0.149*** | -0.137*** | -0.145*** | | | | |
| | | | (0.001) | (0.001) | (0.001) | (0.001) | | | | |
| Busy Dir. # Convictions | | | 0.041*** | 0.045*** | 0.041*** | 0.044*** | | | | |
| | | | (0.004) | (0.002) | (0.003) | (0.002) | | | | |
| Bd Fem. | | | -0.081 | -0.089 | 0.037 | 0.054 | | | | |
| | | | (0.910) | (0.899) | (0.958) | (0.939) | | | | |
| ln(Bd Size) | | | 0.105 | 0.117 | 0.198 | 0.168 | | | | |
| | | | (0.750) | (0.712) | (0.514) | (0.585) | | | | |
| Firm-Don=1 # Bd Indep. | | | | -2.424*** | | | | | | |
| | | | | (0.009) | | | | | | |
| Bd CID | | | | | -0.356 | -0.194 | | | | |
| | | | | | (0.476) | (0.694) | | | | |
| Analyst Covg. | | | | | | | 0.524** | 0.577** | | |
| | | | | | | | (0.022) | (0.013) | | |
| SOX=1 # Analyst Covg. | | | | | | | -0.697*** | -0.764*** | | |
| | | | | | | | (0.002) | (0.001) | | |
| SOX=1 # Duopoly | | | | | | | 16.046** | 17.931*** | | |
| | | | | | | | (0.014) | (0.006) | | |
| CU=1 # Pre-LD | | | | | | | -0.086** | | | |
| | | | | | | | (0.013) | | | |
| Home=1 # Convictions | | | | | | | -0.340*** | -0.325*** | | |
| | | | | | | | (0.007) | (0.010) | | |
| CEO Tenure | | | | | | | | | 0.002 | 0.003 |
| | | | | | | | | | (0.928) | (0.887) |
| CEO Salary | | | | | | | | | 0.391 | 0.341 |
| | | | | | | | | | (0.474) | (0.512) |
| CEO Bonus | | | | | | | | | 0.346 | -0.201 |
| | | | | | | | | | (0.676) | (0.811) |
| CEO LTIP | | | | | | | | | -2.799 | -3.163 |
| | | | | | | | | | (0.269) | (0.186) |
| CEO Options | | | | | | | | | -1.809** | -0.059 |
| | | | | | | | | | (0.032) | (0.888) |
| Pre-LD # CEO Options | | | | | | | | | -0.184** | |
| | | | | | | | | | (0.025) | |
| CEO Equity Wealth | | | | | | | | | <0.001 | <0.001 |
| | | | | | | | | | (0.249) | (0.418) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1046 | 1046 | 1126 | 1126 | 1126 | 1126 | 1720 | 1720 | 613 | 613 |
| Pseudo R-Squared | 0.1369 | 0.1217 | 0.1433 | 0.1286 | 0.1371 | 0.1240 | 0.2275 | 0.2083 | 0.1452 | 0.1217 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | 0.055 | 0.164 |

**Table 22: Firm Institutional and Blockholder Ownership – Including CU and all control variables**

This table reports the results of logistic regressions considering the impacts of Institutional and Blockholder Ownership. Models 1-3 include the Institutional Ownership variable. Models 4-6 include the Number of Blockholders variable. Models 7-9 include the Blockholder Ownership variable. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status | (7) Lit Status | (8) Lit Status | (9) Lit Status |
|---|---|---|---|---|---|---|---|---|---|
| Inst. Own.(IO) | 1.400*** | 1.628*** | 1.661*** | | | | | | |
| | (0.008) | (0.002) | (0.002) | | | | | | |
| CU=1 | 1.966*** | 3.228*** | 3.239*** | 0.911** | 2.271*** | 2.275*** | 1.054** | 2.284*** | 2.289*** |
| | (0.001) | (<0.001) | (<0.001) | (0.048) | (<0.001) | (<0.001) | (0.012) | (<0.001) | (<0.001) |
| Home=1 | 1.399*** | 1.395*** | 1.413*** | 1.105*** | 1.066*** | 1.078*** | 0.608* | 1.082*** | 1.093*** |
| | (0.002) | (0.001) | (0.001) | (0.004) | (0.004) | (0.004) | (0.052) | (0.004) | (0.003) |
| CU=1 # Inst. | -1.306** | -1.463*** | -1.473*** | | | | | | |
| Own.(IO) | (0.012) | (0.004) | (0.004) | | | | | | |
| Home=1 # Inst. | -1.326*** | -1.456*** | -1.471*** | | | | | | |
| Own.(IO) | (0.007) | (0.003) | (0.002) | | | | | | |
| Dur-LD | -0.051** | | | -0.106*** | | | -0.045* | | |
| | (0.038) | | | (<0.001) | | | (0.060) | | |
| Judges | 2.242*** | 2.043*** | 2.063*** | 2.623*** | 2.344*** | 2.368*** | 2.529*** | 2.364*** | 2.388*** |
| | (<0.001) | (0.001) | (0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| CU=1 # Dur-LD | -0.110*** | | | | | | -0.122*** | | |
| | (<0.001) | | | | | | (<0.001) | | |
| CU=1 # Judges | -1.144** | -1.248** | -1.260** | -1.343** | -1.368*** | -1.383*** | -1.362*** | -1.361*** | -1.376*** |
| | (0.029) | (0.016) | (0.015) | (0.011) | (0.008) | (0.008) | (0.009) | (0.009) | (0.008) |
| Home=1 # Judges | -1.292* | -1.159* | -1.175* | -1.545** | -1.366** | -1.383** | -1.436** | -1.406** | -1.424** |
| | (0.059) | (0.088) | (0.084) | (0.025) | (0.044) | (0.041) | (0.031) | (0.038) | (0.036) |
| Pre-LD | 0.049** | | | 0.115*** | | | 0.049** | | |
| | (0.010) | | | (<0.001) | | | (0.010) | | |
| Post-LD | 0.059*** | | | 0.061*** | | | 0.059*** | | |
| | (0.003) | | | (0.002) | | | (0.003) | | |
| Congress | -1.677 | -1.835 | -1.764 | -1.221 | -1.657 | -1.595 | -1.795 | -1.587 | -1.524 |
| | (0.494) | (0.441) | (0.457) | (0.614) | (0.487) | (0.502) | (0.461) | (0.509) | (0.525) |
| Supreme Ct. | 2.944 | 2.255 | 2.250 | 2.911 | 2.618 | 2.605 | 2.689 | 2.416 | 2.405 |
| | (0.415) | (0.515) | (0.515) | (0.415) | (0.449) | (0.451) | (0.456) | (0.484) | (0.486) |
| Convictions | -0.018 | -<0.001 | -0.001 | -0.024 | -0.006 | -0.007 | -0.020 | -0.008 | -0.009 |
| | (0.765) | (0.998) | (0.991) | (0.694) | (0.916) | (0.908) | (0.743) | (0.888) | (0.881) |
| PAI | -0.153 | -0.144 | -0.148 | -0.166 | -0.156 | -0.159 | -0.152 | -0.148 | -0.151 |
| | (0.434) | (0.448) | (0.437) | (0.392) | (0.411) | (0.401) | (0.438) | (0.436) | (0.426) |
| Presid.=1 | 0.786*** | 0.817*** | 0.821*** | 0.850*** | 0.857*** | 0.861*** | 0.827*** | 0.864*** | 0.868*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| GDP Growth | -0.081*** | -0.080*** | -0.081*** | -0.086*** | -0.083*** | -0.084*** | -0.084*** | -0.084*** | -0.085*** |
| | (0.003) | (0.003) | (0.003) | (0.001) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) |
| Credit Risk | -0.085** | -0.104*** | -0.104*** | -0.097** | -0.108*** | -0.108*** | -0.086** | -0.106*** | -0.107*** |
| | (0.037) | (0.010) | (0.009) | (0.015) | (0.007) | (0.007) | (0.034) | (0.009) | (0.009) |
| Unemp. | -0.026 | -0.016 | -0.014 | -0.009 | -0.005 | -0.004 | -0.017 | -0.006 | -0.004 |
| | (0.602) | (0.753) | (0.781) | (0.859) | (0.914) | (0.943) | (0.735) | (0.902) | (0.930) |
| Red State=1 | -0.085 | -0.105 | -0.105 | -0.085 | -0.088 | -0.087 | -0.055 | -0.075 | -0.075 |
| | (0.572) | (0.480) | (0.480) | (0.575) | (0.556) | (0.557) | (0.716) | (0.613) | (0.615) |
| Duopoly | -5.527** | -4.756** | -4.891** | -5.175** | -4.230* | -4.360* | -5.307** | -4.241* | -4.372* |
| | (0.026) | (0.043) | (0.038) | (0.032) | (0.066) | (0.058) | (0.030) | (0.065) | (0.057) |
| Excess Return | 0.334** | 0.371*** | 0.371*** | 0.403*** | 0.415*** | 0.416*** | 0.374*** | 0.409*** | 0.410*** |
| | (0.012) | (0.006) | (0.006) | (0.002) | (0.002) | (0.002) | (0.004) | (0.002) | (0.002) |
| Return Vol. | -2.421*** | -2.755*** | -2.737*** | -2.520*** | -2.947*** | -2.935*** | -2.699*** | -2.982*** | -2.973*** |
| | (0.002) | (<0.001) | (<0.001) | (0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Return Skew | 0.149** | 0.140** | 0.139** | 0.152** | 0.151** | 0.150** | 0.152** | 0.148** | 0.146** |
| | (0.034) | (0.039) | (0.041) | (0.028) | (0.024) | (0.026) | (0.028) | (0.028) | (0.030) |
| Share Turnover | 0.001 | 0.003 | 0.003 | 0.001 | 0.003 | 0.003 | 0.001 | 0.003 | 0.003 |
| | (0.842) | (0.548) | (0.561) | (0.769) | (0.527) | (0.537) | (0.751) | (0.473) | (0.481) |
| ROA | 0.754* | 0.806** | 0.802** | 0.802** | 0.806** | 0.804** | 0.725* | 0.801** | 0.798** |
| | (0.055) | (0.042) | (0.043) | (0.037) | (0.038) | (0.039) | (0.059) | (0.038) | (0.039) |
| Sales Growth | -0.027 | -0.040 | -0.039 | -0.028 | -0.044 | -0.044 | -0.035 | -0.043 | -0.042 |
| | (0.668) | (0.527) | (0.537) | (0.666) | (0.482) | (0.490) | (0.578) | (0.497) | (0.505) |
| R&D | 2.480*** | 2.684*** | 2.676*** | 2.582*** | 2.876*** | 2.871*** | 2.615*** | 2.911*** | 2.906*** |
| | (0.008) | (0.003) | (0.003) | (0.005) | (0.001) | (0.001) | (0.004) | (0.001) | (0.001) |
| PP&E | -0.165 | -0.137 | -0.132 | -0.120 | -0.077 | -0.073 | -0.124 | -0.088 | -0.084 |
| | (0.709) | (0.754) | (0.764) | (0.784) | (0.857) | (0.867) | (0.776) | (0.838) | (0.848) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Rep. Offender=1 | 0.176 | 0.169 | 0.174 | 0.157 | 0.152 | 0.157 | 0.177 | 0.146 | 0.151 |
| | (0.233) | (0.241) | (0.226) | (0.288) | (0.296) | (0.279) | (0.232) | (0.315) | (0.298) |
| Auditor Quality=1 | 0.449** | 0.392** | 0.394** | 0.351* | 0.283 | 0.286 | 0.381** | 0.312* | 0.315* |
| | (0.019) | (0.037) | (0.035) | (0.056) | (0.117) | (0.113) | (0.041) | (0.087) | (0.084) |
| NYSE=1 | 0.092 | 0.116 | 0.117 | 0.143 | 0.137 | 0.138 | 0.113 | 0.138 | 0.138 |
| | (0.549) | (0.430) | (0.430) | (0.339) | (0.345) | (0.344) | (0.457) | (0.346) | (0.344) |
| BM | -0.145 | -0.122 | -0.116 | -0.101 | -0.103 | -0.098 | -0.126 | -0.096 | -0.091 |
| | (0.296) | (0.361) | (0.384) | (0.455) | (0.434) | (0.456) | (0.348) | (0.463) | (0.488) |
| ln(Assets) | -0.050 | -0.047 | -0.058 | -0.060 | -0.050 | -0.061 | -0.062 | -0.055 | -0.066 |
| | (0.291) | (0.311) | (0.201) | (0.196) | (0.265) | (0.169) | (0.178) | (0.225) | (0.139) |
| FPS=1 | 0.123 | 0.138 | 0.144 | 0.126 | 0.108 | 0.112 | 0.093 | 0.102 | 0.107 |
| | (0.645) | (0.603) | (0.590) | (0.639) | (0.684) | (0.672) | (0.727) | (0.699) | (0.687) |
| Distress Risk=1 | 0.208 | 0.174 | 0.179 | 0.205 | 0.188 | 0.193 | 0.236 | 0.185 | 0.190 |
| | (0.248) | (0.327) | (0.313) | (0.250) | (0.282) | (0.270) | (0.184) | (0.291) | (0.278) |
| Debt Fin. | -0.533 | -0.529 | -0.531 | -0.604* | -0.556 | -0.558 | -0.579 | -0.569* | -0.571* |
| | (0.143) | (0.117) | (0.117) | (0.095) | (0.101) | (0.101) | (0.113) | (0.091) | (0.091) |
| Equity Fin. | 0.072 | 0.076 | 0.081 | 0.113 | 0.090 | 0.096 | 0.070 | 0.089 | 0.094 |
| | (0.653) | (0.637) | (0.616) | (0.478) | (0.571) | (0.548) | (0.657) | (0.573) | (0.550) |
| FCF | -0.129 | -0.068 | -0.071 | -0.253 | -0.115 | -0.119 | -0.148 | -0.071 | -0.075 |
| | (0.744) | (0.857) | (0.849) | (0.507) | (0.756) | (0.749) | (0.699) | (0.848) | (0.841) |
| Disc. Accruals | 0.166 | 0.031 | 0.046 | 0.198 | 0.129 | 0.142 | 0.273 | 0.132 | 0.146 |
| | (0.795) | (0.961) | (0.942) | (0.754) | (0.837) | (0.821) | (0.662) | (0.832) | (0.816) |
| Leverage | -0.034 | 0.089 | 0.103 | 0.052 | 0.115 | 0.127 | 0.008 | 0.117 | 0.130 |
| | (0.906) | (0.749) | (0.712) | (0.855) | (0.680) | (0.646) | (0.977) | (0.673) | (0.640) |
| Tot-LD | | -0.037** | | | -0.037** | | | -0.037** | |
| | | (0.022) | | | (0.021) | | | (0.023) | |
| Firm-Don=1 | | | -0.289** | | | -0.285** | | | -0.278** |
| | | | (0.031) | | | (0.032) | | | (0.037) |
| No. Block. | | | | 0.130** | 0.147** | 0.149** | | | |
| | | | | (0.046) | (0.021) | (0.019) | | | |
| Home=1 # No. Block. | | | | -0.187** | -0.205*** | -0.207*** | | | |
| | | | | (0.013) | (0.006) | (0.005) | | | |
| CU=1 # Pre-LD | | | | -0.123*** | | | | | |
| | | | | (<0.001) | | | | | |
| Block. Own. | | | | | | | -0.325 | 1.417** | 1.441** |
| | | | | | | | (0.423) | (0.047) | (0.044) |
| Home=1 # Block. Own. | | | | | | | | -2.380*** | -2.394*** |
| | | | | | | | | (0.004) | (0.004) |
| Constant | 1.210 | 0.126 | 0.682 | 1.388 | 0.129 | 0.702 | 2.150 | 0.283 | 0.847 |
| | (0.699) | (0.966) | (0.818) | (0.650) | (0.965) | (0.811) | (0.484) | (0.924) | (0.773) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1816 | 1816 | 1816 | 1816 | 1816 | 1816 | 1816 | 1816 | 1816 |
| Pseudo R-Squared | 0.2301 | 0.2083 | 0.2080 | 0.2255 | 0.2038 | 0.2034 | 0.2241 | 0.2044 | 0.2040 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 23: Institutional Ownership Concentration – Including CU and all control variables**

This table reports the results of logistic regressions considering the impacts of Institutional Ownership Concentration. Models 1-3 include the Largest Institutional Owner Concentration variable, and its Square. Models 4-6 include the Top 5 Institutional Owners' Concentration variable. The dependent variable in all models is Litigation Status, which is equal to one if a firm's shareholder litigation suit is dismissed, and equal to zero if the lawsuit is settled. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) Lit Status | (2) Lit Status | (3) Lit Status | (4) Lit Status | (5) Lit Status | (6) Lit Status |
|---|---|---|---|---|---|---|
| Dur-LD | -0.045* | | | -0.110*** | | |
| | (0.061) | | | (<0.001) | | |
| CU=1 | 1.021** | 2.316*** | 2.322*** | 2.405*** | 2.431*** | 2.413*** |
| | (0.015) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| CU=1 # Dur-LD | -0.122*** | | | | | |
| | (<0.001) | | | | | |
| Largest IO Concen. | 0.599 | 0.624 | 0.661 | | | |
| | (0.766) | (0.753) | (0.739) | | | |
| Concen. Sqrd. | -2.772 | -2.523 | -2.554 | | | |
| | (0.409) | (0.441) | (0.435) | | | |
| Pre-LD | 0.048** | | | 0.233*** | | |
| | (0.012) | | | (<0.001) | | |
| Post-LD | 0.059*** | | | 0.065*** | | |
| | (0.002) | | | (0.001) | | |
| Judges | 2.508*** | 2.331*** | 2.358*** | 2.451*** | 2.335*** | 2.460*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Home=1 | 0.599* | 0.514* | 0.523* | 1.426*** | 1.333*** | 0.547* |
| | (0.056) | (0.097) | (0.092) | (0.002) | (0.003) | (0.079) |
| CU=1 # Judges | -1.340** | -1.459*** | -1.476*** | -1.557*** | -1.571*** | -1.576*** |
| | (0.011) | (0.005) | (0.005) | (0.003) | (0.002) | (0.002) |
| Home=1 # Judges | -1.418** | -1.291* | -1.310** | -1.191* | -1.133* | -1.356** |
| | (0.034) | (0.052) | (0.049) | (0.085) | (0.097) | (0.043) |
| Congress | -1.889 | -2.046 | -1.981 | -1.538 | -1.822 | -1.873 |
| | (0.435) | (0.385) | (0.399) | (0.531) | (0.447) | (0.430) |
| Supreme Ct. | 2.731 | 2.135 | 2.121 | 2.659 | 2.480 | 2.032 |
| | (0.449) | (0.535) | (0.538) | (0.453) | (0.475) | (0.556) |
| Convictions | -0.019 | -0.001 | -0.001 | 0.191** | 0.180* | -0.010 |
| | (0.748) | (0.989) | (0.982) | (0.045) | (0.052) | (0.862) |
| PAI | -0.149 | -0.139 | -0.143 | -0.188 | -0.165 | -0.133 |
| | (0.443) | (0.464) | (0.452) | (0.330) | (0.389) | (0.484) |
| Presid.=1 | 0.813*** | 0.859*** | 0.864*** | 0.918*** | 0.861*** | 0.866*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| GDP Growth | -0.082*** | -0.081*** | -0.082*** | -0.093*** | -0.085*** | -0.081*** |
| | (0.002) | (0.002) | (0.002) | (0.001) | (0.002) | (0.003) |
| Credit Risk | -0.087** | -0.108*** | -0.109*** | -0.085** | -0.092** | -0.106*** |
| | (0.032) | (0.007) | (0.007) | (0.034) | (0.021) | (0.008) |
| Unemp. | -0.016 | -0.005 | -0.004 | -0.007 | -0.014 | -0.009 |
| | (0.750) | (0.913) | (0.941) | (0.894) | (0.772) | (0.848) |
| Red State=1 | -0.056 | -0.075 | -0.074 | -0.067 | -0.073 | -0.087 |
| | (0.711) | (0.613) | (0.616) | (0.658) | (0.623) | (0.561) |
| Duopoly | -5.439** | -4.461* | -4.596** | -5.453** | -4.679** | -4.741** |
| | (0.024) | (0.050) | (0.044) | (0.020) | (0.039) | (0.037) |
| Excess Return | 0.379*** | 0.428*** | 0.428*** | 0.400*** | 0.410*** | 0.416*** |
| | (0.003) | (0.001) | (0.001) | (0.002) | (0.002) | (0.001) |
| Return Vol. | -2.614*** | -3.040*** | -3.033*** | -2.637*** | -2.964*** | -3.016*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Return Skew | 0.154** | 0.147** | 0.145** | 0.135** | 0.137** | 0.141** |
| | (0.025) | (0.028) | (0.030) | (0.048) | (0.040) | (0.036) |
| Share Turnover | 0.001 | 0.003 | 0.003 | 0.002 | 0.003 | 0.004 |
| | (0.855) | (0.490) | (0.497) | (0.651) | (0.409) | (0.372) |
| ROA | 0.731* | 0.791** | 0.788** | 0.810** | 0.774** | 0.735* |
| | (0.058) | (0.042) | (0.044) | (0.036) | (0.046) | (0.057) |
| Sales Growth | -0.035 | -0.051 | -0.050 | -0.033 | -0.045 | -0.044 |
| | (0.579) | (0.412) | (0.419) | (0.603) | (0.463) | (0.472) |
| R&D | 2.588*** | 2.820*** | 2.814*** | 2.627*** | 2.803*** | 2.691*** |
| | (0.005) | (0.002) | (0.002) | (0.004) | (0.002) | (0.003) |
| PP&E | -0.115 | -0.089 | -0.088 | 0.002 | 0.018 | -0.064 |
| | (0.791) | (0.834) | (0.838) | (0.996) | (0.967) | (0.881) |
| Rep. Offender=1 | 0.181 | 0.168 | 0.174 | 0.162 | 0.152 | 0.179 |
| | (0.221) | (0.246) | (0.231) | (0.275) | (0.294) | (0.218) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Auditor Quality=1 | 0.354* | 0.286 | 0.289 | 0.278 | 0.298 | 0.309* |
| | (0.055) | (0.111) | (0.106) | (0.132) | (0.102) | (0.088) |
| NYSE=1 | 0.115 | 0.146 | 0.146 | 0.210 | 0.175 | 0.154 |
| | (0.445) | (0.315) | (0.315) | (0.161) | (0.230) | (0.289) |
| BM | -0.133 | -0.106 | -0.101 | -0.098 | -0.089 | -0.092 |
| | (0.320) | (0.417) | (0.442) | (0.465) | (0.493) | (0.476) |
| ln(Assets) | -0.058 | -0.055 | -0.066 | -0.090* | -0.073 | -0.086* |
| | (0.210) | (0.224) | (0.135) | (0.061) | (0.115) | (0.054) |
| FPS=1 | 0.102 | 0.116 | 0.121 | 0.087 | 0.097 | 0.104 |
| | (0.702) | (0.663) | (0.651) | (0.748) | (0.716) | (0.699) |
| Distress Risk=1 | 0.242 | 0.203 | 0.208 | 0.182 | 0.169 | 0.181 |
| | (0.174) | (0.244) | (0.234) | (0.304) | (0.337) | (0.300) |
| Debt Fin. | -0.593 | -0.592* | -0.594* | -0.667* | -0.610* | -0.604* |
| | (0.108) | (0.085) | (0.085) | (0.065) | (0.075) | (0.080) |
| Equity Fin. | 0.079 | 0.082 | 0.088 | 0.113 | 0.095 | 0.077 |
| | (0.622) | (0.610) | (0.586) | (0.478) | (0.545) | (0.627) |
| FCF | -0.175 | -0.109 | -0.112 | -0.296 | -0.163 | -0.096 |
| | (0.645) | (0.768) | (0.762) | (0.432) | (0.656) | (0.794) |
| Disc. Accruals | 0.269 | 0.137 | 0.149 | 0.158 | 0.122 | 0.145 |
| | (0.668) | (0.825) | (0.811) | (0.800) | (0.845) | (0.816) |
| Leverage | 0.011 | 0.135 | 0.149 | 0.167 | 0.204 | 0.210 |
| | (0.969) | (0.629) | (0.594) | (0.562) | (0.467) | (0.450) |
| Tot-LD | | -0.038** | | | 0.068* | |
| | | (0.018) | | | (0.083) | |
| Firm-Don=1 | | | -0.290** | | | 0.542* |
| | | | (0.029) | | | (0.087) |
| Top 5 IO Concen. | | | | -7.399*** | -3.567*** | 1.268* |
| | | | | (<0.001) | (0.005) | (0.092) |
| Top 5 IO Concen. # Pre-LD | | | | -0.620*** | | |
| | | | | (<0.001) | | |
| Home=1 # Convictions | | | | -0.308*** | -0.288** | |
| | | | | (0.010) | (0.014) | |
| Top 5 IO Concen. # Tot-LD | | | | | -0.352*** | |
| | | | | | (0.004) | |
| Firm-Don=1 # Top 5 IO Concen. | | | | | | -2.790*** |
| | | | | | | (0.004) |
| Constant | 2.151 | 0.980 | 1.573 | 2.994 | 1.239 | 1.332 |
| | (0.482) | (0.737) | (0.587) | (0.337) | (0.677) | (0.649) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1816 | 1816 | 1816 | 1816 | 1816 | 1816 |
| Pseudo R-Squared | 0.2244 | 0.2008 | 0.2004 | 0.2280 | 0.2068 | 0.2035 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 24: Board and Executive Characteristics, and Litigation Duration – Cox models**

This table reports the results of Cox Proportional Hazards model regressions in which the dependent variable in all models is Litigation Duration, measured in days. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| ln(Bd Age) | 1.641** | | 1.193*** | 1.540** |
| | (0.017) | | (0.004) | (0.032) |
| CEO Equity Wealth | -<0.001*** | -<0.001** | | -<0.001* |
| | (0.004) | (0.027) | | (0.092) |
| SOX=1 | 0.337** | 0.396*** | 0.672*** | 0.377** |
| | (0.033) | (0.007) | (<0.001) | (0.020) |
| Bd Netwk. | 0.167** | 0.130** | 0.099** | 0.177*** |
| | (0.011) | (0.028) | (0.020) | (0.008) |
| Pre-LD | 0.039*** | | | |
| | (0.001) | | | |
| CU=1 | 0.535*** | 0.743*** | 0.609*** | 0.497*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Dur-LD | -0.086*** | | | |
| | (<0.001) | | | |
| Post-LD | 0.055*** | 0.064*** | | |
| | (<0.001) | (<0.001) | | |
| Supreme Ct. | 6.916*** | 5.639*** | 3.585** | 5.269*** |
| | (0.001) | (0.005) | (0.011) | (0.010) |
| Home=1 | -0.155* | | | -0.185** |
| | (0.085) | | | (0.039) |
| GDP Growth | -0.056*** | -0.056*** | -0.045*** | -0.052*** |
| | (0.001) | (0.001) | (<0.001) | (0.002) |
| Unemp. | -0.150*** | -0.156*** | -0.117*** | -0.123*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Excess Return | 0.221** | | 0.135** | 0.245** |
| | (0.044) | | (0.017) | (0.015) |
| Return Vol. | -1.495** | -1.129* | -1.449*** | -1.481** |
| | (0.018) | (0.061) | (<0.001) | (0.018) |
| ln(Assets) | -0.203*** | -0.196*** | -0.103*** | -0.209*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Distress Risk=1 | 0.286** | | 0.261*** | 0.231** |
| | (0.013) | | (<0.001) | (0.041) |
| Pre-Or-Dur | | -0.043*** | | |
| | | (<0.001) | | |
| Judges | | -0.295* | | |
| | | (0.062) | | |
| PAI | | 0.232* | | |
| | | (0.054) | | |
| Sales Growth | | -0.178*** | | -0.107** |
| | | (0.001) | | (0.050) |
| Tot-LD | | | -0.037*** | |
| | | | (<0.001) | |
| Firm-Don=1 | | | | -0.222** |
| | | | | (0.035) |
| Industry Fixed Effects | Yes | Yes | Yes | Yes |
| Observations | 684 | 704 | 1255 | 683 |
| Pseudo R-Squared | 0.0399 | 0.0338 | 0.0273 | 0.0322 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 |

**Table 25: Firm Institutional Ownership, Ownership Concentration, and Litigation Duration – Cox models**
This table reports the results of Cox Proportional Hazards model regressions in which the dependent variable in all models is Litigation Duration, measured in days. Note: Industry fixed effects are not included in the firm ownership Cox Proportional Hazard models. Definitions for all variables are given in Table 14. Standard errors are White (1980) heteroskedasticity-adjusted. p values are reported in parentheses under each coefficient. To denote statistical significance, we use *** for the 1% level, ** for the 5% level, and * for the 10% level, respectively.

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Top 5 IO Concen. | 0.645*** | 0.724*** | 0.706*** | 0.628*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Pre-LD | 0.024*** | | | |
| | (0.002) | | | |
| CU=1 | 0.999*** | 1.023*** | 1.027*** | 1.020*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Dur-LD | -0.081*** | | | |
| | (<0.001) | | | |
| Judges | 0.253** | | | |
| | (0.013) | | | |
| Supreme Ct. | 3.262*** | 3.610*** | 3.692*** | 3.744*** |
| | (0.005) | (0.002) | (0.001) | (0.001) |
| Disc. Accruals | 0.454** | 0.423** | 0.376* | 0.377* |
| | (0.033) | (0.048) | (0.073) | (0.069) |
| GDP Growth | -0.042*** | -0.042*** | -0.041*** | -0.041*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Unemp. | -0.133*** | -0.132*** | -0.129*** | -0.130*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Excess Return | 0.304*** | 0.311*** | 0.318*** | 0.306*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Return Vol. | -2.351*** | -2.445*** | -2.545*** | -2.524*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Return Skew | 0.114*** | 0.107*** | 0.108*** | 0.109*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Sales Growth | -0.095*** | -0.096*** | -0.110*** | -0.109*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| ln(Assets) | -0.096*** | -0.095*** | -0.097*** | -0.116*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Distress Risk=1 | 0.314*** | 0.318*** | 0.328*** | 0.292*** |
| | (<0.001) | (<0.001) | (<0.001) | (<0.001) |
| Equity Fin. | -0.093*** | -0.099*** | | |
| | (<0.001) | (<0.001) | | |
| Pre-Or-Dur | | -0.051*** | | |
| | | (<0.001) | | |
| Tot-LD | | | -0.041*** | |
| | | | (<0.001) | |
| Firm-Don=1 | | | | -0.292*** |
| | | | | (<0.001) |
| Leverage | | | | 0.191* |
| | | | | (0.051) |
| Observations | 2134 | 2134 | 2134 | 2134 |
| Pseudo R-Squared | 0.0385 | 0.0355 | 0.0341 | 0.0337 |
| Chi-Sq Test (p-value) | <0.001 | <0.001 | <0.001 | <0.001 |