Business Courts and Firm Performance

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Does it matter for firm performance whether corporations have access to high-quality courts for litigating their internal affairs? To shed some light on this question, this paper focuses on the creation of business courts in various states between 1990 and 2015. Employing a difference-in-difference approach, I find that the creation of business courts is associated with a five to seven percent increase in Tobin's q as well as with a higher likelihood of being a target in a completed merger with positive cumulative abnormal returns for the target shareholders. These findings are both statistically and economically significant. I also find some evidence that business courts may have a positive impact on return on equity and return on assets, but those results are statistically significant only in some specifications.

I. Introduction

The central question of this paper is whether giving publicly traded corporations access to business courts to litigate their internal corporate affairs benefits firm performance.

Why should courts matter in this context? One of the main goals of corporate law is to prevent managers from benefiting themselves at the expense of shareholders.[1] Such behavior ("stealing") can take many different forms. It may range from shirking, illegal self-dealing transactions, and self-serving empire building to illicit self-entrenchment in the face of hostile takeover attempts. Yet while it is easy for the law to prohibit managerial stealing, enforcing such prohibitions

[1] Some firms have controlling shareholders so that the dominating conflict of interest is the one between minority shareholders and controllers. That does not profoundly change my analysis, however, except that in those firms, the crucial role of corporate law is to prevent controllers from enriching themselves at the expense of minority shareholders.

is much harder. A common feature of the legal principles governing managerial self-enrichment is that they are often vague and fact-intensive standards that are notoriously difficult for courts to apply (Kamar, 1998).

In theory therefore, much hinges on the availability of high-quality courts. Access to such courts should make it easier to ascertain managerial stealing, thereby deterring such conduct in the first place or, in some cases, reversing it after it has occurred. The lack of high quality courts, on the other hand, creates a potential friction in the market for managerial labor: Corporations and managers might well be willing to conclude contracts which pay the manager a premium for abiding strictly by his legal obligations, but that contract may not be made if the manager, for lack of good courts, is unable to make a credible commitment.

By reducing managerial stealing, high-quality courts should improve corporate performance. In fact, there are two main channels through which such a link can be expected. First, stealing from the corporation directly affects the corporation's bottom line, such as when the manager uses illicit means to obtain an excessive salary or when he lets large shareholders deal on favorable terms with the corporation in exchange for their support. Second, the manager's conduct may indirectly harm the corporation's performance, most notably in the case of managerial self-entrenchment. A manager who knows that he will get away with thwarting hostile takeover attempts for the purpose of entrenching himself has less incentive to work hard.

But does the quality of courts as fora for corporate litigation actually matter to firm performance? The empirical literature is silent on this issue, most likely because the impact of courts is notoriously difficult to assess (Ponticelli, 2015): Even if well-functioning courts go hand in hand with high-performing firms, the direction of any causal link may be unclear: perhaps jurisdictions with flourishing businesses start spending more on their courts such that high performance causes increases in court quality and not the other way around. Moreover, jurisdictions with good courts are also likely to have above-average institutions more generally, making it potentially difficult to disentangle the judiciary's effect.

To overcome these problems and assess the impact of courts on firm performance and policies, this paper makes use of the peculiar rules governing jurisdiction in corporate law matters. Starting in the nineties, almost half of all states created special business courts (table 1). These courts were designed to avoid many of the core weaknesses that ordinary state courts faced. Most notably, they offer speedy proceedings, the use of advanced case management techniques, and judges experienced in business matters (Bach and Applebaum, 2004). A few other states, concerned that creating special business courts might seem like a privilege for corporations over ordinary citizens, failed to create business court, but opted instead to establish "complex litigation" programs, that are meant to offer similar benefits but have a broader focus in that they target complex litigation regardless of whether it is business-related.

Of course, on a theoretical level, the relationship between business courts and

firm performance is far from obvious. One may speculate that business courts may be more vulnerable to industry capture,[2] or may by inclination tend to be more management friendly at the expense of shareholders.[3]

The goal of this article is to explore empirically the relationship between access to business courts for corporate litigation and firm performance. To do so, I rely on a multi-event difference-in-difference design. Crucially, the creation of business courts did not impact all businesses in the relevant states alike. Rather, due to the peculiar rules governing jurisdiction in corporate law matters, the impact of business courts depended on where firms were incorporated.

TABLE 1—BUSINESS COURTS AND COMPLEX LITIGATION PROGRAMS OUTSIDE OF DELAWARE

Year	State	Type	Year	State	Type
1992	IL	Business	2006	CO	Business (until 2015)
1993	NY	Business	2007	ME	Business
1993	NJ	Business	2007	SC	Business
1995	NC	Business	2008	NH	Business
1998	CT	Complex Litigation	2008	OH	Business
1999	MA	Business	2009	AL	Business (until 2013)
1999	CA	Complex Litigation	2010	WV	Business
1999	PA	Business	2011	MI	Business
2000	NV	Business	2012	IA	Business
2001	RI	Business	2013	MN	Complex Litigation
2002	AZ	Complex Litigation	2015	AZ	Business
2002	MD	Business	2015	TN	Business
2003	FL	Business	2016	IN	Business
2005	GA	Business	2017	WI	Business
2006	OR	Complex Litigation			

Note: For each state, the date indicates the year in which the business court or complex litigation program was originally created, typically by administrative order. To the extent that a publicly available act which created the court or authorized its creation, such as a statute, administrative order, or memorandum, preceded the year in which the court began its work, I focus on the date of the former. Delaware created a complex commercial litigation division in 2010 (Administrative Directive No. 2010-3), which is not included in the table above since Delaware's Chancery court has traditionally been Delaware's specialized court in corporate law matters; indeed, in the literature, the Delaware Chancery Court is often referred to as the nation's first business court (Drahozal, 2008). Alabama's commercial litigation docket was suspended on May 11, 2013 following lawsuits that questioned its constitutionality.

Note that the "state of incorporation" is the state under whose corporate law the corporation has been formed ("incorporated") and whose corporate law therefore governs the corporation's internal affairs. It must be distinguished from the headquarters state ("home state") where the corporation's actual headquarters is located. The state of incorporation and the headquarters state may coincide, but do not have to.

In practice, public corporations are generally incorporated either in the state

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[2]For a critical view of specialized corporate law judges in Milan, Italy, see Enriques (2002).

[3]It is noteworthy that Nevada, a state sometimes thought to be very management friendly (Barzuza, 2012; Eldar and Magnolfi, 2016), is among the states that have established business courts.

where they are headquartered, or in Delaware (table 2). One of the main reasons for Delaware's popularity is generally believed to lie in its judiciary. Delaware boasts a particularly excellent court for corporate litigation, the Delaware Chancery Court (Dammann and Hansmann, 2008), and many public firms are thought to incorporate in Delaware in large part in order to be able to litigate their corporate affairs in the Chancery Court (Dreyfuss, 1995; Fisch, 2000; Kahan, 2006; Kahan and Kamar, 2002; Pritchard, 2009). Accordingly, public corporations incorporated in Delaware have traditionally litigated a large part of their corporate cases in Delaware rather than in their headquarters state (Romano, 1993). And while, for some types of corporate lawsuits, Delaware's popularity as a forum appears to have declined somewhat after 2001, Delaware still retains much of the relevant litigation (Armour, Black and Cheffins, 2012).

TABLE 2—WHERE DO CORPORATIONS INCORPORATE IF NOT LOCALLY? THE TOP TEN

State of Incorp.	Number	Percent*	State of Incorp.	Number	Percent*
Delaware	8,860	79.8%	Maryland	74	0.7%
Nevada	922	8.3%	Utah	74	0.7%
New York	172	1.5%	California	69	0.6%
Colorado	149	1.3%	Minnesota	64	0.6%
Florida	115	1.0%	New Jersey	61	0.5%

Total number of firms (incorporated locally or out of state): 14,340
Locally Incorporated: 3,233 (22.5% of all firms)

Note: *Percentages in columns 3 and 6 refer to the percentage of corporations incorporating in a given state out of the total number of corporations incorporating outside their home state. In order to be considered, a firm must have at least one firm-year observation between 1990 and 2015. For the purposes of determining the state of incorporation, I focus on the most recent firm-year observation for each firm.

Against that background, when individual states create business courts, the impact on public corporations headquartered in the relevant state depends on where such corporations are incorporated. All public corporations headquartered in the state creating the business court win a better forum for "external litigation" such as commercial disputes or tort cases. But those public corporations incorporated in the state creating the business court also stand to gain something else, namely a high-quality forum for litigating their internal affairs, i.e., matters of corporate law. By contrast, firms incorporated elsewhere often litigate their internal affairs in the courts of their state of incorporation and therefore typically stand to gain much less on this dimension. This is particularly true where, as in in most cases, the firms that are not incorporated locally have chosen Delaware as their corporate domicile and therefore already enjoy access to Delaware's excellent Chancery Court.[4]

This differential impact allows for a simple difference-in-difference approach: The treatment is the creation of a business court. The treatment group are the

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[4]A more detailed account of the pertinent jurisdictional rules is given in appendix B.

firms incorporated and headquartered in the state creating the business court. The control group are firms headquartered in the state creating the business court, but incorporated in some other state and therefore likely to litigate their internal affairs in the courts of that other state. One can even go a step further, though. As long as one controls for the headquarters state, one can extend the treatment group to *all* public corporations incorporated in the state that created the business court and the control group to all public corporations incorporated in other states. This second, broader approach is the one used throughout most of this article.

One advantage of this approach is that it makes it possible to control not only for firm fixed effects, but also for headquarters state year fixed effects. This is crucial because the adoption of business courts may well go hand in hand with state specific economic trends or with other reforms designed to benefit locally headquartered businesses. The approach pursued by this paper can control for such factors.

By and large, my findings are consistent with the assumption that the creation of business courts benefits firm performance and that this occurs at least in part by reducing agency problems. Most notably, I find that the creation of business courts is associated with a five to seven percent increase in Tobin's q. This result is statistically and economically significant. I also find some evidence that the creation of business courts may have a positive impact on return on equity (ROE) and return on assets (ROA), but those results are statistically significant only in some specifications and much less robust. To better understand whether courts benefit firms by preventing managerial self-enrichment, I also focus on the takeover context. I find that the creation of a business court is associated with a 0.6 to 0.7 percentage points higher likelihood of being the target in a completed merger that produces positive abnormal returns for the target's shareholders. This result is both economically and statistically significant as well as fairly robust.

II. Literature Review

This paper touches upon various strands of the legal and economic literature.

Most importantly, there exists a growing empirical literature on the relationship between courts and firms. Visaria (2009) relies on the gradual introduction of special debt tribunals in India in the 1990s to show that access to these tribunals was associated with lower loan default rates and lower interest rates. Chemin (2012) focuses on variation in court quality in India to show that better courts are associated with fewer breaches of contract, higher investment, and more lending. Ponticelli (2015) uses a difference-in-difference approach to examine whether the beneficial impact of Brazil's 2005 bankruptcy reform on firm investment and productivity depended on whether corporations had access to uncongested courts. Brown, Cookson and Heimer (2015) examine the effect of a 1953 statute that shifted jurisdiction from certain tribal courts in Native American reservations

to state courts, and find an increase in small business lending. Most recently, Colonnello and Herpfer (2016) examine how a 2010 change in the rules governing diversity jurisdiction impacted stock prices. What these studies have in common is that they focus on the role of courts in enforcing contracts between firms and third parties, most notably lenders. By contrast, this paper concentrates on the importance of having access to good courts in matters internal to the corporation. Moreover, this paper is the first empirical study to analyze the impact of U.S. business courts on firms performance.

At the macro level, there exists a much broader literature on the relationship between institutions and economic growth or development including works such as Rodrik (2000), Glaeser et al. (2004), Rodrik, Subramanian and Trebbi (2004), Valeriani and Peluso (2011), or Nawaz (2015). These studies typically include judicial institutions in their analysis. Moreover, some authors go further and single out courts as a factor in economic growth (Feld and Voigt, 2003; Hayo and Voigt, 2008). The present paper complements these macro-level studies by identifying one particular channel in which better courts may contribute to economic growth.

Furthermore, various authors have commented from a legal perspective on the merits of U.S. business courts (Bach and Applebaum, 2004; Coyle, 2012). However, there is almost no empirical work on such courts. Miller (2015) asks the unrelated question of how the introduction of business courts affects forum choices in major contracts. More specifically, the author analyzes if the creation of business courts is associated with a decrease in the percentage of contracts using arbitration clauses and/or an increase in the percentage of contracts opting into the state court system. Cain, Solomon and Steven (2015) examine to what extent state courts compete for corporate litigants and find, in this context, that states with business courts tend to compete for corporate litigation by adjusting attorneys' fees.

Finally, some authors have analyzed the factors that determine whether firms incorporate locally or in other states. In that context, it has been shown that, all else equal, public corporations headquartered in a state with poorly rated courts are more likely to incorporate out of state (Kahan, 2006). The same has been demonstrated for large privately held corporations (Dammann and Schundeln, 2011) and large privately held limited liability companies (Dammann and Schundeln, 2012). On the other hand, a recent study of venture-capitalist backed start-ups finds no statistically significant evidence that judicial quality matters to incorporation choices (Broughman, Fried and Ibrahim, 2014). By and large, these findings are consistent with the assumption that corporations value having access to highly rated courts. They differ from this paper in that they focus on the quality of the court system in general rather than on the existence of business courts and also in that they do not examine the impact that courts have on corporate performance.

III. Institutional Background

Business courts are typically created by state judiciaries via administrative order. Only a few states have enacted formal legislation, either to create business courts or to expand business courts originally created by the judiciary.

What motivated the creation of business courts? State judiciaries, bar associations, and government officials mainly argued that business courts would help states attract or retain businesses. For example, in North Carolina, a 2004 report by the state judiciary argued that an "expansion of our Business Court is critical to maintaining North Carolina's competitive advantage in attracting new businesses to the State" (Association, 2003). Similar statements can be found in many other states (Coyle, 2012; Bach and Applebaum, 2004). In at least some states, the hope to become a forum for high profile commercial litigation also played a role (Bach and Applebaum, 2004; Coyle, 2012). Most notably, one of the declared goals of New York's commercial division was to "return the New York courts to a leadership role in adjudicating major commercial disputes" (NYSUCS, 1999). A few legal scholars have ventured that the creation of a business court may help a state become more attractive as a state of incorporation (Loewenstein, 2000; Roe, 2009). However, whether or not one shares this assessment, there is scant evidence that this consideration motivated state court and lawmakers to create business courts (Coyle, 2012) and, as shown by Kahan and Kamar (2002), most states have structured their franchise taxes in such a way that they have very little to gain from attracting corporate charters.

It is also noteworthy that only one business court, namely Alabama's Commercial Litigation Docket, ended its activities during the years of interest (1990-2015). Moreover, said docket was not closed for economic reasons, but because of legal concerns regarding its constitutionality.

In many states, business courts now play an important role in business litigation. Obviously, the number of cases that business courts decide varies with the size of their jurisdiction as well as with the number of judges assigned to the business court. Thus, North Carolina's business court only disposed of 131 cases in 2014, whereas, in 2015, the relevant number for New York's commercial division was 3,363. What observers agree on, though, is that business courts have brought great improvements in terms of both expertise and speed. For example, within less than ten years of its creation, New York's commercial division had reduced the average disposition time for contract cases by 55% (Bach and Applebaum, 2004).

There are also some, albeit very tentative, signs suggesting that business courts may lead to more effective policing of managerial conduct. In particular, New York's commercial division has been taking a notably shareholder-friendly stance in dealing with so-called derivative suits, which are a central mechanism for policing managerial self-enrichment.[5] This is consistent with a recent finding by Cain,

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[5]Examples include Weiser v. Grace, 683 N.Y.S.2d 781 (1998) (refusing to dismiss a derivative suit);

Solomon and Steven (2015) that business courts compete for corporate litigation by increasing attorney's fees. Because shareholder litigation is typically driven by attorneys seeking to maximize their fees, higher fees are likely to lure more and better law firms into the field of shareholder litigation, thereby contributing to more effective judicial scrutiny of managerial conduct.

IV.   Economic Framework

The central hypothesis underlying this paper is that business courts improve corporate performance by reducing managerial stealing.

A.   Empirical Approach

To empirically assess the impact of business courts, this paper uses a difference-in-difference approach. Crucially, the fact that many states established business courts between 1990 and 2015 (table 1) allows for a multiple-events design. The literature offers two main techniques in this context: one is to rely on a regular fixed effects model (Bertrand and Mullainathan, 2003). This approach is sometimes referred to as the "regular cohort approach" (Gormley and Matsa, 2011), a term that I will use as well for ease of reference. An alternative is the so-called "stacked cohort approach" developed by Gormley and Matsa (2011).

As a baseline model, I use the regular cohort approach. That approach uses one big window (1990-2015). The treatment variable is "switched on" for different states at different times, depending on when the state of incorporation created a business courts and then stays "on" for as long as the relevant state has a business court. The relevant model thus takes the following form:

$$(1) \qquad Y_{i,h,s,t} = \beta_1 C_{s,t} + \beta_2 X_{s,t} + \alpha_s + \gamma_{h,t} + \mu_i + \epsilon_{i,h,s,t}$$

Note that s indexes states of incorporation, h indexes headquarters states ("home states"), i indexes firms, and t indexes time periods. $C_{s,t}$ captures whether a particular state of incorporation has a business court in time period t. $X_{s,t}$ captures other characteristics of the state of incorporation's legal system in a particular year, such as the state of incorporation's law on takeovers. The term μ_i captures firm fixed effects. The term α_s captures state-of-incorporation fixed effects.[6] The term $\gamma_{h,t}$ captures headquarters state year fixed effects.[7]

The "regular cohort approach" has the advantage of simplicity. Moreover, because the resulting window stretches to the year 2015, the regular cohort approach captures, at least for "early adopters," the benefits of business courts that

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Araiz v. EQSF Advisers, Inc., Index No. 9908 (1999) (refusing to dismiss a derivative suit).

[6] To the extent that I eliminate from the sample those few firms that change their state of incorporation during the period of interest, I drop the term α_s, given that all models include firm fixed effects

[7] In some regressions, I use (separate) year fixed effects and headquarters state fixed effects, rather than headquarters state year fixed effects. However, because the headquarters state stays constant over time, the term capturing headquarters-state fixed effects is then dropped.

develop over time as these courts are expanded and, in some cases, turned from pilot projects into permanent institutions. However, it also comes with major drawbacks. To begin, the use of one big uniform window means that the pre- and post-treatment periods will have different lengths depending on whether the relevant state was an early adopter or late adopter. Moreover, a bigger window goes hand in hand with greater potential for confounding events.

The regular-cohort approach is not, however, the only approach to applying the difference-in-difference approach in a multiple-events setting. Another technique, which I use to check the robustness of my results, is the so-called "stacked cohort approach" used by Gormley and Matsa (2011): For each event, I construct a separate event sample.[8] This event sample consists of all firm-year observations within an 7-year window around the event (three years on either side of the treatment year), but excluding those firm-year observations that are treated by another event.[9] For example, North Carolina established a business court in 1995, but was preceded by Illinois (1992), New York (1993), and New Jersey (1993). Thus, an event sample for the Illinois business court spanning three years before and after the creation of the North Carolina business court consists of all firm-year observations for the years 1992-98, but does not include observations for firms incorporated in Illinois, New York or New Jersey. The various event samples are subsequently merged ("stacked"), allowing for the use of the following model:

$$(2) \qquad Y_{i,s,h,e,t} = \beta_1 C_{s,e,t} + \beta_2 X_{s,t} + \alpha_s + \gamma_{h,t} + \mu_{i,e} + \zeta_{e,t} + \epsilon_{i,s,h,e,t}$$

where i stands indexes firms, e indexes event samples, s indexes states of incorporation, and h indexes headquarters states. The term $C_{s,e,t}$ indicates whether the state of incorporation, in a particular year, had (already created and not dismantled) the business court around which this particular event sample was constructed. As before, $X_{s,t}$ captures other characteristics of the state of incorporation's legal system in a particular year. The term α_s captures state-of-incorporation fixed effects.[10] $\gamma_{h,t}$ captures headquarters state year fixed effects.[11] $\mu_{i,e}$ captures event sample firm fixed effects. $\zeta_{e,t}$ captures event sample year fixed effects.

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[8]Gormley and Matsa (2011) refer to this event sample as a "cohort," but some readers may find that terminology misleading, so I avoid it in favor of the term "event sample" or, abbreviated, "ES".

[9]Using a five-year window (two years on either side) yields similar, though sometimes less significant results. With a three-year window (one year on either side), results are no longer significant in various specifications, but it must be kept in mind that a one-year window includes far fewer observations and, more importantly, that many business courts only started deciding cases in the year after they were formally established. Hence, reactions by firms and capital markets may have been somewhat muted in the beginning.

[10]To the extent that I eliminate from the sample those few firms that change their state of incorporation during the period of interest, the term α_s can be left out, given that all models include firm fixed effects.

[11]In some regressions, I use (separate) year fixed effects and headquarters state fixed effects, rather than headquarters state year fixed effects.

B. Delaware and Non-Delaware Firms

My dataset for the years 1990-2015 contains 14,340 publicly traded firms and 147,351 firm-year observations.[12] Out of those, almost one quarter (3,233; 22.5%) are incorporated in their home states. Where do the remaining firms incorporate? As shown in table 2, Delaware is by far the most popular choice. Nevada, another state that competes for out-of-state incorporations (Donelson and Yust, 2014), runs only a distant second. In other words, most firms incorporate either locally or in Delaware.

That means that among the firms headquartered in a state that creates a business court, the firms treated by the court are the ones incorporated locally, whereas the vast majority of firms not treated by the relevant court are incorporated in Delaware. This raises the question whether it is acceptable to use a treatment group that consists largely of locally incorporated firms and a control group that consists largely of Delaware incorporated firms. While other studies such as Becker and Stromberg (2012) also apply a difference-in-difference analysis to Delaware v. non-Delaware firms, one may be concerned that public corporations incorporating non-locally (typically in Delaware) are substantially different from those incorporating locally. Indeed, the existing literature offers ample evidence that such differences exist (Jagannathan and Pritchard, 2017; Francis and Yu, 2015), and the summary statistics presented in table 3 highlight some dimensions along which locally incorporated firms differ from Delaware incorporated firms. But the difference-in-difference method only requires parallel trends, and so this paper examines whether the parallel trends assumption can be falsified. Furthermore, for my main variables of interest, I receive very similar results if I drop Delaware firms (see tables C4, C8 columns 3 & 4, c16 columns 3 & 4).

In interpreting my results, it must be kept in mind that many firms are thought to incorporate in Delaware rather than locally precisely because they seek access to Delaware's excellent Chancery Court for their corporate litigation (Kahan, 2006; Kahan and Kamar, 2002; Fisch, 2000; Dreyfuss, 1995). Accordingly, it is reasonable to think that Delaware corporations derive greater benefits from good courts than corporations incorporated elsewhere. Given that most non-locally incorporate firms incorporate in Delaware, this creates a strong selection effect. However, the resulting bias implies that my results are likely to understate the actual benefits of business courts since the difference-in-difference approach focuses on the impact of business courts on those corporations that have not incorporated in Delaware and are therefore likely to derive lesser benefits from good courts than Delaware corporations.

C. Data

Most of the firm level data are obtained from Compustat Fundamentals Annual. Because Compustat only provides the most recent state of incorporation, I

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[12] For more on the selection of these firms see Part IV.C

Table 3—Summary Statistics

	Firms Incorporated locally	Firms incorporated outside of their home state that are instead incorporated in...			All Firms
		Delaware	Nevada	Other	
Age	11.89	10.47*	7.64*	11.43	11.00
	(10.58)	(11.18)	(7.08)	(11.38)	(10.99)
Total Assets	4.92	7.66*	3.47	7.78*	6.74
	(21.38)	(28.25)	(21.47)	(32.75)	(27.00)
Employees	3.99	5.50*	2.34	5.01*	4.88
	(12.49)	(15.29)	(9.39)	(16.49)	(14.58)
Sales	521.64	756.50*	245.56*	719.07*	667.44
	(1958.49)	(2499.55)	(1070.60)	(2816.05)	(2380.08)
Tobin's Q	1.87	2.14*	3.10*	2.45*	2.12
	(1.99)	(3.67)	(10.64)	(5.93)	(3.97)
SROA	-0.02	-0.04	-0.11	-0.06	-0.04
	(0.66)	(0.60)	(0.48)	(0.72)	(0.64)
ROA	0.03	0.00*	-0.17*	-0.02*	0.00
	(0.50)	(0.56)	(0.93)	(0.64)	(0.57)
ROE	0.21	0.26	0.11	0.15	0.23
	(1.28)	(1.58)	(1.62)	(1.59)	(1.49)
Fin. Leverage	0.28	0.30*	0.27	0.31*	0.30
	(0.27)	(0.29)	(0.25)	(0.28)	(0.28)
Book Leverage	0.31	0.35*	0.37*	0.34*	0.34
	(0.41)	(0.47)	(0.64)	(0.48)	(0.46)
DividendsAssets	0.01	0.01*	0.00*	0.01*	0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Number of firm-year observations	3,663	6,263	236	1,799	11,961

Note: Values represent means for all firm-year observations for the years 1990-91. In columns 2, 3, and 4, for those values marked with an *, the difference between the relevant mean and the mean for locally incorporated firms is statistically significant at the 5% level. For easier display, total assets are divided by 100. Note that not every variable is available for every firm-year observation.

rely on SEC Analytics to obtain historical state of incorporation data.[13] I mainly focus on the years 1990 to 2015, though I use data reaching back as far as 1950 for purposes of calculating the age of publicly traded firms. From the 1990-2015

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[13]To incorporate SEC Analytics Data, I proceed in two steps. First, using a dataset derived from SEC Analytics alone, I identify those cases where firms changed their state of incorporation between 1994 (the first year for which SEC Analytics data are available) and 2015. In an effort to minimize the impact of erroneous data, I eliminate from the relevant list those firms that are reported to have switched their state of incorporation five or more times. For the resulting subsample of firms that changed their state of incorporation, I then adjust the Compustat data. Since the SEC Analytics Data are only available beginning in 1994, I extrapolate them to earlier years by making the assumption that the state of incorporation did not change between 1990 and 1994. For example, if Compustat shows that the current state of incorporation is Delaware, and the SEC Analytics data indicate that a corporation was incorporated in Oklahoma from 1994 to 2010 before reincorporating in Delaware in 2011, then, for lack of better information, I presume the state of incorporation to be Oklahoma not only from 1994 to 2011, but also in the years before 1994. Otherwise, the data would falsely suggest that the corporation was originally incorporated in Delaware and then reincorporated in Oklahoma in 1994.

dataset, I drop firms that are not incorporated within the United States (61,941 observations) as well as firms that are not headquartered in the United States (12,014 observations). I further exclude financial firms since they are subject to special regulation (68,903 observations), as well as public utilities (9,088 observations), and firms in the area of public administration (3,571 observations). Applying these filters leaves me with 150,412 observations.

Data on daily stock prices are obtained from CRSP, data on mergers from SDC Platinum.

Data on the creation of business courts were researched by hand from law review articles, newspapers, official announcements, and state courts' websites. In some cases, a publicly available act creating or authorizing the creation of the business court such as a statute, formal memorandum or administrative order was adopted in one year, but the court did not actually commence its work until a later year, almost always the next year. In that case, I focus on the former date. That is because managers should care about which courts will hear their case once it is litigated, and litigation typically occurs with some delay as well. Moreover, I focus on the original creation of business courts, even if the court was created as a limited pilot project, and I ignore later expansions or other reforms.

In coding changes to takeover law, for the sake of transparency, I rely entirely on Cain, McKeon and Solomon (2017), and consider those changes in takeover law that they mention in table 2 of their paper including the notes accompanying that table.[14]

Unless otherwise noted, financial ratios as well as all other financial data are trimmed at the 2% and 98% levels to reduce problems of incorrect data. As shown in tables C1 and C9 in the appendix, using different cutoffs and/or relying on winsorizing rather than trimming leads to very similar (and in some cases more significant) results.

D. *Incorporation Decisions and Endogeneity*

One may be concerned that the creation of a business court will change the mix of firms in the relevant state. After all, it is conceivable that firms that might otherwise have been formed in Delaware are instead incorporated in their headquarters state because that state has a business court. To address this issue, I take three steps.

First, in most regressions, I include only those firms for which my dataset contains at least one firm-year observation before 1992, the year that the first business court was firmed. Thereby, I exclude the possibility that the impact of business courts on firm performance is biased by IPO incorporation choices.

Second, I exclude, in most regressions, firms that reincorporated during the period of interest (1990-2015), though I also show that including such firms leads

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[14]Because my regressions include state of incorporation fixed effects, I only include those takeover variables for which the law changed in at least one state between 1990 and 2015. I also omitted some takeover variables due to collinearity.

to very similar results (tables C3, C8 columns 1 & 2, C16 columns 1 & 2).

Finally, I analyze to what extent (re)incorporation decisions are determined by the existence of business courts. More specifically, I employ a linear probability model where the binary dependent variable takes on the value 1 if a firm is incorporated in its headquarters state and 0 otherwise, or, alternatively, the value 1 if a firm is incorporated in Delaware and 0 otherwise. The results are displayed in table 4. I find no evidence that the creation of a business court impacts firms' choices where to (re)incorporate. One possible explanation may lie in the fact that any decision to reincorporate requires not just a shareholder vote, but also an affirmative board resolution. Given that managers may not like the idea of being policed more thoroughly, that board resolution may not always been forthcoming.

V.   Main Results

The central question motivating this paper is whether access to business courts for corporate litigation benefits firm performance. The results discussed in this section are broadly consistent with the claim that it does.

A.   Tobin's q

Table 5 uses the natural logarithm of Tobin's q as a dependent variable and shows the results from the regular cohort approach. The creation of a business court appears to be associated with a five to seven percent increase in Tobin's q, a finding that is both statistically and economically significant.

This finding, which constitutes the main result of this paper, proves quite robust. Thus, choosing different cutoffs for trimming or winsorizing the data brings little change (C.1). Moreover, similar results obtain if one focuses only on the years 1994-2015, for which more precise state-of-incorporation data are available (table C2) or if one includes reincorporating firms (table C3). Moreover, one can drop individual states of incorporation, particularly Delaware, and the results still do not change much (table C4). The same is true if one drops firms headquartered in particular geographic regions (table C5), or focuses solely on firms incorporated locally or in Delaware (table C6). Furthermore, the overall picture remains the same if one uses the stacked cohort approach, though the increase in Tobin's q is now three to four percent (table C7).

B.   Return on Equity

Table 6 repeats the baseline analysis for return on equity (ROE). The creation of a business court appears to be associated with a five to six percent increase in Return on Equity, a finding that is statistically significant at the 5 percent level in most specifications. However, the association is no longer statistically significant once one includes both takeover law controls and headquarters sate year fixed effects in the regression (table 6 column 6).

The results on ROE are not particularly robust. Including reincorporating firms (table C8 columns 1 & 2), dropping all firms incorporated in Delaware (table C8 columns 3 & 4), or keeping only firms incorporated locally or in Delaware, reduces or eliminates the statistical significance of the findings. Using different cutoffs for trimming or winsorizing does not lead to increased significance (table C9). Moreover, the results are smaller and no longer significant at conventional levels if one uses the stacked cohort approach. They also lose their significance, if one drops the years 1990 to 1993 or if one drops firms headquartered in the North East (table C11).

C.   Return on Assets

The results for Return on Assets are positive, but not significant under the regular cohort approach. It is worth mentioning, though, that if one relies on the stacked cohort approach instead, one finds that the creation of a business court goes hand in hand with a three to five percent increase in ROA, which is statistically significant a the 5 percent level in several specifications (table C12).

D.   Takeovers

One area in which self-serving managerial behavior is thought to be particularly prevalent is takeovers. The concern is that managers may take defensive measures against takeovers attempts not to benefit their shareholders, but in order to protect their own jobs. Or, if forced to sell, they may decide to sell to a friendly bidder rather than to the highest bidder.

Crucially, though, the law provides nontrivial protections to target shareholders, both if managers refuse to sell at all and if managers attempt to sell the corporation to anyone but the highest bidder (Unocal, Revlon). Moreover, the relevant norms are classical examples of vague standards Kamar (1998), so that the existence of a high-quality court should increase the effectiveness with which shareholders are protected.[15]

To examine the relationship between business courts and corporate acquisitions, I primarily rely on merger data from SDC Platinum for the years 1994 to 2015 as well as on stock data from CRSP.[16] The results are displayed in table 8, and they are in line with what one would expect. Corporations incorporated in states with business courts are more likely to become the target in a completed merger, and this effect is even more significant if one focuses solely on mergers with positive cumulative abnormal returns (CAR) for the target shareholders (columns 3-4).

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[15]By contrast, management's decision to buy other corporations is generally protected by the business judgment rule and therefore subject to very little judicial scrutiny.

[16]I include deals with a value of at least one million in which both acquirer and target are public. I exclude leveraged buyouts, exchange offers, repurchases, spinoffs, minority stake purchases, recapitalizations, acquisitions of remaining interest, self-tenders, and privatizations. Cumulative abnormal returns are calculated relative to the value-weighed CRSP index for a [+1,-1] window around the announcement.

These results are fairly robust. They remain largely unchanged if one includes reincorporating firms (table C13 columns 1 & 2) or drops all Delaware firms (table C13 columns 3 & 4), or drops firms headquartered in particular regions (table C14). Switching to the stacked cohort approach also yields similar, though less significant results (table C.4). By contrast, the results are no longer significant if one focuses solely on Delaware firms and locally incorporated firms to the exclusion of firms incorporated in other states (table C13 columns 5 & 6).

Moreover, the results on takeovers are no longer significant if one extends the data to include the years 1990-92 (c15). That, however, is unsurprising. Whereas reincorporation is fairly uncommon outside the context of corporate acquisitions, firms very often reincorporate in Delaware in the context of mergers. Consequently, including the years 1990-1993 is likely to dramatically understate any positive impact of the creation of business courts on mergers for these years. That is because the lack of historical data for these years means that firms which only reincorporated in Delaware because of a merger are falsely indicated to have been in Delaware all along, a state where the forum for corporate litigation remained unchanged during the period of observation.

VI.   Triple Differences

According to the main hypothesis underlying this paper, business courts benefit firm performance by policing managerial stealing. This benefit is unlikely to be equally valuable to all firms. All else equal, good courts are likely bestow greater benefits on those firms where agency problems are particularly acute. Unfortunately, many classical proxies for agency conflicts, most notably corporate governance indices, are available for relatively few firms and therefore of little help for the paper at hand. However, a fairly direct direct way of identifying firms with poor management is to rely on Tobin's q. Given that Tobin's q is widely used as a measure for managerial quality, firms with a lower Tobin's q should benefit more from the creation of a business court than firms with a higher Tobin's q.

To test this hypothesis, I use a triple differences design with three different groups: Firms whose Tobin's q was at or below the 33rd percentile in 1989 ("low"), firms whose Tobin's q was above the 33rd and at or below the 67th percentile, and firms whose Tobin's q was above the 67th percentile ("high"). I also include in my regression year low and year high fixed effects to avoid picking up time trends that are specific to high type firms or low type firms in general.[17]

$$(3) \qquad Y_{i,h,s,t} = \beta_1 C_{s,t} + \beta_2 X_{s,t} + \beta_3 (C_{s,t} * low_i) + \beta_4 (C_{s,t} * high_i) + \alpha_s + \gamma_{h,t}$$
$$+ (\theta_t * low_i) + (\theta_t * high_i) + \mu_i + \epsilon_{i,h,s,t}$$

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[17]The usual approach of including a a single (high sensitivity group * post treatment) interaction term would not work in this context since there are multiple treatment events and many firms incorporated in states without a treatment year.

As before, s indexes states of incorporation, h indexes headquarters states , i indexes firms, and t indexes time periods (years). $C_{s,t}$ captures whether a particular state of incorporation has a business court in time period t. $(C_{s,t}*low_i)$ is the triple difference variable that captures whether the state of incorporation has a business court and the firm belongs to the low Tobin's q group. Similarly, $(C_{s,t}*high_i)$ captures whether the state of incorporation has a business court and the firm belongs to the high Tobin's q group. $(\theta_t * low_i)$ captures year low fixed effects, $(\theta_t * high_i)$ captures year high fixed effects.

The results are displayed in table 9. In most specifications, only the triple difference variable for low Tobin's q firms remains significant. This is consistent with the assumption that poorly governed firms have the most to gain from the creation of business courts.

VII. Parallel Trends Assumption

Given that corporations self-select into their state of incorporation, it is of particular importance to see if the parallel trends assumption can be falsified.

To gain an understanding of how the benefits of being incorporated locally changes over the various time periods in the event sample, I use the following specification:

$$y_{i,s,h,t} = \beta_{-4}(Ante3_y * D_s) + \sum_{y=-3}^{+3} \beta_y(\gamma_y * D_{y,s}) + \beta_4(Post3_y * D_s) + \beta_5 X_{s,t} + \alpha_s$$
$$+ \gamma_{h,t} + \mu_i + \epsilon_{i,s,h,t}$$

Note that t indexes calendar years, whereas y indexes years before and after the creation of a business court in a particular state of incorporation. The variable D_s captures the effect of being incorporated in one of the states that created a business court between 1990 and 2017 (cf. table 1), The term $Ante3_y$ captures whether y is less than -3, the term $Post3_y$ whether y is greater than 3.[18] As before, i indexes firms, s indexes states of incorporation, and h indexes headquarters states.

For my main three dependent variables (Tobin's q, ROE, and positive CAR mergers), the coefficients β_{-3} through β_3, capturing the effects of being incorporated in a business court state at different time periods before and after the court's creation are displayed graphically in figures 1, 2, and 3. The value 0 on the x-axis represents the year in which the business court was created. For each dependent variable, the graph on the left is based on a regression that fails to control for changes in takeover law, whereas the graph on a right represents a regression incorporation takeover law controls. The results are broadly consistent

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[18]If the state of incorporation never creates a business court or if $-3 \geq y \leq 3$, then $Ante3_y$ and $Post3_y$ take on the value 0.

with the parallel trends assumption, though the size of the confidence intervals mandates caution.
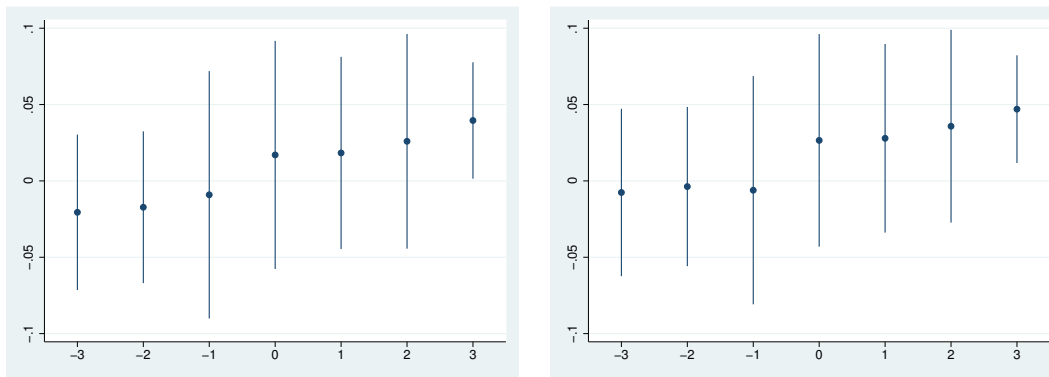
FIGURE 1. DEPENDENT VARIABLE: LOG(TOBIN'S Q)

Note: Regressions as described in the main text (1990-2015). Year 0 is the year in which the business court is created. Dependent variable is log (Tobin's q). Regressions as described as in text. Both Regression controls for firm fixed effects, headquarters state year fixed effects, and complex litigation programs. The regression on the right additionally controls for takeover statutes and case law. To be included in an event sample, firms must have had at least one observation before 1992. Firms that reincorporated between 1990 and 2015 are dropped. Both regressions cluster at the level of the headquarters state.

I also use various placebo tests. Unfortunately, the regular cohort approach proves unsuitable for this purpose: if an earlier year is chosen as a placebo year, the difference-in-difference estimator will still pick up the actual treatment's effect. Picking a later year is equally unsuitable since business courts were often expanded over time, and thus the placebo year might turn out to be an actual treatment year, where the treatment is the expansion of the business court. For that reason, I rely instead on the stacked cohort approach for purposes of placebo tests. To avoid picking up any effect of the actual treatment, I choose as placebo years those years that lie 3, 5, or 7 years before the actual creation of the business courts. That way, the post-treatment period of the placebo treatment ends before the actual treatment occurs. For Tobin's q, ROE, and positive CAR takeovers, the results are displayed in table C.17. The relationship is generally not significant for the placebo years, and in those few years, for which the relationship is marginally significant (and in one case significant at the 10 percent level), the coefficients are negative instead of positive.

VIII.   Conclusion

Overall, the results presented in this paper are broadly consistent with the assumption that access to high-quality courts benefits firm performance. The importance of these findings is substantial. Establishing good courts is a relatively cheap undertaking. For example, according to Delaware's state budget for the
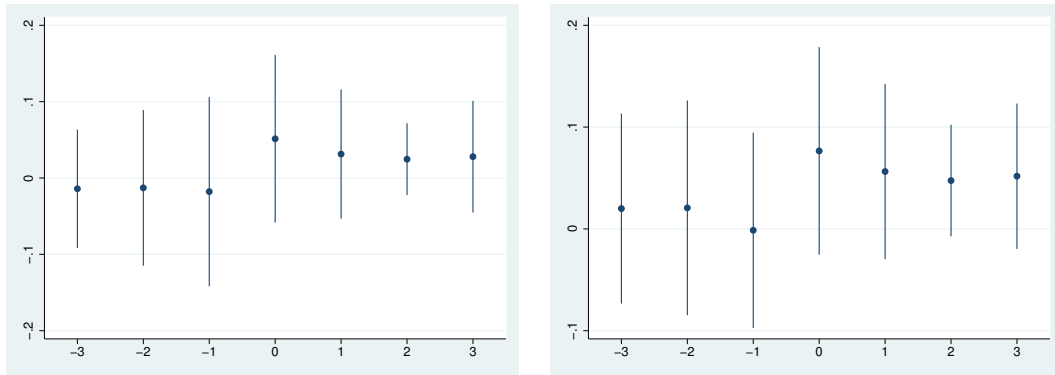
Figure 2. Dependent variable: Log(ROE)

Note: Regressions as described in the main text (1990-2015). Year 0 is the year in which the business court is created. Dependent variable is log (ROE). Regressions as described as in text. Both Regression controls for firm fixed effects, headquarters state year fixed effects, and complex litigation programs. The regression on the right additionally controls for takeover statutes and case law. To be included in an event sample, firms must have had at least one observation before 1992. Firms that reincorporated between 1990 and 2015 are dropped. Both regressions cluster at the level of the headquarters state.

fiscal year 2016, the annual cost of running Delaware's famous Chancery Court is about $4.9 million. Hence, the costs of expert courts seem a small price to pay for a five to seven percent increase in Tobin's q.
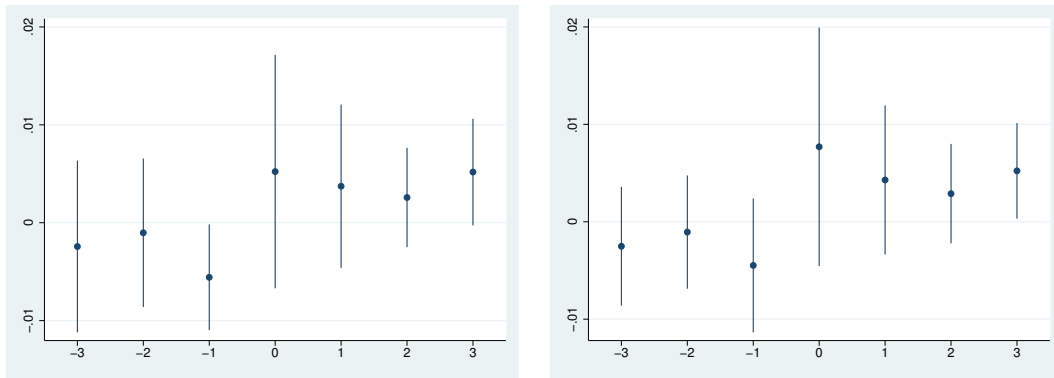
FIGURE 3. DEPENDENT VARIABLE: COMPLETED MERGER WITH POSITIVE CAR FOR TARGET SHAREHOLDERS

Note: Regressions as described in the main text (1994-2015). Year 0 is the year in which the business court is created. Dependent variable is a binary variable that captures whether, in a given year, a firm became the target in a completed takeover with positive CAR for the target shareholders. Regressions as described as in text. Both Regression controls for firm fixed effects, headquarters state year fixed effects, and complex litigation programs. The regression on the right additionally controls for takeover statutes and case law. To be included in an event sample, firms must have had at least one observation before 1992. Firms that reincorporated between 1990 and 2015 are dropped. Both regressions cluster at the level of the headquarters state.

Table 4—Linear Probability: Determinants of the Decision Where to (Re)incorporate

	Dependent variable firm incorporated locally			Dependent variable: firm incorporated in Delaware		
	(1) b/se	(2) b/se	(3) b/se	(4) b/se	(5) b/se	(6) b/se
Business Court	0.002	0.003	0.001	0.001	-0.000	0.003
	(0.005)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Complex Litig. Progr.	-0.046***	-0.044***	-0.039***	0.047***	0.045***	0.038***
	(0.015)	(0.010)	(0.008)	(0.013)	(0.009)	(0.007)
Mand. Stagg. Board		0.037***	0.033***		-0.040*	-0.034*
		(0.009)	(0.006)		(0.022)	(0.017)
Constit. Stat.		-0.030***	-0.027***		0.021***	0.018***
		(0.006)	(0.004)		(0.007)	(0.007)
Pro Pois. Pill Stat.		0.026***	0.026***		-0.023**	-0.023***
		(0.007)	(0.007)		(0.009)	(0.008)
Strong Pro Pois. Pill Stat.		0.019***	0.009		-0.010	0.006
		(0.005)	(0.006)		(0.008)	(0.012)
Pro Poison Pill Case			0.021*			-0.037***
			(0.011)			(0.013)
Strong Pro Pois. Pill Case			-0.005			0.021
			(0.012)			(0.013)
Unocal			-0.022			0.025*
			(0.019)			(0.014)
Unocal Rejected			0.004			-0.006
			(0.007)			(0.006)
Revlon			-0.012			0.015**
			(0.010)			(0.006)
Revlon Rejected			-0.010			0.008
			(0.010)			(0.008)
Blasius			0.011			-0.019
			(0.007)			(0.012)
Blasius Rejected			0.001			-0.008
			(0.012)			(0.012)
N	147351	147351	147351	147351	147351	147351
R^2	0.0076	0.0112	0.0123	0.0190	0.0202	0.0211
adj. R^2	0.0074	0.0110	0.0120	0.0188	0.0200	0.0208

Note: Linear Probability Model. For columns 1 to 3, the dependent variable takes on the value 1 if the firm is incorporated locally in a given year, and 0 otherwise. For columns 4 to 6, the dependent variable takes on the value 1 if the firm is incorporated in Delaware in a given year, and 0 otherwise. Unlike in the other regressions in this paper, the question of whether there exists a business court or a complex litigation program and the takeover law variables refer to the headquarters state rather than to the law of the state of incorporation. All regressions include firm fixed effects and year fixed effects. Headquarters state fixed effects were omitted since they would be absorbed by firm fixed effects. All models cluster at the level of the headquarters state. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table 5—Business Courts and Firm Performance: Regular Cohort Approach (1990-2015)

	(1)	(2)	(3)	(4)	(5)	(6)
			Dependent Variable: Log(Tobin's q)			
Business Court	0.063***	0.057***	0.046**	0.068***	0.065***	0.051***
	(0.018)	(0.018)	(0.017)	(0.014)	(0.016)	(0.017)
Complex Litigation Program	0.049	0.045	0.050	-0.003	-0.006	0.003
	(0.036)	(0.034)	(0.043)	(0.018)	(0.018)	(0.025)
Business Combination Statute		0.000	-0.004		-0.019	-0.021
		(0.015)	(0.012)		(0.033)	(0.028)
Mandatory Staggered Board		-0.049**	-0.050*		-0.060***	-0.045
		(0.020)	(0.029)		(0.021)	(0.034)
Constituency Statute		-0.016	-0.017		-0.018	-0.016
		(0.024)	(0.025)		(0.018)	(0.019)
Pro Poison Pill Statute		-0.036	-0.037		0.014	0.001
		(0.040)	(0.042)		(0.041)	(0.037)
Strong Pro Poison Pill Statute		0.075	0.043		-0.029	-0.088
		(0.057)	(0.054)		(0.062)	(0.067)
Pro Poison Pill Case			0.106***			0.054
			(0.037)			(0.043)
Strong Pro Poison Pill Case			-0.089***			-0.023
			(0.029)			(0.038)
Unocal			-0.000			0.039
			(0.044)			(0.048)
Unocal Rejected			-0.040			-0.011
			(0.046)			(0.037)
Revlon			-0.009			-0.024
			(0.025)			(0.024)
Revlon Rejected			0.021			0.001
			(0.021)			(0.019)
Blasius			0.034			0.115**
			(0.026)			(0.047)
Blasius Rejected			0.078**			0.085***
			(0.030)			(0.021)
N	58166	58166	58166	58166	58166	58166
R^2	0.033	0.034	0.034	0.062	0.062	0.062
adj. R^2	0.0330	0.0331	0.0334	0.0417	0.0417	0.0422
Fixed Effects:						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No	No	No
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Regular cohort approach. Dependent variable is log(Tobin's q). Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE 6—BUSINESS COURTS AND FIRM PERFORMANCE: REGULAR COHORT APPROACH (1990-2015)

	Dependent Variable: Log(ROE)					
	(1)	(2)	(3)	(4)	(5)	(6)
Business Court	0.055**	0.061**	0.055**	0.045*	0.057**	0.033
	(0.024)	(0.024)	(0.021)	(0.027)	(0.026)	(0.024)
Complex Litigation Program	-0.064***	-0.057***	-0.068***	-0.033	-0.027	-0.037*
	(0.018)	(0.020)	(0.022)	(0.023)	(0.024)	(0.020)
Business Combination Statute		0.141***	0.132***		0.061***	0.057**
		(0.035)	(0.044)		(0.019)	(0.026)
Mandatory Staggered Board		-0.184***	-0.173***		-0.119	-0.101
		(0.050)	(0.060)		(0.076)	(0.087)
Constituency Statute		0.023	0.018		0.050**	0.056**
		(0.022)	(0.024)		(0.021)	(0.023)
Pro Poison Pill Statute		-0.015	-0.021		0.049	0.032
		(0.033)	(0.031)		(0.039)	(0.035)
Strong Pro Poison Pill Statute		-0.015	-0.021		-0.073	-0.080
		(0.037)	(0.038)		(0.081)	(0.077)
Pro Poison Pill Case			0.023			0.066
			(0.032)			(0.077)
Strong Pro Poison Pill Case			-0.063**			-0.039
			(0.024)			(0.064)
Unocal			0.060			0.114**
			(0.048)			(0.053)
Unocal Rejected			-0.057***			-0.023
			(0.021)			(0.028)
Revlon			0.036**			0.029
			(0.018)			(0.025)
Revlon Rejected			0.070***			0.107***
			(0.019)			(0.014)
Blasius			0.011			0.060
			(0.035)			(0.061)
Blasius Rejected			0.077***			0.057
			(0.023)			(0.038)
N	50675	50675	50675	50675	50675	50675
R^2	0.011	0.011	0.012	0.040	0.040	0.041
adj. R^2	0.0103	0.0107	0.0110	0.0166	0.0168	0.0172
Fixed Effects:						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No	No	No
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Regular cohort approach. Dependent variable is log(ROE). Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE 7—BUSINESS COURTS AND FIRM PERFORMANCE: REGULAR COHORT APPROACH (1990-2015)

	(1)	(2)	(3)	(4)	(5)	(6)
			Dependent Variable: Log(ROA)			
Business Court	0.034	0.022	0.015	0.039	0.031	0.014
	(0.029)	(0.027)	(0.026)	(0.026)	(0.027)	(0.027)
Complex Litigation Program	0.040	0.028	0.047	0.026	0.017	0.041
	(0.050)	(0.052)	(0.063)	(0.038)	(0.043)	(0.053)
Business Combination Statute		0.008	0.002		-0.104**	-0.105***
		(0.023)	(0.027)		(0.040)	(0.036)
Mandatory Staggered Board		-0.226***	-0.222***		-0.204***	-0.194***
		(0.030)	(0.037)		(0.027)	(0.039)
Constituency Statute		-0.026	-0.026		-0.027	-0.022
		(0.028)	(0.030)		(0.027)	(0.032)
Pro Poison Pill Statute		-0.097*	-0.095*		-0.040	-0.049
		(0.051)	(0.053)		(0.039)	(0.039)
Strong Pro Poison Pill Statute		0.199***	0.183**		0.100	0.033
		(0.071)	(0.069)		(0.077)	(0.087)
Pro Poison Pill Case			0.037			-0.021
			(0.055)			(0.085)
Strong Pro Poison Pill Case			-0.108**			-0.010
			(0.045)			(0.074)
Unocal			0.048			0.058
			(0.076)			(0.078)
Unocal Rejected			-0.006			0.030
			(0.041)			(0.041)
Revlon			-0.049			-0.061*
			(0.032)			(0.033)
Revlon Rejected			0.026			-0.010
			(0.035)			(0.036)
Blasius			-0.002			0.092
			(0.064)			(0.079)
Blasius Rejected			0.094**			0.121***
			(0.046)			(0.037)
N	44559	44559	44559	44559	44559	44559
R^2	0.027	0.028	0.029	0.068	0.068	0.068
adj. R^2	0.0268	0.0273	0.0278	0.0421	0.0423	0.0427
Fixed Effects:						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No	No	No
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Regular cohort approach. Dependent variable is log(ROA). Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table 8—Business Courts and Takeovers (Regular Cohort Approach, 1994-2015)

Binary dependent variable: did corporation become a merger target

| | in any merger | | in a merger with | | | |
| | | | positive CAR for target shareholders | | negative CAR for target shareholders | |
	(1) b/se	(2) b/se	(3) b/se	(4) b/se	(5) b/se	(6) b/se
Business Court	0.005*	0.006**	0.006**	0.007***	-0.000	-0.000
	(0.003)	(0.002)	(0.003)	(0.002)	(0.000)	(0.000)
Complex Litigation	-0.008***	-0.010***	-0.001	-0.004**	-0.005***	-0.005***
	(0.002)	(0.002)	(0.001)	(0.002)	(0.001)	(0.001)
Bus. Comb. Statute	-0.004	-0.004*	0.003*	0.003*	-0.003*	-0.004**
	(0.003)	(0.002)	(0.002)	(0.001)	(0.002)	(0.001)
Mand. Staggered Board	-0.008	-0.013	-0.009	-0.012	0.001**	-0.001
	(0.007)	(0.007)	(0.007)	(0.007)	(0.000)	(0.001)
Constituency Statute	-0.001	-0.001	-0.002	-0.002	0.001*	0.001
	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)
Pro Pois. Pill Stat.	-0.003	-0.003	-0.001	-0.002	-0.002	-0.001
	(0.003)	(0.003)	(0.002)	(0.002)	(0.002)	(0.002)
Str. Pro Pois. Pill Stat.	0.015***	0.013***	0.009***	0.009***	0.005***	0.004
	(0.003)	(0.003)	(0.002)	(0.002)	(0.002)	(0.003)
Pro Poison Pill Case		-0.015*		-0.012**		-0.002
		(0.008)		(0.005)		(0.006)
Str. Pro Pois. Pill Case		0.019*		0.016***		0.003
		(0.010)		(0.005)		(0.007)
Unocal		-0.009		-0.002		-0.007
		(0.007)		(0.003)		(0.005)
Unocal Rejected		0.005**		0.007***		-0.002
		(0.003)		(0.003)		(0.001)
Revlon		0.004		0.005		-0.001
		(0.003)		(0.003)		(0.002)
Revlon Rejected		-0.003		-0.002		-0.002
		(0.002)		(0.002)		(0.001)
Blasius		0.002		0.002		-0.000
		(0.003)		(0.003)		(0.001)
Blasius Rejected		-0.009***		-0.009***		-0.000
		(0.003)		(0.002)		(0.001)
N	47719	47719	47719	47719	47719	47719
R^2	0.024	0.024	0.025	0.025	0.017	0.018
adj. R^2	0.0030	0.0031	0.0037	0.0039	-0.0039	-0.0039
Baseline mean:	0.010	0.010	0.009	0.009	0.001	0.001
Controls:						
Takeover Statutes	Yes	Yes	Yes	Yes	Yes	Yes
Takeover Cases	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ-year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Regular cohort approach. Linear probability model. Dependent variable is binary and captures if corporation was, in a given year, a target in at least one completed merger (columns 1-2), or a target in at least one completed merger with positive CAR for the target shareholders (columns 3-4), or a target in at least one completed merger with negative CAR for the buyer's shareholders (columns 5-6). All regressions control for firm fixed effects, headquarters-state year fixed effects, as well as the creation of complex litigation programs. All regressions cluster at the level of the state of incorporation. Firms that reincorporated between 1994 and 2015 were dropped. Firms must have at least one firm-year observation before 1992 to be included. B.M denotes the mean for firm-year observations in treatment states before the treatment. "Hq-yr" means headquarters state year fixed effects. CAR and takeovers as defined in text. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE 9—REGULAR COHORT APPROACH (1990-2015): LOG(TOBIN'S Q) AND TRIPLE DIFFERENCES

	Dependent Variable: Log(Tobin's q)					
	(1)	(2)	(3)	(4)	(5)	(6)
Business Court	0.026*	0.023	0.015	0.021	0.020	0.005
	(0.014)	(0.017)	(0.019)	(0.024)	(0.026)	(0.028)
Business Court * High Tobin's q	0.030	0.030	0.020	0.037	0.038	0.032
	(0.041)	(0.041)	(0.039)	(0.044)	(0.045)	(0.044)
Business Court * Low Tobin's q	0.051*	0.050*	0.052*	0.074**	0.075**	0.077**
	(0.027)	(0.027)	(0.027)	(0.034)	(0.035)	(0.035)
Complex Litigation Program	0.046	0.044	0.045	-0.012	-0.013	-0.008
	(0.034)	(0.033)	(0.041)	(0.017)	(0.016)	(0.023)
Business Combination Statute		0.019	0.014		-0.004	-0.006
		(0.016)	(0.011)		(0.035)	(0.029)
Mandatory Staggered Board		-0.055***	-0.053*		-0.052**	-0.040
		(0.019)	(0.029)		(0.023)	(0.034)
Constituency Statute		-0.012	-0.016		-0.011	-0.012
		(0.023)	(0.023)		(0.018)	(0.019)
Pro Poison Pill Statute		-0.026	-0.029		0.026	0.014
		(0.035)	(0.036)		(0.034)	(0.031)
Strong Pro Poison Pill Statute		0.048	0.015		-0.060	-0.128**
		(0.056)	(0.050)		(0.054)	(0.054)
Pro Poison Pill Case			0.101***			0.058
			(0.037)			(0.043)
Strong Pro Poison Pill Case			-0.105***			-0.042
			(0.029)			(0.035)
Unocal			0.003			0.026
			(0.045)			(0.050)
Unocal Rejected			-0.052			-0.029
			(0.047)			(0.040)
Revlon			0.002			-0.011
			(0.026)			(0.024)
Revlon Rejected			0.019			0.002
			(0.021)			(0.017)
Blasius			0.030			0.109**
			(0.026)			(0.043)
Blasius Rejected			0.103***			0.115***
			(0.032)			(0.024)
N	58166	58166	58166	58166	58166	58166
R^2	0.056	0.056	0.057	0.084	0.084	0.085
adj. R^2	0.0544	0.0544	0.0550	0.0636	0.0636	0.0643
Fixed Effects:						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No	No	No
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Regular cohort approach. Dependent variable is log(Tobin's q). Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

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Appendix A: Jurisdictional Framework

For jurisdictional purposes, incorporating a public corporation in Delaware has two main consequences.

First, Delaware courts have jurisdiction over the *internal* (corporate) affairs of Delaware corporations. I have described this aspect at length in part I.

Second, a corporation's decision to incorporate in a certain state has jurisdictional consequences pertaining to the corporation's "*external* affairs," such as commercial contracts, torts, patents, etc. Corporations have a so-called place of general jurisdiction in their headquarters ("home") state, meaning that they can generally be sued there regardless of the lawsuit's connection to the state. By incorporating in a state, the corporation creates a second general place of general jurisdiction, meaning it can also be sued in its state of incorporation. Therefore, one might speculate that any differential impact that the creation of business courts has on locally incorporated corporations stems from more than just corporate law litigation. More specifically, one might be concerned that locally incorporated firms are sued more frequently in their headquarters state than Delaware-incorporated firms.

Needless to say, this would not put the relevance of business courts to firm performance into question, but it would change the interpretation of results somewhat in that the beneficial impact on court performance could be due to to both improved litigation in corporate matters and improved litigation in external matters such as commercial litigation and contracts.

However, there are strong reasons to think that third party litigation plays a very limited role, if any, in explaining the relative improvement in performance seen for locally incorporated firms. While incorporating in Delaware means creating a place of general jurisdiction there, the jurisdictional rules ensure that the effects of that change are generally slim. To begin, most non-corporate third-party litigation arises in the context of contractual disputes, and there the parties can freely choose the applicable forum without regard to where they are incorporated. Hence, the place of incorporation ought to have little impact on the bulk of third party litigation. Furthermore, until at least 2014, state jurisdictional rules were so generous to plaintiffs that third party plaintiffs could generally sue public corporations in any state even if they were not incorporated there: States have traditionally been very aggressive in asserting jurisdiction over plaintiffs via so-called long-arm statutes that only require minimum contacts with the state (Dammann, 2008). For example, if our hypothetical Texas-based firm produced goods, knowing that these would enter the stream of commerce and eventually be bought by consumers in Delaware, the firm could be sued in Delaware.[19] In its 2014 Daimler decision,[20] the U.S. Supreme Court effectively limited that practice in extreme cases, but my results do not change substantially if I focus on the time

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[19]See ASUS Computer Int'l, 70 F.Supp.3d 654, 659 (D. Del. 2014))
[20]134 S.Ct. 746 (2014)

frame before that decision. Moreover, corporations who wish to do business in a state other than their home state, have to register to do business there. Accordingly, public corporations are routinely registered to do business in the various states including Delaware. Until a 2016 decision by the Delaware Supreme Court, Genuine Parts Company v. Cepec[21], such registration was widely assumed to be a sufficient basis for third party suits against corporations in that state.[22]

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[21] 2016 WL 1569077 (Del. 2016)

[22] In the previously leading case, Sternberg v. O'Neil, (550 A. 2d 1105 (Del. 1988), the Delaware Supreme Court had explicitly held that "[i]f a foreign corporation has expressly consented to the jurisdiction of a state by registration, due process is satisfied and an examination of 'minimum contacts' to find implied consent is unnecessary. (id. at 1113)

APPENDIX B

TABLE B1—VARIABLE DEFINITIONS

Variable	Definition	Compustat Codes
Age	Year of firm-year observation minus earliest year for which Compustat data are available for that firm	
Assets	Total Assets	at
Book leverage	Total debt over assets	(dlc+dltt)/at
Dividends	Dividends on common stock	dvc
Financial leverage	Total debt over (sum of total debt and market value)	(dlc+dltt)/((dlc+dltt+ (prcc_f*csho))
Market value	Number of common shares outstanding times closing price at end of fiscal year	prcc_f*csho
Return on assets	/(operating income before depreciation minus (depreciation and amortization)) over lagged assets	(oibdp-dp)/L.at
Return on equity	operating income before depreciation/common equity	oibdp/ceq
Sales	Net sales	sale
Tangibility	(property, plant, and equipment) over assets	ppentat
Tobin's q	(Assets minus common equity plus market value) over assets	(at-ceq+(prcc_f * csho))/at)
Total debt	Sum of debt in current liabilities and long term debt	dlc+dltt

<div align="center">Table B2—Controls</div>

Takeover statutes	To control for the enactment of takeover statutes, I create a separate variable for each type of takeover statute mentioned in table 2 of Cain, McKeon and Solomon (2017). The relevant variables take on the value 1 in the year that the relevant takeover statute is adopted and "switch" back to zero in the year (if any) that the state repeals the relevant legislation. In the years before the statute's enactment (or, if is repealed, in the years after its repeal including the year of the repeal), the variable takes on the value zero.
Takeover cases	Cain, McKeon and Solomon (2017) distinguish between takeover law changes brought about by statute and takeover law changes made by case law. To the extent that I control for takeover cases, I again rely on table 2 of (Cain, McKeon and Solomon, 2017) and proceed as with statutes (see above), but use variables that focus on takeover law changes via case law.
Complex litigation programs	To control for the creation of complex litigation programs I use a variable that takes on the value 1 in the year that a state of incorporation creates a complex litigation program (table 1) and all subsequent years during which that program is maintained whereas it takes on the value 0 in all years prior to the creation of a complex commercial litigation program as well as in all years after the year in which that program has been terminated.

Appendix C: Robustness Checks

TABLE C1—BUSINESS COURTS AND TOBIN'S Q: REGULAR COHORT APPROACH (1990-2015)

	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent Variable: Log(Tobin's q)					
	Winsorized at			Trimmed at		
	1 & 99%	2 & 98%	5 & 95%	1 & 99%	2 & 98%	5 & 95%
Business Court	0.053***	0.052***	0.046***	0.052***	0.051***	0.043***
	(0.019)	(0.018)	(0.015)	(0.018)	(0.017)	(0.013)
Complex Litigation	-0.014	-0.007	0.001	0.003	0.003	-0.011
	(0.025)	(0.024)	(0.022)	(0.025)	(0.025)	(0.028)
Business Comb. Statute	0.003	-0.000	-0.006	-0.031*	-0.021	-0.016
	(0.017)	(0.017)	(0.018)	(0.018)	(0.028)	(0.021)
Mandatory Staggered Board	-0.048	-0.049	-0.044	-0.038	-0.045	-0.010
	(0.037)	(0.037)	(0.033)	(0.035)	(0.034)	(0.025)
Constituency Statute	-0.025	-0.022	-0.018	-0.014	-0.016	-0.006
	(0.022)	(0.020)	(0.018)	(0.020)	(0.019)	(0.015)
Pro Poison Pill Statute	-0.014	-0.010	-0.008	-0.004	0.001	-0.027
	(0.042)	(0.040)	(0.037)	(0.039)	(0.037)	(0.032)
Strong Pro Pois. Pill Stat.	-0.111*	-0.109*	-0.072	-0.094	-0.088	0.010
	(0.059)	(0.060)	(0.063)	(0.063)	(0.067)	(0.067)
Pro Poison Pill Case	0.085*	0.075	0.041	0.065	0.054	0.031
	(0.049)	(0.048)	(0.043)	(0.047)	(0.043)	(0.044)
Strong Pro Pois. Pill Case	-0.079	-0.064	-0.023	-0.035	-0.023	0.005
	(0.052)	(0.049)	(0.041)	(0.042)	(0.038)	(0.040)
Unocal	0.030	0.030	0.037	0.035	0.039	0.043
	(0.060)	(0.057)	(0.050)	(0.052)	(0.048)	(0.042)
Unocal Rejected	-0.024	-0.021	-0.004	-0.015	-0.011	0.024
	(0.035)	(0.033)	(0.032)	(0.036)	(0.037)	(0.040)
Revlon	-0.025	-0.024	-0.027	-0.029	-0.024	-0.034
	(0.024)	(0.023)	(0.021)	(0.024)	(0.024)	(0.024)
Revlon Rejected	0.019	0.016	0.005	0.004	0.001	-0.029
	(0.017)	(0.017)	(0.019)	(0.018)	(0.019)	(0.027)
Blasius	0.119**	0.120**	0.101**	0.124***	0.115**	0.055
	(0.049)	(0.047)	(0.045)	(0.044)	(0.047)	(0.042)
Blasius Rejected	0.135***	0.121***	0.084***	0.096***	0.085***	0.029
	(0.028)	(0.025)	(0.020)	(0.022)	(0.021)	(0.036)
N	59747	59747	59747	59023	58166	55171
R^2	0.057	0.059	0.064	0.059	0.062	0.068
adj. R^2	0.0370	0.0396	0.0450	0.0393	0.0422	0.0471

Note: Regular cohort approach. Years 1990-2015. Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation in 1990 or earlier. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE C2—BUSINESS COURTS AND TOBIN'S Q: REGULAR COHORT APPROACH (1994-2015)

	Dependent Variable: Log(Tobin's q)					
	(1)	(2)	(3)	(4)	(5)	(6)
Business Court	0.060**	0.056**	0.051**	0.055***	0.053***	0.046**
	(0.028)	(0.028)	(0.025)	(0.017)	(0.018)	(0.020)
Complex Litigation Program	0.043	0.040	0.039	0.012	0.010	0.010
	(0.044)	(0.044)	(0.052)	(0.017)	(0.018)	(0.026)
Business Combination Statute		-0.004	0.000		-0.047***	-0.034**
		(0.010)	(0.010)		(0.011)	(0.015)
Mandatory Staggered Board		-0.072***	-0.065**		-0.075***	-0.058*
		(0.018)	(0.028)		(0.022)	(0.034)
Constituency Statute		-0.015	-0.019		-0.017	-0.018
		(0.023)	(0.024)		(0.021)	(0.021)
Pro Poison Pill Statute		0.010	0.004		0.051	0.035
		(0.019)	(0.021)		(0.033)	(0.026)
Strong Pro Poison Pill Statute		-0.008	-0.043		-0.094*	-0.156***
		(0.036)	(0.038)		(0.048)	(0.050)
Pro Poison Pill Case			0.082			0.025
			(0.050)			(0.043)
Strong Pro Poison Pill Case			-0.091**			-0.010
			(0.039)			(0.039)
Unocal			-0.014			0.008
			(0.055)			(0.053)
Unocal Rejected			-0.077			-0.061
			(0.056)			(0.041)
Revlon			0.004			-0.002
			(0.026)			(0.022)
Revlon Rejected			0.031			0.019
			(0.023)			(0.017)
Blasius			0.046*			0.120***
			(0.025)			(0.040)
Blasius Rejected			0.088**			0.094***
			(0.043)			(0.026)
N	43191	43191	43191	43191	43191	43191
R^2	0.037	0.038	0.038	0.068	0.068	0.069
adj. R^2	0.0370	0.0370	0.0376	0.0457	0.0459	0.0465

Note: Regular cohort approach. Years 1994-2015. Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992 or earlier. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C3—Business Courts and Tobin's q: Regular Cohort Approach (1990-2015): Including Reincorporating Firms

	Dependent Variable: Log(Tobin's q)					
	(1)	(2)	(3)	(4)	(5)	(6)
Business Court	0.027	0.037*	0.041**	0.013	0.033**	0.033**
	(0.019)	(0.020)	(0.020)	(0.017)	(0.016)	(0.014)
Complex Litigation Program	0.052	0.044	0.048	0.013	0.003	-0.001
	(0.037)	(0.034)	(0.038)	(0.029)	(0.028)	(0.033)
Business Combination Statute		-0.056*	-0.016		-0.068**	-0.032*
		(0.032)	(0.020)		(0.030)	(0.018)
Mandatory Staggered Board		0.089**	0.118***		0.077**	0.113**
		(0.034)	(0.043)		(0.036)	(0.056)
Constituency Statute		-0.001	-0.004		0.005	0.006
		(0.027)	(0.027)		(0.021)	(0.021)
Pro Poison Pill Statute		-0.003	-0.019		0.020	0.004
		(0.032)	(0.034)		(0.031)	(0.037)
Strong Pro Poison Pill Statute		0.084	0.118*		0.016	0.040
		(0.055)	(0.060)		(0.069)	(0.078)
Pro Poison Pill Case			-0.053*			-0.083*
			(0.031)			(0.042)
Strong Pro Poison Pill Case			0.040			0.097*
			(0.043)			(0.051)
Unocal			0.071*			0.109**
			(0.038)			(0.042)
Unocal Rejected			-0.002			0.023
			(0.041)			(0.038)
Revlon			-0.017			-0.008
			(0.023)			(0.029)
Revlon Rejected			0.032			0.025
			(0.034)			(0.034)
Blasius			-0.035			-0.008
			(0.028)			(0.044)
Blasius Rejected			0.017			0.014
			(0.031)			(0.031)
N	65791	65791	65791	65791	65791	65791
R^2	0.034	0.034	0.035	0.059	0.060	0.061
adj. R^2	0.0333	0.0338	0.0346	0.0419	0.0424	0.0431
Fixed Effects:						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No	No	No
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Regular cohort approach. Dependent variable is log(Tobin's q). Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level headquarters state. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1990 and 2015 are included in the regressions. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE C4—REGULAR COHORT APPROACH (1990-2015): DROPPING INDIVIDUAL STATES OF INCORPORATION

	Dependent Variable: Log(Tobin's q)							
State Dropped	AL	AK	AZ	AR	CA	CO	CT	DE
Business Court	0.068***	0.068***	0.069***	0.068***	0.069***	0.073***	0.069***	0.066**
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.015)	(0.014)	(0.031)
Complex Litigation	-0.003	-0.003	-0.018	-0.003	-0.002	-0.002	0.004	-0.034
	(0.018)	(0.018)	(0.012)	(0.018)	(0.066)	(0.018)	(0.020)	(0.062)
N	58122	58140	58026	58122	56285	57273	57940	25503
R^2	0.062	0.062	0.062	0.062	0.063	0.062	0.062	0.087
adj. R^2	0.0418	0.0420	0.0416	0.0418	0.0424	0.0420	0.0416	0.0451
State Dropped	DC	FL	GA	HI	ID	IL	IN	IA
Business Court	0.068***	0.065***	0.064***	0.068***	0.068***	0.071***	0.069***	0.068***
	(0.014)	(0.015)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.015)
Complex Litigation	-0.003	-0.004	-0.004	-0.003	-0.003	-0.003	-0.003	-0.003
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
N	58156	56822	57406	58132	58163	57901	57572	57970
R^2	0.062	0.063	0.062	0.062	0.062	0.062	0.062	0.062
adj. R^2	0.0417	0.0424	0.0418	0.0418	0.0417	0.0418	0.0414	0.0417
State Dropped	KS	KY	LA	ME	MD	MA	MI	MN
Business Court	0.068***	0.068***	0.068***	0.068***	0.068***	0.074***	0.067***	0.068***
	(0.014)	(0.014)	(0.014)	(0.014)	(0.015)	(0.015)	(0.015)	(0.015)
Complex Litigation	-0.003	-0.003	-0.003	-0.003	-0.001	-0.004	-0.003	0.010
	(0.018)	(0.018)	(0.018)	(0.018)	(0.019)	(0.018)	(0.018)	(0.023)
N	58012	58063	58015	58128	57579	56711	57458	56288
R^2	0.062	0.061	0.062	0.062	0.062	0.062	0.062	0.061
adj. R^2	0.0417	0.0415	0.0418	0.0418	0.0419	0.0413	0.0414	0.0402
State Dropped	MS	MO	MT	NE	NV	NH	NJ	NM
Business Court	0.068***	0.069***	0.068***	0.068***	0.063***	0.068***	0.058***	0.069***
	(0.014)	(0.014)	(0.014)	(0.014)	(0.016)	(0.014)	(0.012)	(0.014)
Complex Litigation	-0.003	-0.003	-0.003	-0.003	-0.002	-0.003	-0.002	-0.001
	(0.018)	(0.018)	(0.018)	(0.018)	(0.017)	(0.018)	(0.018)	(0.018)
N	58111	57839	58123	58083	56695	58164	56913	58101
R^2	0.062	0.062	0.061	0.062	0.064	0.062	0.063	0.062
adj. R^2	0.0419	0.0416	0.0413	0.0418	0.0435	0.0417	0.0422	0.0419
State Dropped	NY	ND	NC	OH	OK	OR	PA	RI
Business Court	0.076***	0.068***	0.070***	0.073***	0.068***	0.068***	0.072***	0.068***
	(0.015)	(0.014)	(0.015)	(0.015)	(0.014)	(0.014)	(0.015)	(0.015)
Complex Litigation	0.001	-0.003	-0.004	-0.003	-0.003	-0.010	-0.001	-0.003
	(0.019)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
N	55181	58166	57746	56630	57928	57848	56741	58061
R^2	0.063	0.062	0.062	0.062	0.062	0.062	0.062	0.061
adj. R^2	0.0418	0.0417	0.0415	0.0411	0.0416	0.0418	0.0417	0.0415
State Dropped	SC	SD	TN	TX	UT	VT	VA	WA
Business Court	0.070***	0.068***	0.068***	0.068***	0.069***	0.068***	0.070***	0.067***
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Complex Litigation	-0.004	-0.003	-0.003	-0.003	-0.005	-0.003	-0.003	-0.003
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
N	57987	58140	57806	56987	57670	58151	57266	57753
R^2	0.062	0.061	0.061	0.061	0.062	0.062	0.062	0.061
adj. R^2	0.0418	0.0413	0.0413	0.0412	0.0424	0.0418	0.0417	0.0415
State Dropped	WY	WV	WI					
Business Court	0.068***	0.068***	0.068***					
	(0.014)	(0.014)	(0.014)					
Complex Litigation	-0.003	-0.003	-0.003					
	(0.018)	(0.018)	(0.018)					
N	58092	58165	58166					
R^2	0.062	0.062	0.062					
adj. R^2	0.0418	0.0417	0.0417					

Note: Regular cohort approach (1990-2015). Dependent variable is log(Tobin's q). Table shows how results vary if firm-year observations from individual states are dropped. Variables/controls are defined in tables B.1 and B.2. All regressions control for complex litigation programs, headquarters state year fixed effects as well as firm fixed effects. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C5—Business Courts and Tobin's q: Dropping Firms Headquartered in Geographical Regions

		Dependent Variable: log(Tobin's q)		
	(1) b/se	(2) b/se	(3) b/se	(4) b/se
Business Court	0.090***	0.070***	0.051***	0.068***
	(0.020)	(0.017)	(0.017)	(0.014)
Complex Litigation Program	0.003	0.016	-0.024	-0.003
	(0.022)	(0.022)	(0.016)	(0.018)
N	42156	46912	40543	58166
R^2	0.065	0.057	0.061	0.062
adj. R^2	0.0427	0.0375	0.0422	0.0417
Dropping firms headquartered in Census Region:	Northeast	Midwest	South	West
Controlling for				
HQ state-year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes

Note: Regular cohort approach. Years 1990-2015. Dependent variable is log (Tobin's q). U.S. Census definitions are used for regions. Other variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1994. Firms that reincorporated between 1994 and 2015 were dropped. Column 1 drops firms headquartered in the Northeast, column 2 drops firms headquartered in the Midwest, column 3 drops firms headquartered in the South, and column 4 drops firms headquartered in the West. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C6—Regular Cohort Approach (1990-2015): Firms Incorporated Locally or in Delaware

	Dependent Variable: Log(Tobin's q)					
	(1)	(2)	(3)	(4)	(5)	(6)
Business Court	0.051**	0.046**	0.043**	0.055***	0.050***	0.041***
	(0.021)	(0.020)	(0.018)	(0.015)	(0.016)	(0.015)
Complex Litigation Program	0.047	0.045	0.058	-0.014	-0.013	-0.005
	(0.053)	(0.052)	(0.065)	(0.018)	(0.018)	(0.023)
Business Combination Statute		-0.016	-0.017		-0.066***	-0.064***
		(0.013)	(0.014)		(0.009)	(0.008)
Mandatory Staggered Board		-0.073***	-0.061**		-0.084***	-0.057**
		(0.025)	(0.028)		(0.022)	(0.023)
Constituency Statute		-0.020	-0.022		-0.022	-0.023
		(0.030)	(0.030)		(0.015)	(0.016)
Pro Poison Pill Statute		-0.030	-0.025		0.044*	0.030*
		(0.035)	(0.041)		(0.022)	(0.016)
Strong Pro Poison Pill Statute		0.013	0.010		-0.133***	-0.197***
		(0.049)	(0.044)		(0.016)	(0.036)
Pro Poison Pill Case			0.120**			0.064**
			(0.058)			(0.025)
Strong Pro Poison Pill Case			-0.090*			0.011
			(0.052)			(0.028)
Unocal			-0.005			0.019
			(0.038)			(0.016)
Unocal Rejected			-0.054			-0.051**
			(0.051)			(0.022)
Revlon			-0.031			-0.026
			(0.030)			(0.016)
Revlon Rejected			-0.016			-0.040**
			(0.042)			(0.019)
Blasius			-0.031			0.101*
			(0.036)			(0.054)
Blasius Rejected			0.102*			0.113***
			(0.051)			(0.025)
N	50778	50778	50778	50778	50778	50778
R^2	0.036	0.036	0.037	0.066	0.066	0.067
adj. R^2	0.0356	0.0357	0.0360	0.0436	0.0439	0.0442
Fixed Effects:						
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	No	No	No
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Regular cohort approach. Years 1990-2015. Dependent variable is log(Tobin's q). Regressions are restricted to firms that are incorporated either locally or in Delaware. Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE C7—BUSINESS COURTS AND FIRM PERFORMANCE: STACKED COHORT APPROACH (7 YEAR WINDOW)

	Dependent Variable: Log(Tobin's q)					
	(1) b/se	(2) b/se	(3) b/se	(4) b/se	(5) b/se	(6) b/se
Business Court	0.032**	0.031*	0.027*	0.036**	0.036**	0.036**
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.017)
Complex Litigation	0.089**	0.087**	0.092**	0.044*	0.044*	0.048**
	(0.041)	(0.041)	(0.044)	(0.022)	(0.022)	(0.021)
Business Combination Statute		-0.001	-0.002		-0.002	-0.004
		(0.026)	(0.027)		(0.025)	(0.024)
Mandatory Staggered Board		-0.042***	-0.042***		0.007	0.007
		(0.008)	(0.008)		(0.038)	(0.038)
Constituency Statute		-0.028	-0.029		-0.003	-0.002
		(0.017)	(0.017)		(0.016)	(0.016)
Pro Poison Pill Statute		-0.008	-0.010		-0.012	-0.022
		(0.026)	(0.025)		(0.036)	(0.037)
Strong Pro Poison Pill Statute		-0.003	-0.065***		-0.025	-0.056*
		(0.026)	(0.023)		(0.025)	(0.030)
Pro Poison Pill Case			0.068***			0.015
			(0.021)			(0.027)
Strong Pro Poison Pill Case			-0.083***			0.005
			(0.018)			(0.024)
Unocal			0.035			0.099
			(0.030)			(0.068)
Unocal Rejected			0.021			0.013
			(0.016)			(0.019)
Revlon			-0.058***			-0.037
			(0.017)			(0.043)
Revlon Rejected			-0.051***			-0.036
			(0.013)			(0.032)
Blasius			0.024			0.051
			(0.021)			(0.039)
Blasius Rejected			0.080***			0.045**
			(0.016)			(0.022)
N	278813	278813	278813	278813	278813	278813
R^2	0.0591	0.0592	0.0594	0.0892	0.0893	0.0894
adj. R^2	0.0587	0.0587	0.0589	0.0849	0.0849	0.0850
Fixed Effects:						
ES-Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
ES-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Stacked cohort approach. Event sample spans 3 years on either side of the treatment year. Dependent variable is log(Tobin's q). Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of state of incorporation. ES-Firm FE stands for event-sample firm fixed effects. ES-Year FE stands for event-sample year fixed effects. To be included, firms must have at least one firm-year observation before 1992. Firms that reincorporated between 1994 and 2015 were dropped. The baseline mean denotes the mean Tobin's q of firms incorporated in treatment states in the years before the treatment. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C8—Business Courts and ROE: Regular Cohort Approach With Different Samples

	Dependent Variable: Log(ROE)					
	(1)	(2)	(3)	(4)	(5)	(6)
	Including Reincorporating Firms		Dropping Delaware Firms		Keeping only Firms Incorporated Locally or in Delaware	
Business Court	0.035*	0.049*	0.084**	0.081*	0.031*	0.022
	(0.018)	(0.028)	(0.038)	(0.042)	(0.018)	(0.018)
Complex Litigation	-0.002	-0.021	-0.114	-0.055	-0.023	-0.043*
	(0.045)	(0.038)	(0.080)	(0.078)	(0.022)	(0.024)
Business Combination Statute		0.021		0.030		0.048*
		(0.047)		(0.052)		(0.024)
Mandatory Staggered Board		0.071		-0.031		-0.137
		(0.089)		(0.103)		(0.106)
Constituency Statute		0.050**		0.086		0.002
		(0.022)		(0.059)		(0.016)
Pro Poison Pill Statute		0.009		0.100		0.055**
		(0.051)		(0.077)		(0.025)
Strong Pro Poison Pill Statute		0.028		-0.063		-0.005
		(0.081)		(0.113)		(0.105)
Pro Poison Pill Case		-0.186**		0.021		0.079*
		(0.084)		(0.208)		(0.040)
Strong Pro Poison Pill Case		0.148**		0.048		-0.001
		(0.068)		(0.141)		(0.028)
Unocal		0.183***		0.245***		0.052
		(0.065)		(0.074)		(0.064)
Unocal Rejected		-0.014		-0.007		-0.000
		(0.047)		(0.056)		(0.018)
Revlon		0.013		-0.099**		0.056
		(0.050)		(0.049)		(0.037)
Revlon Rejected		0.096*		0.044		0.067**
		(0.053)		(0.041)		(0.026)
Blasius		0.076		0.271***		-0.111***
		(0.067)		(0.088)		(0.021)
Blasius Rejected		-0.014		0.097*		-0.035
		(0.034)		(0.052)		(0.027)
N	56781	56781	24483	24483	44614	44614
R^2	0.039	0.040	0.059	0.062	0.042	0.043
adj. R^2	0.0186	0.0196	0.0148	0.0169	0.0167	0.0168

Note: Regular cohort approach. Years 1990-2015. Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1992 or earlier. Firms that reincorporated between 1990 and 2015 were included for purposes of regressions in columns 1 and 2, but dropped for regressions in columns 3 to 6.. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE C9—BUSINESS COURTS AND FIRM PERFORMANCE: REGULAR COHORT APPROACH (1990-2015)

	Dependent Variable: Log(ROE)					
	(1)	(2)	(3)	(4)	(5)	(6)
	Winsorized at			Trimmed at		
	1 & 99%	2 & 98%	5 & 95%	1 & 99%	2 & 98%	5 & 95%
Business Court	0.045*	0.040	0.029	0.029	0.014	0.000
	(0.026)	(0.025)	(0.024)	(0.026)	(0.027)	(0.024)
Complex Litigation	0.036	0.038	0.025	0.028	0.041	-0.064
	(0.053)	(0.052)	(0.048)	(0.051)	(0.053)	(0.042)
Bus. Comb. Statute	-0.067	-0.069	-0.074	-0.081	-0.105***	-0.073**
	(0.058)	(0.058)	(0.049)	(0.061)	(0.036)	(0.035)
Mand. Staggered Board	-0.242***	-0.236***	-0.222***	-0.233***	-0.194***	-0.179***
	(0.046)	(0.044)	(0.039)	(0.043)	(0.039)	(0.035)
Constituency Statute	-0.014	-0.014	-0.018	-0.012	-0.022	-0.026
	(0.040)	(0.038)	(0.034)	(0.036)	(0.032)	(0.027)
Pro Pois. Pill Stat.	-0.070	-0.068	-0.060	-0.049	-0.049	-0.031
	(0.056)	(0.054)	(0.044)	(0.053)	(0.039)	(0.024)
Strong Pro Pois. Pill Stat.	0.016	0.021	0.012	0.032	0.033	-0.056
	(0.121)	(0.114)	(0.097)	(0.096)	(0.087)	(0.055)
Pro Poison Pill Case	-0.071	-0.065	-0.048	-0.029	-0.021	0.054
	(0.095)	(0.093)	(0.088)	(0.096)	(0.085)	(0.073)
Strong Pro Pois. Pill Case	0.032	0.029	0.015	0.026	-0.010	-0.065
	(0.083)	(0.081)	(0.075)	(0.078)	(0.074)	(0.062)
Unocal	0.077	0.071	0.053	0.045	0.058	0.004
	(0.078)	(0.076)	(0.072)	(0.076)	(0.078)	(0.076)
Unocal Rejected	0.029	0.027	0.018	0.028	0.030	0.019
	(0.040)	(0.039)	(0.037)	(0.038)	(0.041)	(0.040)
Revlon	-0.066*	-0.063*	-0.051	-0.062*	-0.061*	-0.027
	(0.034)	(0.034)	(0.032)	(0.033)	(0.033)	(0.034)
Revlon Rejected	0.002	0.000	0.005	-0.018	-0.010	-0.006
	(0.038)	(0.037)	(0.035)	(0.036)	(0.036)	(0.034)
Blasius	0.099	0.097	0.087	0.091	0.092	0.087
	(0.092)	(0.088)	(0.079)	(0.077)	(0.079)	(0.056)
Blasius Rejected	0.160***	0.151***	0.146***	0.119***	0.121***	0.155***
	(0.043)	(0.042)	(0.039)	(0.040)	(0.037)	(0.036)
N	46033	46033	46033	45297	44559	42228
R^2	0.062	0.064	0.068	0.066	0.068	0.070
adj. R^2	0.0371	0.0393	0.0435	0.0405	0.0427	0.0433

Note: Regular cohort approach. Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. Years 1990-2015. To be included, firms must have at least one firm-year observation in 1990 or earlier. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C10—Business Courts and ROE: Stacked Cohort Approach (7 year window)

	Dependent Variable: Log(ROE)					
	(1) b/se	(2) b/se	(3) b/se	(4) b/se	(5) b/se	(6) b/se
Business Court	0.039	0.041	0.037	0.051*	0.053*	0.052*
	(0.025)	(0.025)	(0.026)	(0.028)	(0.027)	(0.027)
Complex Litigation Committee	-0.078**	-0.074**	-0.072**	-0.130***	-0.128***	-0.126***
	(0.029)	(0.030)	(0.028)	(0.033)	(0.033)	(0.037)
Business Combination Statute		0.036*	0.037*		0.032*	0.033**
		(0.020)	(0.019)		(0.016)	(0.016)
Mandatory Staggered Board		-0.013	-0.014		0.128	0.128
		(0.065)	(0.065)		(0.081)	(0.081)
Constituency Statute		0.045	0.043		0.071***	0.071***
		(0.027)	(0.027)		(0.026)	(0.026)
Pro Poison Pill Statute		-0.027	-0.030		0.004	-0.002
		(0.027)	(0.027)		(0.032)	(0.033)
Strong Pro Poison Pill Statute		0.067**	-0.028		0.014	-0.014
		(0.026)	(0.042)		(0.086)	(0.108)
Pro Poison Pill Case			0.108***			0.053
			(0.022)			(0.071)
Strong Pro Poison Pill Case			-0.129***			-0.075
			(0.018)			(0.064)
Unocal			0.005			0.039
			(0.043)			(0.040)
Unocal Rejected			0.006			0.000
			(0.029)			(0.055)
Revlon			-0.021			-0.016
			(0.040)			(0.027)
Revlon Rejected			-0.008			0.059
			(0.019)			(0.037)
Blasius			0.017			0.055**
			(0.037)			(0.027)
Blasius Rejected			0.128***			0.043
			(0.016)			(0.045)
N	239730	239730	239730	239730	239730	239730
R^2	0.0137	0.0138	0.0140	0.0467	0.0469	0.0469
adj. R^2	0.0131	0.0132	0.0133	0.0415	0.0417	0.0417
Fixed Effects:						
ES-Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
ES-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Stacked cohort approach. Event sample spans 3 years on either side of the treatment year. Dependent variable is log(ROE). Variables/controls are defined in tables B.2 and B.3. All regressions cluster at the level of state of incorporation. ES-Firm FE stands for event-sample firm fixed effects. ES-Year FE stands for event-sample year fixed effects. To be included, firms must have at least one firm-year observation before 1994. Firms that reincorporated between 1994 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C11—Business Courts and ROE: Dropping Firms Headquartered in Geographical Regions

	Dependent Variable: log(ROE)			
	(1) b/se	(2) b/se	(3) b/se	(4) b/se
Business Court	0.019	0.064**	0.073***	0.052**
	(0.048)	(0.024)	(0.024)	(0.023)
Complex Lit	0.063	-0.015	0.070	0.035
	(0.039)	(0.045)	(0.054)	(0.042)
N	38186	41348	35944	52261
R^2	0.035	0.031	0.032	0.032
adj. R^2	0.0091	0.0090	0.0098	0.0093
Dropping firms headquartered in Census Region:	Northeast	Midwest	South	West
Controlling for				
HQ state-year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes

Note: Regular cohort approach. Years 1990-2015. Dependent variable is log (ROE). U.S. Census definitions are used for regions. Other variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1994. Firms that reincorporated between 1994 and 2015 were dropped. Column 1 drops firms headquartered in the Northeast, column 2 drops firms headquartered in the Midwest, column 3 drops firms headquartered in the South, and column 4 drops firms headquartered in the West. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C12—Business Courts and Firm Performance: Stacked Cohort Approach (3 year window)

	(1) b/se	(2) b/se	(3) b/se	(4) b/se	(5) b/se	(6) b/se
			Dependent Variable: Log(ROA)			
Business Court	0.051**	0.050**	0.042*	0.034**	0.034*	0.032*
	(0.023)	(0.023)	(0.024)	(0.017)	(0.017)	(0.018)
Complex Lit	-0.009	-0.006	0.002	-0.030	-0.025	-0.016
	(0.062)	(0.061)	(0.068)	(0.054)	(0.053)	(0.060)
Business Combination Statute		0.031**	0.027*		0.034	0.035
		(0.016)	(0.015)		(0.030)	(0.031)
Mandatory Staggered Board		-0.153**	-0.154**		0.027	0.026
		(0.072)	(0.072)		(0.083)	(0.083)
Constituency Statute		-0.006	-0.011		-0.015	-0.018
		(0.048)	(0.046)		(0.021)	(0.020)
Pro Poison Pill Statute		-0.118***	-0.125***		-0.107*	-0.107*
		(0.042)	(0.036)		(0.059)	(0.060)
Strong Pro Poison Pill Statute		0.167**	-0.042		0.167**	0.047
		(0.080)	(0.072)		(0.069)	(0.068)
Pro Poison Pill Case			0.218*			0.026
			(0.119)			(0.085)
Strong Pro Poison Pill Case			-0.272***			-0.070
			(0.061)			(0.064)
Unocal			0.077			0.034
			(0.100)			(0.088)
Unocal Rejected			0.019			0.003
			(0.048)			(0.044)
Revlon			-0.099			-0.097
			(0.094)			(0.066)
Revlon Rejected			-0.124			-0.058
			(0.084)			(0.060)
Blasius			-0.002			0.095
			(0.060)			(0.072)
Blasius Rejected			0.290***			0.152***
			(0.061)			(0.047)
N	219610	219610	219610	219610	219610	219610
R^2	0.0247	0.0249	0.0254	0.0659	0.0660	0.0662
adj. R^2	0.0241	0.0243	0.0247	0.0604	0.0605	0.0605
Fixed Effects:						
ES-Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
ES-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ state-year FE	No	No	No	Yes	Yes	Yes

Note: Stacked cohort approach. Event sample spans 3 years on either side. Dependent variable is ROA. Variables/controls are defined in tables B.2 and B.3. All regressions cluster at the level of state of incorporation. ES-Firm FE stands for event-sample firm fixed effects. ES-Year FE stands for event-sample year fixed effects. To be included, firms must have at least one firm-year observation before 1994. Firms that reincorporated between 1994 and 2015 were dropped. The baseline mean denotes the mean Tobin's q of firms incorporated in treatment states in the years before the treatment. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE C13—MERGERS: REGULAR COHORT APPROACH WITH DIFFERENT SAMPLES

Dependent Variable: Completed Mergers with Positive CAR for Target Shareholders

	(1)	(2)	(3)	(4)	(5)	(6)
	Including reincorporating firms		Dropping Delaware firms		Keeping only firms incorporated locally or in Delaware	
Business Court	0.005**	0.006**	0.006**	0.008**	0.003	-0.000
	(0.003)	(0.003)	(0.003)	(0.004)	(0.003)	(0.003)
Complex Litigation	0.002	-0.000	-0.002	-0.008**	-0.001	-0.005
	(0.003)	(0.002)	(0.002)	(0.003)	(0.002)	(0.003)
Bus. Comb. Stat.	0.002	0.001	0.008***	0.005	0.001	0.001
	(0.002)	(0.003)	(0.002)	(0.003)	(0.002)	(0.002)
Mand. Staggered Board	-0.008	-0.009	-0.003	-0.006	-0.021	-0.025
	(0.007)	(0.007)	(0.003)	(0.004)	(0.021)	(0.021)
Constituency Statute	-0.000	-0.001	0.001	-0.001	-0.003	-0.002
	(0.001)	(0.001)	(0.003)	(0.003)	(0.003)	(0.003)
Pro Pois. Pill Stat.	0.002	0.000	-0.007**	-0.008**	0.003	0.002
	(0.001)	(0.002)	(0.003)	(0.004)	(0.003)	(0.003)
Str. Pro Pois. Pill Stat.	0.001	0.001	0.007	0.010*	0.013	0.010
	(0.003)	(0.004)	(0.005)	(0.005)	(0.008)	(0.008)
Pro Poison Pill Case		-0.003		-0.014		-0.006
		(0.008)		(0.012)		(0.007)
Str. Pro Pois. Pill Case		0.005		0.008		0.022***
		(0.007)		(0.007)		(0.006)
Unocal		-0.006		-0.004		-0.004
		(0.004)		(0.005)		(0.008)
Unocal Rejected		0.005**		0.002		0.009**
		(0.002)		(0.004)		(0.004)
Revlon		0.006**		0.007		0.009
		(0.002)		(0.004)		(0.005)
Revlon Rejected		-0.004		-0.004		0.003
		(0.002)		(0.004)		(0.005)
Blasius		-0.001		-0.003		0.007
		(0.004)		(0.007)		(0.005)
Blasius Rejected		-0.005		-0.011**		-0.007
		(0.003)		(0.005)		(0.005)
Baseline mean:	0.009	0.009	0.009	0.009	0.009	0.009
N	54344	54344	22171	22171	41748	41748
R^2	0.022	0.022	0.054	0.055	0.028	0.028
adj. R^2	0.0030	0.0031	0.0124	0.0126	0.0038	0.0039

Note: Regular cohort approach. Variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the most recent state of incorporation. Years 1990-2015. To be included, firms must have at least one firm-year observation in 1990 or earlier. Firms that reincorporated between 1990 and 2015 were dropped. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C14—Business Courts and Takeovers: Dropping Firms Headquartered in Geographical Regions

	Binary Dependent Variable: Firm Target in Merger With Positive CAR for Target Shareholders			
	(1) b/se	(2) b/se	(3) b/se	(4) b/se
Business Court	0.008**	0.006**	0.007**	0.007**
	(0.004)	(0.003)	(0.003)	(0.003)
Complex Litigation Program	-0.000	-0.001	-0.000	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)
BM:	0.009	0.010	0.009	0.009
N	34624	38354	33251	47719
R^2	0.026	0.024	0.026	0.025
adj. R^2	0.0025	0.0032	0.0055	0.0038
Dropping firms headquartered in Census Region:	Northeast	Midwest	South	West
Controlling for				
HQ state-year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes

Note: Regular cohort approach. Linear Probability Model. The dependent variable is a binary variable that captures whether the corporation was a target in a completed merger with positive Cumulative abnormal returns for the target shareholders. U.S. Census definitions are used for regions. Other variables/controls are defined in tables B.1 and B.2. All regressions cluster at the level of the state of incorporation. To be included, firms must have at least one firm-year observation before 1994. Firms that reincorporated between 1994 and 2015 were dropped. Column 1 drops firms headquartered in the Northeast, column 2 drops firms headquartered in the Midwest, column 3 drops firms headquartered in the South, and column 4 drops firms headquartered in the West. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE C15—BUSINESS COURTS AND TAKEOVERS (REGULAR COHORT APPROACH, 1990-2015)

	Binary dependent variable: did corporation become a merger target					
	in any merger		in a merger with			
			positive CAR for target shareholders		negative CAR for target shareholders	
	(1) b/se	(2) b/se	(3) b/se	(4) b/se	(5) b/se	(6) b/se
Business Court	0.000	0.001	0.002	0.003	-0.002	-0.002*
	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Complex Litigation	-0.004***	-0.007***	0.000	-0.002*	-0.004***	-0.004***
	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)
Bus. Comb. Statute	-0.001	-0.000	0.002	0.002	-0.001	-0.001
	(0.002)	(0.002)	(0.003)	(0.002)	(0.001)	(0.001)
Mand. Staggered Board	-0.010	-0.014*	-0.011	-0.014*	0.001**	-0.001
	(0.007)	(0.008)	(0.007)	(0.008)	(0.000)	(0.001)
Constituency Statute	-0.002	-0.002	-0.003***	-0.003**	0.001	0.001
	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)
Pro Poison Pill Statute	0.002	-0.000	0.002	-0.000	0.000	0.000
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)
Stro. Pro Pois. Pill Stat.		0.012***		0.009***		0.004*
		(0.002)		(0.003)		(0.002)
Pro Poison Pill Case		-0.015*		-0.011**		-0.002
		(0.008)		(0.005)		(0.005)
Str. Pro Pois. Pill Case		0.018**		0.014***		0.003
		(0.009)		(0.005)		(0.005)
Unocal		-0.006		-0.001		-0.005*
		(0.005)		(0.003)		(0.003)
Unocal Rejected		0.004*		0.007***		-0.002**
		(0.003)		(0.002)		(0.001)
Revlon		0.005		0.005*		0.000
		(0.004)		(0.003)		(0.002)
Revlon Rejected		0.003		0.001		0.001
		(0.002)		(0.002)		(0.002)
Blasius		0.000		0.001		-0.001
		(0.004)		(0.003)		(0.002)
Blasius Rejected		-0.012***		-0.010***		-0.002
		(0.002)		(0.002)		(0.001)
N	69225	69225	69225	69225	69225	69225
R^2	0.020	0.021	0.022	0.022	0.013	0.013
adj. R^2	0.0029	0.0030	0.0048	0.0049	-0.0043	-0.0044
BM:	0.010	0.010	0.008	0.008	0.002	0.002
Controls:						
Takeover Statutes	Yes	Yes	Yes	Yes	Yes	Yes
Takeover Cases	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ-year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Regular cohort approach. Linear probability model. Dependent variable is binary and captures if corporation was, in a given year, a target in at least one completed merger (columns 1-2), or a target in at least one completed merger with positive CAR for the target shareholders (columns 3-4), or a target in at least one completed merger with positive CAR for the buyer's shareholders (columns 5-6). All regressions control for firm fixed effects, headquarters-state year fixed effects, as well as the creation of complex litigation programs. All regressions cluster at the level of the headquarters state. Firms that reincorporated between 1994 and 2015 were dropped. Firms must have at least one firm-year observation before 1992 to be included. B.M denotes the mean for firm-year observations in treatment states before the treatment. "Hq-yr" means headquarters_state year fixed effects. CAR and takeovers as defined in text. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

Table C16—Business Courts and Takeovers (Stacked Cohort Approach, 1994-2015)

	Binary dependent variable: did corporation become merger target					
	in any merger		in merger with			
			positive CAR for target shareholders		negative CAR for target shareholders	
	(1) b/se	(2) b/se	(3) b/se	(4) b/se	(5) b/se	(6) b/se
Business Court	0.005	0.008*	0.006	0.008**	-0.000	-0.000
	(0.004)	(0.004)	(0.004)	(0.004)	(0.001)	(0.001)
Complex Litigation	-0.016***	-0.017***	-0.006***	-0.007***	-0.009***	-0.010***
	(0.003)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Bus. Comb. Stat.	-0.002	-0.002	0.003	0.003	0.000	0.000
	(0.004)	(0.003)	(0.003)	(0.003)	(0.001)	(0.001)
Mand. Staggered Board	-0.020	-0.020	-0.020	-0.020	-0.000	-0.000
	(0.014)	(0.014)	(0.014)	(0.014)	(0.000)	(0.000)
Constituency Statute	-0.001	-0.001	-0.001	-0.001	-0.000	-0.000
	(0.002)	(0.003)	(0.002)	(0.002)	(0.001)	(0.001)
Pro Pois. Pill Stat.	-0.000	-0.001	0.004	0.003	-0.004	-0.004
	(0.005)	(0.005)	(0.004)	(0.004)	(0.003)	(0.003)
Str. Pro Pois. Pill Stat.	0.001	0.001	-0.002	-0.001	0.001	-0.002
	(0.005)	(0.006)	(0.004)	(0.005)	(0.002)	(0.003)
Pro Poison Pill Case		0.002		0.009		0.000
		(0.010)		(0.011)		(0.007)
Str. Pro Pois. Pill Case		0.011		0.003		0.004
		(0.011)		(0.006)		(0.008)
Unocal		0.003		0.002		-0.000
		(0.005)		(0.005)		(0.002)
Unocal Rejected		0.013*		0.012		0.004*
		(0.007)		(0.007)		(0.002)
Revlon		0.001		-0.000		0.001
		(0.002)		(0.002)		(0.001)
Revlon Rejected		-0.019**		-0.018**		-0.007***
		(0.007)		(0.007)		(0.002)
Blasius		0.006		0.006		-0.001
		(0.004)		(0.004)		(0.001)
Blasius Rejected		-0.002		-0.002		0.005**
		(0.006)		(0.006)		(0.002)
N	250788	250788	250788	250788	250788	250788
R^2	0.026	0.026	0.025	0.025	0.024	0.024
adj. R^2	0.0213	0.0214	0.0209	0.0211	0.0194	0.0194
Baseline mean	0.010	0.010	0.009	0.009	0.001	0.001
Controls:						
Takeover Statutes	Yes	Yes	Yes	Yes	Yes	Yes
Takeover Cases	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ-year FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Stacked cohort approach. Seven year window (three years on either side). Linear probability model. Dependent variable is binary and captures if corporation was, in a given year, a target in at least one completed merger (columns 1-2), or a target in at least one completed merger with positive CAR for the target shareholders (columns 3-4), or a target in at least one completed merger with positive CAR for the buyer's shareholders (columns 5-6). All regressions control for firm fixed effects, headquarters-state year fixed effects, as well as the creation of complex litigation programs. All regressions cluster at the level of the headquarters state. Firms that reincorporated between 1994 and 2015 are included. Firms must have at least one firm-year observation before 1992 to be included. B.M denotes the mean for firm-year observations in treatment states before the treatment. "Hq-yr" means headquarters-state year fixed effects. CAR and takeovers as defined in text. * ** *** denote significance at the 10%, 5%, and 1% levels respectively.

TABLE C17—BUSINESS COURTS AND FIRM PERFORMANCE: PLACEBO TEST (STACKED COHORT APPROACH)

	Tobin's q		ROA		ROE	
	b/se	b/se	b/se	b/se	b/se	b/se
Business Court (minus 3 years)	-0.001	0.005	0.012	0.020	-0.003*	-0.003*
	(0.017)	(0.015)	(0.021)	(0.019)	(0.002)	(0.002)
Business Court (minus 5 years)	-0.004	0.006	0.022	0.028	-0.005**	-0.003
	(0.013)	(0.013)	(0.019)	(0.020)	(0.003)	(0.002)
Business Court (minus 7 years)	-0.016*	-0.004	-0.037*	-0.035	-0.002	-0.000
	(0.010)	(0.010)	(0.022)	(0.029)	(0.004)	(0.004)
Controls:						
Fixed Effects:						
ES-Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
HQ state-year FE	Yes	Yes	Yes	Yes	Yes	Yes
Takeover statutes and cases	No	Yes	No	Yes	No	Yes

Note: Placebo years are obtained by moving treatment years 3, 5, and 7 years into the past. The dataset was "moved" accordingly, so that the placebo datasets span the years 1987-2012, 1985-2010, and 1983-2008. Event sample spans 3 years on either side. Variables/controls are defined in tables B.1 and B.2 All regressions cluster at the level of the state of incorporation. ES-Firm FE stands for event-sample firm fixed effects. To be included, firms must have at least one firm-year observation before 1994. Firms that reincorporated between 1994 and 2015 were dropped. The baseline mean denotes the mean Tobin's q of firms incorporated in treatment states in the years before the treatment. * ** *** denote significance at the 10%, 5%, and 1% levels respectively. The 5-year placebo test controls for complex litigation programs; for the 7 and 9 year tests, this variable had to be dropped since the relevant variable was zero for all firm-year observations. Whereas all regressions (2), (4), and (6) control for takeover statutes and cases, the variable "strong pro poison pill statute" had to be dropped for the seven and nine year placebo tests, since the variable was zero for all firm year observations.