

Internet Appendix for “Federal Judge Ideology: A New Measure of Ex-Ante Litigation Risk”

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Internet Appendix I

Relations between judge ideology and securities class action lawsuit outcomes

In proposing judge ideology as a measure of litigation risk, we are drawing on the political science literature to argue that judge ideology influences securities class action lawsuit rulings. In this Appendix, we document empirical evidence to corroborate our argument. We also test the effect of judge ideology on the cost of litigation. Compared with dismissed lawsuits, settled lawsuits can cost firms much more because of lengthy discovery, high legal fees (Klausner, Hegland and Goforth [2013]), increased director and officer insurance premiums (Donelson and Yust [2017]) and of course the settlement payout itself. We measure lawsuit outcomes by examining whether a lawsuit ends in a dismissal, and if not, its settlement amount. We expect that lawsuits filed in more liberal circuits are less likely to be dismissed and the ones not dismissed result in larger settlements.

Dismissal test

When a lawsuit is filed before the court, the defendant can file a motion to dismiss the case. In response, the judge can either deny or grant the motion. We expect that judges who are more liberal will be friendlier to plaintiffs and thus, are less likely to grant the motion for dismissal. For each lawsuit, we code *Dismissal* as one if the case ends in a dismissal, and zero otherwise. In our testing sample, the mean of *Dismissal* is 0.364, suggesting that about one third of the cases in our sample were ultimately dismissed. We estimate the following logistic regression:

$$\text{Logit}(\text{Dismissal}) = f(\text{LiberalCourt}, \text{FPS}/\text{Pred_FirmRisk}, \text{Controls_Outcome}) + \varepsilon \quad (\text{I.1})$$

In the above regression, we control for predicted litigation risk using high-litigation industries (*FPS*) or a composite measure (*Pred_FirmRisk*). We also include variables to control for case characteristics, including whether the SEC investigated the class action period (*AAER*), whether the lawsuit involves a financial report misstatement or restatement (*Restatement*), whether the lawsuit involves insider trading (*InsiderTrading*), the estimated damage to shareholders (*Damage*, estimated following Skinner [1997], see Table IA18 of this Internet Appendix for details), firm size (*Size*), cumulative stock returns (*Return*), turnover (*Turnover*) and institutional ownership (*IO*). In addition, we control for the macroeconomic environment and political climate in the state, i.e., state-level GDP growth (*GDPGR*), unemployment rate (*UNEMP*) and the state's most recent presidential election outcome (*BlueState*). To control for the endogeneity of the lawsuit filing decision, we also include control variables from Eq. (2) of the main paper, i.e., sales growth (*SalesGR*), firm risk (*Beta*), return volatility (*RetVol*), return skewness (*RetSkw*), past returns (*Return*), minimum return (*MinRet*), leverage (*Leverage*), external financing (*Financing*), industry past return (*IndRet*), industry return volatility (*IndRetVol*) and market return (*MktRet*).^{1,2}

We report the results of estimating Eq. (I.1) in Columns (1) and (2) of Table IA16. *LiberalCourt* is negatively associated with the probability of dismissal in both columns, consistent with our prediction that lawsuits in more liberal circuits are less likely to be dismissed. For instance, the coefficient -0.779 (*t*-stat of -1.76) in column (1) suggests that an increase in *LiberalCourt* from Q1 to Q3 results in a 14.6% decrease in the odds of a case being dismissed (from 34.8% to 29.7% in absolute terms). Neither *FPS* nor *Pred_FirmRisk* is significant in explaining the dismissal, suggesting that industry membership and firm characteristics do not predict judges' dismissal decisions and measure a different aspect of litigation risk,

¹ In a sensitivity test, we replace these variables with the inverse Mill's ratio (IMR), estimated using Eq. (2) in the main paper, to control for endogeneity of lawsuit filing decisions, and find similar results.

² When we include circuit and year fixed effects, the coefficient on judge ideology is in the predicted direction but insignificant at the conventional level. This is likely because the small sample size yields insufficient testing power to capture variations within circuits and years.

from judge ideology.

Settlement test

Shareholder securities class action lawsuits rarely go to trial and almost all cases that are not dismissed result in a settlement. The settlement amounts paid by defendant firms are substantial, with a mean (median) of 16.8 (5.6) million dollars in our sample. We expect that when judges are more liberal, plaintiffs have greater bargaining power and thus can negotiate a larger settlement from the defendants. We estimate Eq. (I.2) below with the same control variables as those in the dismissal test and report the results in Columns (3) and (4) of Table IA16.

$$\text{SettleAmt} = f(\text{LiberalCourt}, \text{FPS}/\text{Pred_FirmRisk}, \text{Controls_Outcome}) + \varepsilon \quad (\text{I.2})$$

In both columns, we find positive coefficients on *LiberalCourt* (significant at the 5% and the 10% levels respectively). This is consistent with our prediction that lawsuits filed in more liberal circuits garner larger settlements. In terms of economic significance, an increase of *LiberalCourt* from Q1 to Q3 results in an increase of \$907,274 dollars for an average case. *FPS* is not significant in Column (3), further confirming that judge ideology captures an aspect of litigation risk different from industry membership. *Pred_FirmRisk* is significant and positive, indicating that firm characteristics are important predictors of settlement amounts. In summary, our evidence confirms that lawsuits filed in circuits with judges that are more liberal have more pro-plaintiff outcomes. This corroborates our argument and provides confidence in judge ideology as an ex-ante litigation risk measure.

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Table IA1
Descriptive statistics of securities class action lawsuit outcomes

This table lists the outcomes of 3,898 lawsuits from the Stanford Class Action Clearinghouse during the 1996–2014 period.

Group	Outcomes in District Courts	Appealed to Circuit Courts	Final Outcomes	# of Cases
(1)	Dismissed	Not appealed	Dismissed	957
(2)	Dismissed	Appealed	Dismissed	445
(3)	Dismissed	Appealed	Settled	328
(4)	Dismissed	Appealed	Ongoing	24
(5)	Settled	Not appealed	Settled	1,797
(6)	Still ongoing	Unknown	Ongoing	347
<u>Outcomes in District Courts:</u>				
	Dismissed : (1) + (2) + (3) + (4)			1,754
	Settled : (5)			1,797
	Still ongoing: (6)			347
<u>Appealed to Circuit Courts:</u>				
	Cases appealed: (2) + (3) + (4)			773
<u>Final Outcomes:</u>				
	Settled: (3) + (5)			2,125
	Dismissed: (1) + (2)			1,402
	Ongoing: (4) + (6)			371
Total number of cases 1996–2014: (1) + (2) + (3) + (4) + (5) + (6)				3,898

Table IA2
Securities class action lawsuit sample selection: by circuits

This table reports the sample selection procedure for the securities class action lawsuit sample by filing circuits. We show the number of cases dropped, the cases dropped as a percentage of total cases, the number of remaining cases, and the remaining cases as a percentage of total cases at each step within each circuit.

Circuits	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th	11 th	D.C.	Total
Lawsuit filings during 1996–2014 from the SCAC website													
# of cases	190	1,216	304	156	243	175	170	132	872	121	300	19	3,898
Less: Filings with Non Rule 10b-5 violations													
# of cases dropped	(26)	(187)	(60)	(23)	(30)	(23)	(30)	(14)	(101)	(26)	(51)	(2)	(573)
% of total cases	(14%)	(15%)	(20%)	(15%)	(12%)	(13%)	(18%)	(11%)	(12%)	(21%)	(17%)	(11%)	(15%)
# of cases remaining	164	1,029	244	133	213	152	140	118	771	95	249	17	3,325
% of total cases	86%	85%	80%	85%	88%	87%	82%	89%	88%	79%	83%	89%	85%
Less: Filings against non-US companies													
# of cases dropped	(7)	(267)	(28)	(11)	(6)	(2)	(1)	(1)	(49)	(3)	(8)	(2)	(385)
% of total cases	(4%)	(22%)	(9%)	(7%)	(2%)	(1%)	(1%)	(1%)	(6%)	(2%)	(3%)	(11%)	(10%)
# of cases remaining	157	762	216	122	207	150	139	117	722	92	241	15	2,940
% of total cases	83%	63%	71%	78%	85%	86%	82%	89%	83%	76%	80%	79%	75%
Less: Filings against companies not listed on NYSE, AMEX, or NASDAQ													
# of cases dropped	(5)	(48)	(11)	(14)	(9)	(11)	(7)	(7)	(47)	(6)	(29)	(1)	(195)
% of total cases	(3%)	(4%)	(4%)	(9%)	(4%)	(6%)	(4%)	(5%)	(5%)	(5%)	(10%)	(5%)	(5%)
# of cases remaining	152	714	205	108	198	139	132	110	675	86	212	14	2,745
% of total cases	80%	59%	67%	69%	81%	79%	78%	83%	77%	71%	71%	74%	70%
Less: Filings against companies not in Compustat or CRSP													
# of cases dropped	(4)	(49)	(17)	(3)	(15)	(9)	(3)	(6)	(21)	(2)	(9)	(1)	(139)
% of total cases	(2%)	(4%)	(6%)	(2%)	(6%)	(5%)	(2%)	(5%)	(2%)	(2%)	(3%)	(5%)	(4%)
# of cases remaining	148	665	188	105	183	130	129	104	654	84	203	13	2,606
% of total cases	78%	55%	62%	67%	75%	74%	76%	79%	75%	69%	68%	68%	67%
Less: Filings against companies with missing variables in all firm-years in the class periods													
# of cases dropped	(31)	(311)	(31)	(14)	(34)	(16)	(17)	(13)	(110)	(11)	(44)	(1)	(633)
% of total cases	(16%)	(26%)	(10%)	(9%)	(14%)	(9%)	(10%)	(10%)	(13%)	(9%)	(15%)	(5%)	(16%)
# of cases remaining	117	354	157	91	149	114	112	91	544	73	159	12	1,973
% of total cases	62%	29%	52%	58%	61%	65%	66%	69%	62%	60%	53%	63%	51%

Table IA3
Relation between judge ideology and firm characteristics and demographic variables, controlling for IT Bubble

This table reports the OLS regression results on the relation between *LiberalCourt* and firm characteristics and demographic variables. We estimate the OLS regression of $LiberalCourt = f(FPS, Controls_SUED) + \varepsilon$. *Controls_SUED* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. In column (1), we exclude firm-year observations where the firm's headquarter was in California or Washington and between year 1996 and 2000; in column (2), we include *ITBubble*. *t*-stats based on standard errors estimated clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this appendix.

Dependent Variable:	(1)	(2)
	<i>LiberalCourt</i>	
<i>FPS</i>	0.003 (1.58)	0.003 (1.58)
<i>Size</i>	0.000 (0.33)	0.000 (0.41)
<i>SalesGR</i>	0.002 (1.02)	0.001 (0.94)
<i>Beta</i>	-0.001 (-0.70)	-0.001 (-0.57)
<i>RetVol</i>	-0.008 (-1.21)	-0.007 (-1.12)
<i>RetSkw</i>	0.000 (0.88)	0.000 (0.89)
<i>Return</i>	-0.000 (-0.31)	-0.000 (-0.20)
<i>MinRet</i>	-0.013* (-2.01)	-0.011* (-1.93)
<i>Turnover</i>	-0.001 (-1.42)	-0.001 (-1.19)
<i>IO</i>	0.000 (0.12)	0.000 (0.06)
<i>Leverage</i>	0.001 (0.28)	0.000 (0.03)
<i>Financing</i>	-0.000 (-0.20)	-0.000 (-0.46)
<i>IndRet</i>	-0.001 (-0.73)	-0.002 (-1.01)
<i>IndRetVol</i>	-0.001 (-0.07)	0.002 (0.17)

<i>MktRet</i>	-0.014** (-2.07)	-0.018** (-2.64)
<i>GDPGR</i>	-0.010 (-0.05)	-0.007 (-0.04)
<i>UNEMP</i>	0.301 (0.79)	0.213 (0.62)
<i>BlueState</i>	0.055** (2.48)	0.056** (2.58)
<i>ITBubble</i>		-0.140*** (-4.72)
<i>Intercept</i>	0.003 (1.58)	0.003 (1.58)
State FE	Yes	Yes
Year FE	Yes	Yes
Adjusted R ²	76.81%	77.48%
# of Observations	85,361	91,698

Table IA4

Relation between judge ideology and litigation occurrence: using score bootstrap procedure

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology. We estimate the logit model $SUED = f(LiberalCourt, FPS, Controls_SUED) + \varepsilon$; *Controls_SUED* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. z-stats based on standard errors estimated using score bootstrap are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper.

Dependent Variable:	(1)	(2)
	<i>SUED</i>	
<i>LiberalCourt</i>	1.182*** (4.71)	1.137*** (4.41)
<i>FPS</i>	0.136** (2.14)	0.148** (2.29)
<i>Controls_SUED</i>	Yes	Yes
Circuit FE	Yes	-
State FE	-	Yes
Year FE	Yes	Yes
Pseudo R ²	12.93%	13.35%
# of Observations	91,698	91,698

Table IA5

Relation between judge ideology and litigation occurrence: firm fixed-effects

This table reports the logit model and the linear probability model (LPM) regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology. In column (1), we estimate the logit model $SUED = f(LiberalCourt, Controls_Sued) + \varepsilon$; *Controls_SUED* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. In column (2), we use LPM instead of the logit model. *z*-stats (or *t*-stats) for the logit (or LPM) model, based on standard errors clustered by state, are reported in parentheses below the coefficients. In both columns, we drop *FPS* because we include firm fixed effects. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper.

	(1)	(2)
	Logit	LPM
Dependent Variable:	<i>SUED</i>	
<i>LiberalCourt</i>	1.816** (2.51)	0.060** (2.26)
<i>Controls_SUED</i>	Yes	Yes
Firm FE	Yes	Yes
Pseudo (Adjusted) R ²	13.59%	26.34%
# of Observations	16,844	91,698

Table IA6

Relation between judge ideology and litigation occurrence: explanatory power

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology. We estimate the logit model $SUED = f(LiberalCourt, FPS, Controls_FirmInd) + \varepsilon$; *Controls_FirmInd* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, and *MktRet*. z-stats based on standard errors estimated clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper.

Dependent Variable:	(1)	(2)	(3)	(4)
	<i>SUED</i>			
<i>LiberalCourt</i>		0.750*** (2.83)		0.715*** (2.68)
<i>FPS</i>			0.154** (2.34)	0.126 (1.95)
<i>Controls_FirmInd</i>	Yes	Yes	Yes	Yes
Pseudo R ²	11.39%	11.47%	11.35%	11.50%
AUC	76.932	77.093	76.990	77.139
# of Observations	91,698	91,698	91,698	91,698
Chi-square tests of equality in AUCs:				
Comparing (2) with (1)		10.961***		
Comparing (3) with (1)		4.687**		
Comparing (2) with (3)		3.686*		
Comparing (4) with (3)		10.500***		

Table IA7

**Relation between judge ideology and litigation occurrence:
linear probability model**

This table reports the linear probability model regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology. We estimate the OLS model $SUED = f(LiberalCourt, FPS, Controls_FirmInd, Control_Geo) + \varepsilon$; *Controls_FirmInd* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, and *MktRet*. *Controls_Geo* includes *GDPGR*, *UNEMP*, and *BlueState*. *t*-stats based on standard errors estimated clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper.

Dependent Variable:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<i>SUED</i>							
<i>LiberalCourt</i>		0.036*** (2.75)		0.035** (2.66)		0.045*** (4.81)		0.044*** (4.74)
<i>FPS</i>			0.006* (1.73)	0.005 (1.50)			0.006** (2.05)	0.006** (1.97)
<i>Controls_FirmInd</i>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Controls_Geo</i>	-	-	-	-	Yes	Yes	Yes	Yes
Circuit FE	-	-	-	-	Yes	Yes	Yes	Yes
Year FE	-	-	-	-	Yes	Yes	Yes	Yes
Adjusted R ²	4.52%	4.59%	4.53%	4.60%	5.13%	5.16%	5.14%	5.17%
# of Observations	91,698	91,698	91,698	91,698	91,698	91,698	91,698	91,698
Vuong test of the difference in adjusted R²s								
(2) compare to (1)		0.07%***						
(4) compare to (3)				0.07%***				
(6) compare to (5)						0.03%***		
(8) compare to (7)								0.03%***

Table IA8
Relation between judge ideology and litigation occurrence: alternative samples

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology. We estimate the logit model $SUED = f(LiberalCourt, FPS, Controls_SUED) + \varepsilon$; *Controls_SUED* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. In column (1), we remove firm-years from the Ninth Circuit; in column (2), we remove firm-years from the Second Circuit; in column (3), we remove firm-years from financial industries; in column (4), we remove lawsuits related to IPO allocation, analyst, hedge funds or mutual funds; in column (5), we remove firm-year observations before the enactment of the SLUSA on November 3rd, 1998; in column (6), we remove firm-years from the states of CA and WA and before year 2001; and in column (7) we use the full sample but include *ITBubble*. *z*-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this appendix.

Dependent Variable:	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	<i>SUED</i>						
<i>LiberalCourt</i>	1.025*** (3.45)	1.247*** (4.44)	1.377*** (5.43)	1.220*** (4.97)	1.253*** (4.36)	1.096*** (3.83)	1.063*** (3.93)
<i>FPS</i>	0.135 (1.58)	0.127* (1.78)	0.247*** (3.34)	0.178*** (2.79)	0.140* (1.96)	0.143* (2.12)	0.137** (2.14)
<i>ITBubble</i>							-0.119* (-1.76)
<i>Controls_SUED</i>	Yes						
Circuit FE	Yes						
Year FE	Yes						
Pseudo R ²	13.06%	12.33%	12.67%	12.40%	12.47%	12.67%	12.94%
# of observations	71,539	80,915	75,365	91,698	78,104	85,361	91,698

Table IA9
Relation between judge ideology and litigation occurrence:
alternative judge ideology measure incorporating Senate composition

This table reports the logit regression results on the relation between the securities class action lawsuit occurrences and a measure of circuit court judge ideology incorporating Senate composition. We estimate the logit model $SUED = f(LiberalCourt_Sen, FPS, Controls_SUED) + \varepsilon$; *Controls_SUED* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. z-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this Appendix.

Dependent Variable:	(1)	(2)
	<i>SUED</i>	
<i>LiberalCourt_Sen</i>	0.118*** (4.26)	0.116*** (4.18)
<i>FPS</i>	0.137** (2.15)	0.149** (2.30)
<i>Controls_SUED</i>	Yes	Yes
Circuit FE	Yes	-
State FE	-	Yes
Year FE	Yes	Yes
Pseudo R ²	12.93%	13.35%
# of Observations	91,698	91,698

Table IA10

Relation between district court judge ideology and litigation occurrence

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and district court judge ideology. In column (1), we estimate the logit model $SUED = f(DistrictCourt, FPS, Controls_SUED) + \varepsilon$; in columns (2) and (3), we supplement column (1) with *LiberalCourt*; *Controls_SUED* include *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. *z*-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this Appendix.

Dependent Variable:	(1)	(2)	(3)
		<i>SUED</i>	
<i>DistrictCourt</i>	0.589** (2.47)	0.353 (1.56)	-0.173 (-0.71)
<i>LiberalCourt</i>		0.898*** (2.86)	1.215*** (4.52)
<i>FPS</i>	0.151** (2.28)	0.134** (2.15)	0.137** (2.14)
<i>Controls_SUED</i>	Yes	Yes	Yes
Circuit FE	-	-	Yes
Year FE	-	-	Yes
Pseudo R ²	11.64%	11.82%	12.94%
# of Observations	91,698	91,698	91,698

Table IA11

Relation between district judge ideology and litigation occurrence: partitioned by circuit court – district court ideology conformity

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and district court judge ideology. In columns (1) and (2), we estimate the logit model $SUED = f(DistrictCourt, FPS, Controls_SUED) + \varepsilon$; *Controls_SUED* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. Columns (1) and (2) tests the model in the sample with *Conform* equals to one and zero, respectively.. In column (3), we use the full sample and include *Conform* and its interaction term with *DistrictCourt*. z-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this Appendix.

Sample Dependent Variable:	(1) <i>Conform</i> = 1	(2) <i>Conform</i> = 0 <i>SUED</i>	(3) Full Sample
<i>DistrictCourt</i>	1.139*** (2.86)	-0.464 (-1.31)	-0.474 (-1.30)
<i>DistrictCourt</i> · <i>Conform</i>			1.626*** (2.61)
<i>Conform</i>			-0.744** (-2.36)
<i>FPS</i>	0.162** (2.51)	0.131 (1.15)	0.145** (2.24)
<i>Controls_SUED</i>	Yes	Yes	Yes
Pseudo R ²	11.55%	12.23%	11.75%
# of Observations	91,698	91,698	91,698
Wald Test (Chi-square) against <i>DistrictCourt</i> + <i>DistrictCourt</i> · <i>Conform</i> = 0			8.30***

Table IA12

Relation between judge ideology and litigation occurrence:

Controlling for Political Donations

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology. We estimate the logit model $SUED = f(LiberalCourt, LiberalDonation, FPS, Controls_SUED) + \varepsilon$; *Controls_SUED* includes *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. z-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the two-tailed 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this Internet Appendix.

Dependent Variable:	(1)	(2)
	<i>SUED</i>	
<i>LiberalCourt</i>	0.952*** (3.01)	0.995*** (3.05)
<i>LiberalDonation</i>	0.181 (0.93)	0.248 (1.24)
<i>LiberalCourt</i> · <i>LiberalDonation</i>	0.386 (1.36)	0.237 (0.79)
<i>FPS</i>	0.135** (2.10)	0.146** (2.26)
<i>Controls_SUED</i>	Yes	Yes
Circuit FE	Yes	-
State FE	-	Yes
Pseudo (Adjusted) R ²	12.95%	13.37%
# of Observations	91,698	91,698

Table IA13
Relation between judge ideology and litigation occurrence before and after *Tellabs*:
additional interaction terms

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology before and after Supreme Court's *Tellabs* ruling. We estimate the logit regression of $SUED = f(LiberalCourt, AfterTellabs, LiberalCourt \cdot AfterTellabs, FPS, FPS \cdot AfterTellabs, Size \cdot AfterTellabs, Controls_SUED) + \varepsilon$ in columns (1) and (2). *Controls_SUED* include *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. In columns (3) and (4), we supplement the regression with the interaction terms between *AfterTellabs* and remaining variables in *Controls_SUED*. *z*-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper.

Dependent Variable:	(1)	(2)	(3)	(4)
	<i>SUED</i>			
<i>LiberalCourt</i>	0.675** (2.46)	0.598** (2.13)	0.746*** (2.81)	0.670** (2.43)
<i>AfterTellabs</i>	0.055 (0.26)	0.053 (0.25)	-0.052 (-0.18)	-0.100 (-0.35)
<i>LiberalCourt</i> · <i>AfterTellabs</i>	0.772*** (2.74)	0.814*** (2.81)	0.961*** (3.09)	0.912*** (2.72)
<i>FPS</i> · <i>AfterTellabs</i>	0.018 (0.18)	0.015 (0.15)	-0.052 (-0.48)	-0.064 (-0.59)
<i>Size</i> · <i>AfterTellabs</i>	-0.043* (-1.76)	-0.046* (-1.89)	-0.001 (-0.04)	-0.004 (-0.12)
<i>SalesGR</i> · <i>AfterTellabs</i>			0.150* (1.69)	0.154* (1.74)
<i>Beta</i> · <i>AfterTellabs</i>			-0.017 (-0.21)	-0.016 (-0.19)
<i>RetVol</i> · <i>AfterTellabs</i>			1.901** (2.38)	1.901** (2.37)
<i>RetSkw</i> · <i>AfterTellabs</i>			-0.019 (-0.28)	-0.020 (-0.30)
<i>Return</i> · <i>AfterTellabs</i>			-0.059 (-0.76)	-0.061 (-0.79)
<i>MinRet</i> · <i>AfterTellabs</i>			-0.135 (-0.26)	-0.103 (-0.20)
<i>Turnover</i> · <i>AfterTellabs</i>			-0.060*** (-2.94)	-0.058*** (-2.86)
<i>IO</i> · <i>AfterTellabs</i>			0.229	0.217

			(0.99)	(0.93)
<i>Leverage · AfterTellabs</i>			-1.157***	-1.172***
			(-5.03)	(-5.10)
<i>Financing · AfterTellabs</i>			0.145	0.141
			(1.61)	(1.57)
<i>IndRet · AfterTellabs</i>			0.032	0.038
			(0.23)	(0.27)
<i>IndRetVol · AfterTellabs</i>			-0.904	-0.865
			(-1.24)	(-1.19)
<i>MktRet · AfterTellabs</i>			-0.479**	-0.494**
			(-2.28)	(-2.31)
<i>GDPGR · AfterTellabs</i>			1.162	1.482
			(0.53)	(0.70)
<i>UNEMP · AfterTellabs</i>			-2.032	-1.105
			(-1.07)	(-0.51)
<i>BlueState · AfterTellabs</i>			-0.117	-0.099
			(-0.97)	(-0.78)
<i>FPS</i>	0.127**	0.140**	0.148**	0.165***
	(2.13)	(2.35)	(2.42)	(2.72)
<i>Size</i>	0.374***	0.374***	0.364***	0.364***
	(11.33)	(11.41)	(11.68)	(11.79)
<i>SalesGR</i>	0.556***	0.548***	0.527***	0.518***
	(9.89)	(9.73)	(9.17)	(8.99)
<i>Beta</i>	0.142***	0.149***	0.145***	0.152***
	(3.34)	(3.61)	(3.53)	(3.82)
<i>RetVol</i>	0.703**	0.668*	0.213	0.174
	(1.99)	(1.85)	(0.56)	(0.46)
<i>RetSkw</i>	-0.033	-0.033	-0.030	-0.029
	(-1.43)	(-1.43)	(-0.72)	(-0.71)
<i>Return</i>	0.033	0.034	0.046	0.048
	(0.86)	(0.89)	(1.09)	(1.13)
<i>MinRet</i>	-1.416***	-1.419***	-1.306***	-1.319***
	(-4.89)	(-4.88)	(-4.22)	(-4.26)
<i>Turnover</i>	0.146***	0.143***	0.172***	0.169***
	(13.60)	(13.87)	(11.62)	(11.63)
<i>IO</i>	0.354***	0.363***	0.256*	0.268**
	(3.19)	(3.39)	(1.92)	(2.01)
<i>Leverage</i>	0.051	0.037	0.487***	0.474***
	(0.40)	(0.27)	(3.09)	(2.91)
<i>Financing</i>	0.359***	0.359***	0.316***	0.317***
	(11.86)	(11.96)	(8.45)	(8.61)
<i>IndRet</i>	-0.202***	-0.200***	-0.207***	-0.206***

	(-5.33)	(-5.30)	(-4.47)	(-4.49)
<i>IndRetVol</i>	1.143**	1.043**	1.406***	1.299***
	(2.17)	(2.01)	(2.85)	(2.67)
<i>MktRet</i>	0.221	0.208	0.421**	0.417**
	(1.06)	(1.02)	(2.24)	(2.24)
<i>GDPGR</i>	2.392**	2.094*	1.917	1.425
	(2.32)	(1.92)	(1.35)	(0.96)
<i>UNEMP</i>	4.198**	1.709	5.904***	2.981
	(2.44)	(0.95)	(3.33)	(1.51)
<i>BlueState</i>	-0.131	-0.092	-0.098	-0.067
	(-1.47)	(-0.74)	(-1.00)	(-0.52)
<i>Intercept</i>	-7.212***	-	-7.325***	-
	(-23.61)	(-19.93)	(-22.22)	(-20.52)
<i>Circuit FE</i>	Yes	-	Yes	-
<i>State FE</i>	-	Yes	-	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes
Adjusted R ²	12.99%	13.41%	13.20%	13.61%
# of Observations	91,698	91,698	91,698	91,698
	28.393***	25.928***	25.101***	19.012***

Table IA14
Relation between judge ideology and litigation occurrence before and after Tellabs: litigation risk matched sample

This table reports the logit regression results on the relation between securities class action lawsuit occurrences and circuit court judge ideology before and after Supreme Court’s *Tellabs* ruling. We estimate the logit regression of $SUED = f(LiberalCourt, AfterTellabsMatch, LiberalCourt \cdot AfterTellabsMatch, FPS, FPS \cdot AfterTellabs, Size \cdot AfterTellabsMatch, Controls_SUED) + \varepsilon$ in columns (1) and (2). *Controls_SUED* include *Size*, *SalesGR*, *Beta*, *RetVol*, *RetSkw*, *Return*, *MinRet*, *Turnover*, *IO*, *Leverage*, *Financing*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. In columns (3) and (4), we supplement the regression with the interaction terms between *AfterTellabsMatch* and remaining variables in *Controls_SUED*. We use a matched sample in which each sued firm-year is matched to a non-sued-firm-year in the same industry and year, and with the closest *Pred_FirmRisk*. z-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this Appendix.

Dependent Variable:	(1)	(2)	(3)	(4)	(5)	(6)
	<i>SUED</i>					
<i>LiberalCourt</i>	0.361 (0.95)	0.302 (0.82)	0.379 (1.02)	0.325 (0.90)	0.424 (1.13)	0.355 (0.96)
<i>AfterTellabsMatch</i>	-0.377* (-1.87)	-0.380* (-1.89)	-0.115 (-0.44)	-0.044 (-0.18)	-0.401 (-1.08)	-0.342 (-0.90)
<i>LiberalCourt</i> · <i>AfterTellabsMatch</i>	0.823*** (2.90)	0.843*** (2.96)	0.788*** (2.71)	0.809*** (2.78)	0.975*** (2.78)	0.980*** (2.66)
<i>FPS</i> · <i>AfterTellabsMatch</i>			0.039 (0.39)	0.021 (0.21)	-0.004 (-0.04)	-0.021 (-0.19)
<i>Size</i> · <i>AfterTellabsMatch</i>			-0.037 (-1.30)	-0.047* (-1.65)	-0.007 (-0.20)	-0.019 (-0.56)
<i>SalesGR</i> · <i>AfterTellabsMatch</i>					0.202 (1.21)	0.203 (1.21)
<i>Beta</i> · <i>AfterTellabsMatch</i>					0.115 (1.45)	0.108 (1.37)
<i>RetVol</i> · <i>AfterTellabsMatch</i>					1.260 (1.47)	1.340 (1.55)
<i>RetSkw</i> · <i>AfterTellabsMatch</i>					-0.062 (-0.85)	-0.066 (-0.91)
<i>Return</i> · <i>AfterTellabsMatch</i>					-0.026 (-0.24)	-0.026 (-0.24)
<i>MinRet</i> · <i>AfterTellabsMatch</i>					-0.527 (-0.87)	-0.485 (-0.79)
<i>Turnover</i> · <i>AfterTellabsMatch</i>					-0.072*** (-2.80)	-0.076*** (-2.94)

<i>IO · AfterTellabsMatch</i>					0.213	0.247
					(0.84)	(0.97)
<i>Leverage · AfterTellabsMatch</i>					-0.920***	-0.953***
					(-3.82)	(-3.94)
<i>Financing · AfterTellabsMatch</i>					0.060	0.055
					(0.48)	(0.44)
<i>IndRet · AfterTellabsMatch</i>					0.142	0.149
					(0.77)	(0.81)
<i>IndRetVol · AfterTellabsMatch</i>					-0.478	-0.600
					(-0.60)	(-0.75)
<i>MktRet · AfterTellabsMatch</i>					0.173	0.186
					(0.61)	(0.65)
<i>GDPGR · AfterTellabsMatch</i>					0.259	0.898
					(0.10)	(0.36)
<i>UNEMP · AfterTellabsMatch</i>					-2.281	-2.366
					(-0.92)	(-0.90)
<i>BlueState · AfterTellabsMatch</i>					-0.072	-0.031
					(-0.63)	(-0.27)
<i>FPS</i>	-0.031	-0.002	-0.047	-0.011	-0.019	0.017
	(-0.43)	(-0.02)	(-0.62)	(-0.14)	(-0.24)	(0.20)
<i>Size</i>	0.012	0.008	0.025	0.024	0.021	0.021
	(0.31)	(0.20)	(0.61)	(0.58)	(0.52)	(0.51)
<i>SalesGR</i>	0.068	0.067	0.068	0.066	0.033	0.031
	(1.20)	(1.21)	(1.19)	(1.20)	(0.52)	(0.49)
<i>Beta</i>	0.068	0.073*	0.067	0.071*	0.033	0.038
	(1.62)	(1.71)	(1.63)	(1.68)	(0.85)	(0.98)
<i>RetVol</i>	-1.807***	-1.759***	-1.800***	-1.750***	-2.093***	-2.063***
	(-3.93)	(-3.76)	(-3.85)	(-3.67)	(-4.33)	(-4.20)
<i>RetSkw</i>	0.012	0.009	0.012	0.009	0.030	0.028
	(0.35)	(0.25)	(0.36)	(0.27)	(0.66)	(0.61)
<i>Return</i>	0.066*	0.071*	0.063	0.069*	0.067	0.071*
	(1.70)	(1.84)	(1.63)	(1.76)	(1.64)	(1.73)
<i>MinRet</i>	0.691	0.698	0.699	0.709	0.937*	0.935*
	(1.50)	(1.49)	(1.51)	(1.51)	(1.95)	(1.91)
<i>Turnover</i>	0.123***	0.120***	0.123***	0.121***	0.155***	0.154***
	(9.57)	(9.81)	(9.54)	(9.71)	(7.82)	(7.78)
<i>IO</i>	-0.114	-0.065	-0.121	-0.072	-0.206	-0.169
	(-0.79)	(-0.44)	(-0.84)	(-0.50)	(-1.16)	(-0.93)
<i>Leverage</i>	0.030	0.027	0.030	0.028	0.390***	0.397**
	(0.28)	(0.23)	(0.28)	(0.24)	(2.62)	(2.55)
<i>Financing</i>	0.019	0.015	0.017	0.013	0.006	0.002
	(0.61)	(0.47)	(0.58)	(0.42)	(0.13)	(0.05)

<i>IndRet</i>	-0.086 (-1.56)	-0.087 (-1.58)	-0.089* (-1.65)	-0.090* (-1.69)	-0.118 (-1.56)	-0.120 (-1.59)
<i>IndRetVol</i>	0.866* (1.86)	0.751 (1.60)	0.900* (1.94)	0.785* (1.68)	1.089** (2.52)	1.000** (2.30)
<i>MktRet</i>	-0.190 (-0.67)	-0.213 (-0.75)	-0.189 (-0.67)	-0.212 (-0.75)	-0.249 (-1.09)	-0.280 (-1.22)
<i>GDPGR</i>	1.501 (1.31)	1.419 (1.23)	1.552 (1.35)	1.467 (1.26)	1.522 (0.86)	1.257 (0.69)
<i>UNEMP</i>	3.478* (1.95)	1.757 (1.03)	3.487* (1.92)	1.798 (1.03)	5.029** (2.36)	3.902 (1.54)
<i>BlueState</i>	-0.166 (-1.53)	-0.074 (-0.45)	-0.166 (-1.51)	-0.071 (-0.43)	-0.150 (-1.42)	-0.072 (-0.47)
<i>Intercept</i>	-0.378 (-0.85)	-0.999** (-2.08)	-0.456 (-1.01)	-1.109** (-2.31)	-0.488 (-1.16)	-1.191*** (-2.60)
Circuit FE	Yes	-	Yes	-	Yes	-
State FE	-	Yes	-	Yes	-	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	1.95%	2.72%	1.97%	2.75%	2.25%	3.04%
# of Observations	8,260	8,260	8,260	8,260	8,260	8,260
Wald Test (Chi-square) against $LiberalCourt + LiberalCourt \cdot AfterTellabsMatch = 0$						
	14.660***	14.377***	13.486***	13.573***	11.988***	12.014***

Table IA15
Stock price reaction to judicial appointments

This table reports the OLS regression results on the relation between market reaction to judge appointments and whether the judge is appointed by a Democratic President. We estimate the OLS regression of $CAR = f(DemAppoint, FPS, DemAppoint \cdot FPS, Controls_CAR) + \varepsilon$. *Controls_CAR* includes *Size*, *Beta*, *BM*, and *Momentum*. Sample includes all firm-years affected by judicial appointments from 1996 to 2014. *t*-stats based on standard errors clustered by state are reported in parentheses below the coefficients. *, **, and *** indicate significance at the 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this Appendix.

Dependent Variable:	(1)	(2)	(3)	(4)
	<i>CAR</i>			
<i>DemAppoint</i>	-1.719*** (-3.47)	-1.582*** (-3.08)	-1.729*** (-3.49)	-1.595*** (-3.10)
<i>FPS</i>		0.169 (1.60)		0.182* (1.78)
<i>DemAppoint · FPS</i>		-0.529** (-2.38)		-0.519** (-2.30)
<i>Size</i>	0.028 (1.55)	0.025 (1.41)	0.028 (1.54)	0.026 (1.42)
<i>Beta</i>	-0.213* (-1.69)	-0.193* (-1.75)	-0.203 (-1.58)	-0.188 (-1.67)
<i>BM</i>	0.326*** (5.57)	0.306*** (6.10)	0.321*** (5.37)	0.303*** (5.93)
<i>Momemtum</i>	-0.209* (-1.99)	-0.195* (-1.94)	-0.206* (-1.93)	-0.193* (-1.90)
Intercept	4.070*** (6.72)	4.059*** (6.58)	2.492*** (3.84)	2.409*** (3.57)
Circuit FE	Yes	Yes	-	-
State FE	-	-	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Adjusted R^2	1.58%	1.63%	1.62%	1.65%
# of Observations	68,676	68,676	68,676	68,676
Wald Test (Chi-square) against $DemAppoint + DemAppoint \cdot FPS = 0$				
		18.820***		18.945***

Table IA16

Relation between judge ideology and securities class action lawsuit outcomes

This table reports the regression results on the relation between judge ideology and securities class action lawsuit outcomes. In column (1), we estimate the logit regression of $Dismissal = f(LiberalCourt, FPS, Controls_Outcomes) + \varepsilon$. In column (3), we estimate the OLS regression of $SettleAmt = f(LiberalCourt, FPS, Controls_Outcomes) + \varepsilon$. *Controls_Outcomes* includes *AAER*, *Restatement*, *InsiderTrading*, *Damage*, *Size*, *SalesGR*, *Beta*, *Return*, *Turnover*, *IO*, *Leverage*, *Financing*, *RetVol*, *RetSkw*, *MinRet*, *IndRet*, *IndRetVol*, *MktRet*, *GDPGR*, *UNEMP*, and *BlueState*. In columns (2) and (4), we replace *FPS* with *Pred_FirmRisk*. z-stats (t-stats) based on standard errors clustered by state for the logit (OLS) regressions are reported in parentheses below the coefficients. *, **, and *** indicate significance at the 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper and Table IA18 of this Appendix.

Dependent Variables:	(1)	(2)	(3)	(4)
	<i>Dismissal</i>		<i>SettleAmt</i>	
<i>LiberalCourt</i>	-0.779* (-1.76)	-0.774* (-1.74)	0.391** (2.13)	0.377* (2.01)
<i>FPS</i>	0.062 (0.41)		-0.052 (-0.67)	
<i>Pred_FirmRisk</i>		-0.126 (-0.18)		0.743** (2.12)
<i>AAER</i>	-1.637*** (-6.45)	-1.637*** (-6.47)	0.347*** (3.84)	0.339*** (3.90)
<i>Restatement</i>	-0.209* (-1.65)	-0.212* (-1.69)	-0.002 (-0.02)	0.004 (0.03)
<i>InsiderTrading</i>	0.253** (2.03)	0.257** (2.09)	-0.030 (-0.33)	-0.047 (-0.51)
<i>Damage</i>	-0.002 (-0.12)	-0.002 (-0.14)	-0.000 (-0.01)	-0.001 (-0.07)
<i>Size</i>	0.075 (1.53)	0.081* (1.71)	0.370*** (8.49)	0.350*** (8.23)
<i>SalesGr</i>	-0.633*** (-2.73)	-0.633*** (-2.89)	-0.009 (-0.19)	-0.043 (-0.77)
<i>Beta</i>	-0.167 (-1.30)	-0.158 (-1.23)	0.029 (0.54)	0.010 (0.21)
<i>Return</i>	0.117 (1.55)	0.114 (1.40)	-0.077 (-0.92)	-0.068 (-0.79)
<i>Turnover</i>	5.999 (1.48)	6.032 (1.40)	4.752 (1.66)	3.960 (1.36)
<i>IO</i>	0.607**	0.613**	0.097	0.060

	(2.00)	(2.01)	(0.38)	(0.23)
<i>Leverage</i>	0.323	0.304	0.264*	0.316*
	(1.00)	(0.97)	(1.75)	(2.02)
<i>Financing</i>	0.098	0.107	-0.087	-0.120
	(0.52)	(0.55)	(-0.85)	(-1.15)
<i>RetVol</i>	-1.460	-1.374	-1.405*	-1.716**
	(-0.96)	(-0.90)	(-1.75)	(-2.09)
<i>RetSkw</i>	-0.216**	-0.220***	0.064*	0.075*
	(-2.49)	(-2.58)	(1.72)	(1.82)
<i>MinRet</i>	1.255**	1.288**	-1.627***	-1.665***
	(2.00)	(2.01)	(-4.05)	(-4.22)
<i>IndRet</i>	0.640**	0.624**	-0.197	-0.149
	(2.11)	(2.18)	(-0.95)	(-0.74)
<i>IndRetVol</i>	-0.578*	-0.557*	0.228	0.183
	(-1.86)	(-1.83)	(1.27)	(1.10)
<i>MktRet</i>	-0.355	-0.368	0.075	0.097
	(-0.77)	(-0.79)	(0.72)	(0.92)
<i>GDPGR</i>	-2.820	-2.660	0.721	0.412
	(-1.15)	(-1.08)	(0.54)	(0.30)
<i>UNEMP</i>	4.633	4.719	-0.811	-0.825
	(1.54)	(1.63)	(-0.80)	(-0.81)
<i>BlueState</i>	0.219	0.229	0.087	0.077
	(1.17)	(1.22)	(1.06)	(0.98)
<i>Intercept</i>	-0.044	-0.128	-3.467***	-3.141***
	(-0.07)	(-0.22)	(-8.86)	(-7.60)
Pseudo (Adjusted) R ²	12.44%	12.43%	38.88%	39.20%
# of Observations	1,108	1,108	515	515
% Δ Pred. (Dismissal) if <i>LiberalCourt</i> increases from Q1 to Q3	-14.6%	-14.5%		
Δ of <i>SettleAmt</i> in \$ if <i>LiberalCourt</i> increases from Q1 to Q3			907,274	874,670

Table IA17

Relation between litigation risk and earnings guidance: reporting coefficients of control variables

Panel A: Litigation risk and short-horizon earnings guidance

This panel reports the OLS regression results on the relation between the number of short-horizon earnings guidance with negative earnings news and litigation risks. The sample consists of 35,890 firm-year observations with negative earnings news during the 1995–2013 period. In columns (1), (3), (5) and (7), we estimate the OLS regression $Issue_Short = f(LiberalCourt, FPS, Controls_Disclosure) + \varepsilon$. *Controls_Disclosure* includes *Size*, *Return*, *RetVol*, *RetSkw*, *Turnover*, *IndRetVol*, *IO*, *Financing*, *GDPGR*, *UNEMP*, *BlueState*, *EarningsNews*, *EPSDecrease*, *EPSChange*, *EPRatio*, *Loss*, *RegFD*, *New8K*, and *LagIssue*. In columns (2), (4), (6) and (8), we replace *FPS* with *Pred_FirmRisk*. *t*-stats based on standard errors clustered by states are reported in parentheses below the coefficients. *, **, and *** indicate significance at the 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variable:	<i>Issue_Short</i>							
<i>LiberalCourt</i>	0.080*** (2.82)	0.079*** (2.80)	0.078*** (3.14)	0.078*** (3.13)	0.018 (0.80)	0.022 (0.88)	0.003 (0.11)	0.003 (0.10)
<i>FPS</i>	0.045*** (8.25)		0.008 (0.40)		0.047*** (8.63)		0.007 (0.35)	
<i>Pred_FirmRisk</i>		0.318*** (6.08)		0.040 (0.50)		0.294*** (5.43)		0.018 (0.23)
<i>Size</i>	0.008*** (5.34)	0.002 (1.14)	0.026*** (7.29)	0.025*** (6.58)	0.007*** (5.07)	0.002 (1.12)	0.028*** (7.67)	0.028*** (7.06)
<i>Return</i>	-0.046*** (-12.49)	-0.048*** (-13.03)	-0.054*** (-11.97)	-0.054*** (-11.97)	-0.049*** (-13.12)	-0.050*** (-13.55)	-0.058*** (-12.64)	-0.058*** (-12.64)
<i>RetVol</i>	0.054** (2.28)	-0.023 (-0.89)	0.015 (0.37)	0.006 (0.13)	0.032 (1.32)	-0.035 (-1.33)	-0.015 (-0.39)	-0.020 (-0.47)
<i>RetSkw</i>	-0.009*** (-6.59)	-0.007*** (-5.28)	-0.006*** (-2.80)	-0.006*** (-2.68)	-0.009*** (-6.48)	-0.007*** (-5.28)	-0.005** (-2.20)	-0.005** (-2.14)
<i>Turnover</i>	0.005*** (3.40)	0.002 (1.39)	0.002 (1.17)	0.002 (0.80)	0.006*** (4.29)	0.004** (2.18)	0.003* (1.69)	0.003 (1.40)
<i>IndRetVol</i>	0.081*** (2.94)	0.177*** (6.69)	-0.015 (-0.29)	-0.015 (-0.28)	0.017 (0.61)	0.137*** (5.07)	-0.182*** (-3.09)	-0.182*** (-3.09)
<i>IO</i>	0.084*** (12.96)	0.085*** (13.41)	0.054*** (3.60)	0.054*** (3.61)	0.085*** (12.94)	0.085*** (13.32)	0.047*** (3.11)	0.047*** (3.11)
<i>Financing</i>	-0.009* (-1.73)	-0.014*** (-2.97)	-0.001 (-0.16)	-0.002 (-0.30)	-0.006 (-1.14)	-0.011** (-2.32)	0.002 (0.38)	0.002 (0.29)

<i>GDPGR</i>	0.123*	0.185**	-0.018	-0.019	-0.037	-0.038	-0.026	-0.026
	(1.76)	(2.55)	(-0.22)	(-0.25)	(-0.38)	(-0.39)	(-0.27)	(-0.27)
<i>UNEMP</i>	-0.426***	-0.363***	-0.645***	-0.642***	-0.045	0.035	-0.036	-0.035
	(-6.29)	(-4.99)	(-6.71)	(-6.69)	(-0.52)	(0.39)	(-0.21)	(-0.20)
<i>BlueState</i>	-0.005	-0.004	-0.020**	-0.020**	0.001	0.002	-0.003	-0.003
	(-0.92)	(-0.76)	(-2.37)	(-2.38)	(0.26)	(0.39)	(-0.33)	(-0.33)
<i>EarningsNews</i>	0.034***	0.039***	0.018**	0.018**	0.031***	0.035***	0.015*	0.015*
	(5.35)	(6.14)	(1.97)	(1.99)	(4.55)	(5.26)	(1.66)	(1.67)
<i>EPSDecrease</i>	-0.010***	-0.010***	-0.011***	-0.011***	-0.009**	-0.009**	-0.009**	-0.009**
	(-2.91)	(-2.90)	(-3.16)	(-3.17)	(-2.62)	(-2.66)	(-2.55)	(-2.55)
<i>EPSChange</i>	-0.001	-0.003	-0.002	-0.002	-0.001	-0.003	-0.001	-0.001
	(-0.50)	(-1.23)	(-0.63)	(-0.63)	(-0.48)	(-1.18)	(-0.38)	(-0.38)
<i>EPRatio</i>	0.031***	0.030***	0.022***	0.022***	0.034***	0.032***	0.024***	0.024***
	(5.17)	(5.10)	(3.15)	(3.16)	(5.78)	(5.70)	(3.41)	(3.42)
<i>Loss</i>	-0.013***	-0.010**	0.009*	0.009*	-0.013***	-0.011**	0.007	0.007
	(-3.38)	(-2.45)	(1.81)	(1.82)	(-3.36)	(-2.51)	(1.50)	(1.51)
<i>RegFD</i>	0.068***	0.070***	0.086***	0.086***	0.070***	0.067***	0.117***	0.117***
	(11.03)	(11.35)	(12.66)	(12.70)	(8.81)	(8.13)	(10.51)	(10.53)
<i>New8K</i>	-0.046***	-0.044***	-0.039***	-0.039***	-0.057***	-0.056***	-0.079***	-0.079***
	(-8.75)	(-7.78)	(-6.04)	(-6.01)	(-6.89)	(-6.61)	(-6.53)	(-6.52)
<i>LagIssue</i>	0.458***	0.466***	0.189***	0.190***	0.454***	0.462***	0.185***	0.185***
	(37.47)	(35.91)	(15.84)	(15.83)	(35.91)	(34.65)	(15.56)	(15.54)
<i>Intercept</i>	-0.059***	-0.030**	-0.094***	-0.086***	-0.061***	-0.033***	-0.130***	-0.126***
	(-5.04)	(-2.30)	(-3.78)	(-3.40)	(-6.53)	(-2.92)	(-4.57)	(-4.32)
Circuit FE	Yes	Yes	-	-	Yes	Yes	-	-
Firm FE	-	-	Yes	Yes	-	-	Yes	Yes
Year FE	-	-	-	-	Yes	Yes	Yes	Yes
Adjusted R^2	27.13%	26.83%	30.70%	30.70%	27.57%	27.25%	31.26%	31.26%
# of Observations	35,890	35,890	35,890	35,890	35,890	35,890	35,890	35,890

Panel B: Litigation risk and long-horizon earnings guidance

This panel reports the OLS regression results on the relation between the number of positive long-horizon earnings guidance and litigation risks. The sample consists of 35,890 firm-year observations during the 1996–2013 period with negative earnings news. In columns (1), (3), (5) and (7), we estimate the OLS regression: $Issue_Long = f(LiberalCourt, FPS, Controls_Disclosure) + \varepsilon$. *Controls_Disclosure* includes *Size*, *Return*, *RetVol*, *RetSkw*, *Turnover*, *IndRetVol*, *IO*, *Financing*, *GDPGR*, *UNEMP*, *BlueState*, *EarningsNews*, *EPSDecrease*, *EPSChange*, *EPRatio*, *Loss*, *RegFD*, *New8K*, and *LagIssue*. In columns (2), (4), (6) and (8), we replace *FPS* with *Pred_FirmRisk*. *t*-stats based on standard errors clustered by states are reported in parentheses below the coefficients. *, **, and *** indicate significance at the 0.1, 0.05, and 0.01 levels, respectively. Variable definitions are in Appendix B of the paper.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variable:	<i>Issue_Long</i>							
<i>LiberalCourt</i>	-0.031** (-2.09)	-0.031** (-2.06)	-0.036* (-1.65)	-0.036* (-1.66)	-0.030* (-1.73)	-0.029 (-1.66)	-0.045* (-1.72)	-0.045* (-1.71)
<i>FPS</i>	0.012** (2.15)		-0.004 (-0.23)		0.012** (2.16)		-0.005 (-0.26)	
<i>Pred_FirmRisk</i>		0.055 (0.86)		0.109 (1.63)		0.047 (0.78)		0.103 (1.53)
<i>Size</i>	0.009*** (5.41)	0.008*** (4.44)	0.017*** (4.99)	0.015*** (4.07)	0.009*** (5.52)	0.008*** (4.82)	0.020*** (5.47)	0.018*** (4.55)
<i>Return</i>	-0.009** (-2.64)	-0.009*** (-2.71)	-0.011*** (-2.79)	-0.011*** (-2.81)	-0.009*** (-2.74)	-0.009*** (-2.79)	-0.012*** (-3.07)	-0.012*** (-3.08)
<i>RetVol</i>	0.033* (1.91)	0.019 (0.85)	0.030 (0.86)	0.006 (0.16)	0.023 (1.31)	0.012 (0.52)	0.019 (0.54)	-0.004 (-0.10)
<i>RetSkw</i>	-0.006*** (-4.31)	-0.006*** (-3.98)	-0.003 (-1.49)	-0.003 (-1.22)	-0.006*** (-3.75)	-0.006*** (-3.50)	-0.002 (-1.11)	-0.002 (-0.85)
<i>Turnover</i>	-0.000 (-0.37)	-0.001 (-0.57)	0.002 (1.41)	0.001 (0.54)	-0.000 (-0.20)	-0.000 (-0.37)	0.002 (1.23)	0.001 (0.43)
<i>IndRetVol</i>	-0.021 (-0.79)	0.006 (0.24)	-0.017 (-0.37)	-0.020 (-0.44)	-0.034 (-1.09)	-0.001 (-0.04)	-0.053 (-1.05)	-0.056 (-1.13)
<i>IO</i>	0.037*** (6.83)	0.037*** (6.75)	0.001 (0.10)	0.002 (0.12)	0.037*** (6.74)	0.037*** (6.71)	-0.006 (-0.40)	-0.005 (-0.38)
<i>Financing</i>	0.002 (0.99)	0.002 (0.60)	0.004 (0.73)	0.001 (0.20)	0.003 (1.33)	0.002 (0.88)	0.004 (0.81)	0.002 (0.30)
<i>GDPGR</i>	-0.053 (-0.74)	-0.035 (-0.49)	-0.104 (-1.33)	-0.111 (-1.42)	-0.094 (-1.40)	-0.094 (-1.38)	-0.069 (-0.77)	-0.072 (-0.80)

<i>UNEMP</i>	-0.242***	-0.228***	-0.205**	-0.200**	0.000	0.021	0.112	0.114
	(-4.21)	(-3.80)	(-2.11)	(-2.07)	(0.00)	(0.20)	(0.64)	(0.66)
<i>BlueState</i>	-0.006	-0.006	0.000	0.000	-0.006	-0.006	0.003	0.002
	(-1.38)	(-1.33)	(0.04)	(0.03)	(-1.32)	(-1.28)	(0.33)	(0.31)
<i>EarningsNews</i>	0.020**	0.021***	0.032***	0.033***	0.015**	0.016**	0.026***	0.027***
	(2.67)	(2.69)	(4.09)	(4.14)	(2.09)	(2.14)	(3.33)	(3.38)
<i>EPSDecrease</i>	-0.001	-0.001	-0.002	-0.002	-0.001	-0.001	-0.000	-0.000
	(-0.43)	(-0.45)	(-0.51)	(-0.52)	(-0.28)	(-0.30)	(-0.15)	(-0.16)
<i>EPSChange</i>	0.004**	0.003**	0.000	0.000	0.006***	0.005***	0.002	0.002
	(2.46)	(2.02)	(0.09)	(0.09)	(3.74)	(3.19)	(0.76)	(0.74)
<i>EPRatio</i>	0.010**	0.009**	0.009	0.009	0.014***	0.014***	0.014**	0.014**
	(2.66)	(2.54)	(1.34)	(1.35)	(3.98)	(3.84)	(2.11)	(2.12)
<i>Loss</i>	-0.004	-0.004	-0.002	-0.002	-0.004*	-0.004	-0.003	-0.003
	(-1.67)	(-1.44)	(-0.51)	(-0.49)	(-1.70)	(-1.48)	(-0.73)	(-0.72)
<i>RegFD</i>	0.051***	0.052***	0.070***	0.071***	0.061***	0.060***	0.097***	0.099***
	(14.45)	(13.87)	(12.24)	(12.35)	(8.32)	(8.20)	(9.96)	(10.06)
<i>New8K</i>	-0.006	-0.006	0.016**	0.017**	-0.035***	-0.036***	-0.006	-0.006
	(-1.16)	(-1.10)	(2.46)	(2.53)	(-3.12)	(-3.10)	(-0.44)	(-0.40)
<i>LagIssue</i>	0.364***	0.365***	0.192***	0.192***	0.363***	0.364***	0.189***	0.189***
	(39.14)	(39.92)	(13.42)	(13.42)	(38.76)	(39.58)	(13.27)	(13.28)
<i>Intercept</i>	-0.035***	-0.031***	-0.071***	-0.057**	-0.047***	-0.043***	-0.108***	-0.096***
	(-3.40)	(-2.76)	(-3.09)	(-2.41)	(-4.56)	(-4.29)	(-4.07)	(-3.51)
Circuit FE	Yes	Yes	-	-	Yes	Yes	-	-
Firm FE	-	-	Yes	Yes	-	-	Yes	Yes
Year FE	-	-	-	-	Yes	Yes	Yes	Yes
Adjusted R^2	20.45%	20.42%	20.35%	20.36%	20.60%	20.56%	20.55%	20.56%
# of Observations	35,890	35,890	35,890	35,890	35,890	35,890	35,890	35,890

Table IA18

Definitions of variables used in this appendix only

Variable	Definition
<i>ITBubble</i>	an indicator variable that equals one for firm-year observations where the firm's headquarter is in California or Washington, and before year 2001 and zero otherwise;
<i>LiberalCourt_Sen</i>	the Senate-adjusted judge ideology measure, calculated as $\frac{1}{C(J_{All},3)} \cdot (9 \cdot C(J_{DD},3) + 8 \times C(J_{DD},2) \cdot C(J_{DR},1) + 7 \cdot C(J_{DD},1) \cdot C(J_{DR},2) + 6 \cdot C(J_{DR},3) + 4 \cdot C(J_{DD},2) \cdot C(J_{RD},1) + 3 \cdot C(J_{DD},2) \cdot C(J_{RR},1) + 3 \cdot C(J_{DD},1) \cdot C(J_{DR},1) \cdot C(J_{RD},1) + 2 \cdot C(J_{DD},1) \cdot C(J_{DR},1) \cdot C(J_{RR},1) + 2 \cdot C(J_{DR},2) \cdot C(J_{RD},1) + 1 \cdot C(J_{DR},2) \cdot C(J_{RR},1) - 1 \cdot C(J_{DD},1) \cdot C(J_{RD},2) - 2 \cdot C(J_{DD},1) \cdot C(J_{RD},1)C(J_{RR},1) - 2 \cdot C(J_{DR},1) \cdot C(J_{RD},2) - 3 \cdot C(J_{DR},1) \cdot C(J_{RD},1) \cdot C(J_{RR},1) - 3 \cdot C(J_{DD},1) \cdot C(J_{RR},2) - 4 \cdot C(J_{DR},1) \cdot C(J_{RR},2) - 6 \cdot C(J_{RD},3) - 7 \cdot C(J_{RR},1) \cdot C(J_{RD},2) - 8 \cdot C(J_{RR},2) \cdot C(J_{RD},1) - 9 \cdot C(J_{RR},3))$, where $C(n,r)$ is a binomial coefficient indicating the number of possible combinations of r objects from a set of n distinct objects, J_{DD} is the number of judges appointed by Democratic Presidents and confirmed by Democrat-controlled Senates (we assign them a liberal ideology score of 3), J_{DR} is the number of judges appointed by Democratic Presidents and confirmed by Republican-controlled Senates (we assign them a liberal ideology score of 2), J_{RD} is the number of judges appointed by Republican Presidents and confirmed by Democrat-controlled Senates (we assign them a liberal ideology score of -2), J_{RR} is the number of judges appointed by Republican Presidents and confirmed by Republican-controlled Senates (we assign them a liberal ideology score of -3), and J_{All} is the total number of judges. All judge numbers are measured from the circuit at the end of the month;
<i>DistrictCourt</i>	the percentage of judges who were appointed by Democratic Presidents in the district court. We measure <i>DistrictCourt</i> at the end of each month and assign each firm-year observation to a district court-month based on the firm's headquarters in that year and the fiscal-year-end month. Historical headquarters information is extracted from firms' 10-K filings. District court judges' appointing Presidents are obtained from the Federal Judicial Center's website;
<i>Conform</i>	an indicator variable that equals one if the district court ideology <i>DistrictCourt</i> and the circuit court ideology <i>LiberalCourt</i> are both above or both below their sample median, respectively, and zero otherwise;
<i>LiberalDonation</i>	the donation to Democratic party divided by the sum of the donation to Democratic and Republican parties during the year. The donation to a party includes both donations to candidates and political action committees (PACs) affiliated with the party;

<i>AfterTellabsMatch</i>	an indicator variable that equals one if the actual or pseudo lawsuit filing date of a firm-year is after the Supreme Court's ruling on the <i>Tellabs</i> case, that is, June 21 st , 2007, and zero otherwise. Each sued firm-year is matched to a non-sued firm-year in the same industry and year, and with the closest <i>Pred_FirmRisk</i> ; for a sued firm-year, we use its actual lawsuit filing date; for a non-sued firm-year, we use the actual lawsuit filing date of its matched sued firm-year as its pseudo lawsuit filing date;
<i>DemAppoint</i>	an indicator variable that equals one if the judge is appointed by a Democratic President, and zero otherwise;
<i>BM</i>	the book value of equity scaled by the market value of equity at the beginning of year <i>t</i> ;
<i>Momentum</i>	the cumulative monthly market-adjusted returns in the six months prior to judge appointment. Market adjusted return equals raw monthly return (<i>RET</i>) minus the CRSP monthly value-weighted index return (<i>VWRET</i>);
<i>Dismissal</i>	an indicator variable that equals one if the lawsuit ends in a dismissal, and zero otherwise;
<i>SettleAmt</i>	the natural log of one plus the lawsuit's settlement amount, in millions of dollars;
<i>AAER</i>	an indicator variable that equals one if the lawsuit's class action period overlaps with a Securities and Exchange Commission Accounting and Auditing Enforcement Releases' (AAER) investigated period, and zero otherwise. AAER data are obtained from the University of California Berkeley's Center for Financial Reporting and Management;
<i>InsiderTrading</i>	an indicator variable that equals one if the lawsuit involves insider trading, as indicated by the SCAC, and zero otherwise;
<i>Restatement</i>	an indicator variable that equals one if the lawsuit's case description or complaint filings states that the allegation involves financial report misstatement or restatement, and zero otherwise; and
<i>Damage</i>	the natural log of one plus the estimated shareholders' damage during the class period. Estimated shareholders' damage is calculated as $Size \cdot Return \cdot (1 - (1 - Turnover)^X$, where <i>Size</i> is the market capitalization of equity at the end of the class period, <i>Return</i> is the cumulative raw returns in the class period, <i>Turnover</i> is the average trading volume as a percentage of shares outstanding during the class period, and <i>X</i> is the number of trading days in the class period.
