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Corporate Litigation, Governance, and the Role of Law Firms

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Abstract

Corporations pay out large settlements to their shareholders and other plaintiffs as compensation for corporate governance failures. Hired to achieve and improve settlements, plaintiff law firms can play a central role in litigation outcomes. We provide first systematic evidence of their performance. In our novel comprehensive dataset, top plaintiff law firms ("stars") capture 48% larger settlements. Defendant corporations' litigation insurance coverage is also 39% larger, suggesting assortative matching of stars with lawsuits that have ex-ante large expected payoffs. Stars' visibility and information advantage vis-à-vis less sophisticated plaintiffs help sustain their market share.

Keywords: Corporate litigation, corporate governance, litigation insurance, securities litigation

JEL Classifications: K41, G34, L43

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Abstract

Corporations pay out large settlements to their shareholders and other plaintiffs as compensation for corporate governance failures. Hired to achieve and improve settlements, plaintiff law firms can play a central role in litigation outcomes. We provide first systematic evidence of their performance. In our novel comprehensive dataset, top plaintiff law firms ("stars") capture 48% larger settlements. Defendant corporations' litigation insurance coverage is also 39% larger, suggesting assortative matching of stars with lawsuits that have ex-ante large expected payoffs. Stars' visibility and information advantage vis-à-vis less sophisticated plaintiffs help sustain their market share.

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Litigation is a central tool to discipline corporations. Billion-dollar corporate legal settlements, such as in the lawsuits against Enron ($7 bn in a securities class action in 2008), GlaxoSmithKline ($3 bn in a product liability action in 2012), or Abbott Laboratories ($1.8 bn for intellectual property infringement in 2009), attract the attention of the press and the public, generating visibility – and revenues – for the plaintiff law firms that litigate them. Some of those law firms achieve a dominant position, becoming "stars": since 1970, the top 10 law firms are associated each year with around a third of all settlements in the U.S. Despite the economic importance of corporate litigation as a restitution and governance mechanism, and the key role that plaintiff law firms play in its functioning, there is little systematic empirical evidence on their performance. Do "star" plaintiff law firms provide their clients with a better service, and in what ways? How competitive is the market for their services? Are there frictions that limit competition from less prestigious law firms? These questions speak to the broader issues of the effectiveness and the governance of corporate litigation.

We attempt to answer these questions, using a novel, comprehensive database on plaintiff law firms in corporate litigation in the U.S. Star plaintiff law firms outperform other law firms and obtain 48% larger settlements on average. The larger settlements result from a combination of greater ability on part of the stars as well as a "selection" mechanism that matches the stars with lawsuits where a large settlement amount is expected in the first place, regardless of the plaintiff law firm. Our results indicate that the selection component is nontrivial. In addition, stars are less likely to have their lawsuits dismissed, but there is little evidence that they relate to other non-monetary outcomes of the lawsuit, such as governance changes at the defendant corporation. We also provide evidence suggesting that visibility and the information asymmetry faced by unsophisticated plaintiffs support the stars' dominant position.

Understanding the value created by star plaintiff law firms presents data as well as empirical challenges. On the data side, most databases on corporate litigation have only sparse coverage of law firms. Moreover, most existing research focuses on individual litigation practice areas (typically shareholder class actions or patent litigation), whereas law firms are often active across multiple areas. The analysis, therefore, requires data with a broader scope than existing studies. On the empirical side, although only ex

post litigation outcomes can be observed (the lawsuit itself, what plaintiff law firm brings it, and its resolution), understanding whether they result from the star law firms' ability or from selection is important to determine the economic mechanism driving the performance and market share of the stars.

We address these challenges with novel data and with our empirical approach. We assemble what is, to our knowledge, the largest dataset on plaintiff law firms active in corporate litigation in the U.S. We combine a number of commercial databases with hand-collected information from public sources, reporting over 35,000 lawsuits against publicly listed firms from 1970 to 2020. Our data cover a broader range of law firm practice areas than analyzed in most previous studies, from lawsuits brought by shareholders (including, but not limited to, shareholder class actions), to intellectual property lawsuits (including, but not limited to, patent litigation), to employment, product liability, and antitrust lawsuits, as well as lawsuits related to aspects of a given industry and to government contracts and relations. The data report information about the plaintiffs and plaintiff law firms, the defendant corporations and defense law firms, the outcome of the litigation, the settlement amount and how much of it is covered by litigation insurance, and (for a subset of our data) the price of insurance.

To address the empirical challenge, we rely on corporate litigation insurance to gauge the selection component of lawsuit outcomes. Intuitively, if a corporation buys $100 million insurance coverage, that suggests that, in the event of litigation, it expects to be exposed to a $100 million settlement. Thus, we use the amount paid out by litigation insurance (henceforth, insurance coverage) as a benchmark for the expected settlement amount reflecting the selection component. The distance between the actual settlement and the insurance coverage, on the other hand, estimates the treatment component. Since many of our tests rely on the premise that insurance coverage can proxy for the expected settlement amount conditional on litigation, we perform extensive checks on whether this is accurate as well as additional tests that relax this premise.

We find that star plaintiff law firms obtain larger settlements: on average, 48% larger than other law firms. Much of that difference, however, is predicted by the litigation insurance coverage. Relative to that benchmark, the star law firms still outperform other law firms, but by a more modest, although

economically non-negligible, 7%. For the average (median) lawsuit in our data, that corresponds to a $1.6 million ($200,000) larger settlement. This finding is robust to using alternative proxies for law firm star status and alternative treatments of the standard errors, including a broad set of controls and fixed effects, controlling for the status of the defense law firms, restricting the attention to shareholder lawsuits, and over different time periods.

The data also rule out three potential alternative explanations for the modest performance of the stars net of the insurance coverage benchmark. First, measurement error could arise from the censoring of insurance coverage in dismissed lawsuits. Standard approaches to correct for censoring or to impute unobserved insurance coverage, however, deliver estimates that are very close to our baseline. Second, insurance coverage could absorb part of the stars' treatment effect if the stars tend to bring lawsuits against corporations that ex ante expect a large settlement and purchase higher insurance coverage, or if defendants with lower cash holdings purchase higher insurance coverage than cash-rich ones. Comparing the lawsuits brought by stars to a matched sample having similar settlements amounts, however, delivers similar results as our baseline; moreover, we do not observe a better performance net of the insurance benchmark for the stars against cash-rich defendants. Third, compared to other law firms, the stars could have a superior ability to obtain non-monetary benefits for the plaintiffs, such as changes in the defendant corporation's governance. We do observe some changes in governance around the *average* lawsuit; but those changes are not systematically associated with the stars.

In the last part of our analysis, we ask how much of the stars' performance is related to their ability to reduce the uncertainty about the outcome of the lawsuit – i.e., to reduce the chances that the lawsuit is dismissed – and what economic forces, in addition to their performance, sustain their market share. We find that the lawsuits brought by the stars are 7-12% more likely to reach a settlement. This too can contain a selection component. For instance, the stars may tend to target lawsuits where a settlement is more likely in the first place; or, at the opposite extreme, plaintiffs may hire a star law firm only on more challenging lawsuits that are less likely to succeed – in this case, the 12% may underestimate the actual impact of the stars on reaching a settlement. If the stars are retained for more challenging lawsuits, the defendants facing

stars should ex ante pay lower insurance premiums, since they are less exposed to litigation. We find that this is not the case, suggesting that 12% is an upper bound on the impact of the star law firms on the uncertainty of the lawsuit's outcome.

Two pieces of evidence, on the other hand, suggest that visibility and information advantage vis-à-vis unsophisticated plaintiffs help the stars defend their market share. First, around the time a plaintiff law firm becomes a star, the size of the raw settlement amounts it obtains increases. At the same time, its performance net of the insurance coverage benchmark does not improve. This is consistent with the notion that visibility helps star law firms to be retained on larger, more valuable lawsuits, although their ability does not improve relative to the pre-stardom period. Second, we document that star law firms perform better when they are retained by sophisticated plaintiffs, such as institutional investors and regulators such as the SEC, suggesting that these plaintiff categories have a better ability to select law firms to bring their lawsuits.

Our paper makes three main contributions. First, it contributes to the literature on the economics of corporate litigation. The option to sue managers and corporations serves as an ex ante disciplining corporate governance mechanism and can provide ex post compensation (Jensen and Meckling (1976), La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997, 1998)). A large number of studies in economics, finance, and accounting analyze corporate litigation (as shown in Appendix Table A.1, at least 75 have appeared since 1995); however, there is little to no empirical work focused on law firms. This is surprising, given the institutional role of plaintiff law firms, and given their economic importance as they capture about one-third of legal settlements (Spier (2007, p. 307)). We provide, to our knowledge, the first large-scale quantitative evidence on the performance of plaintiff law firms in corporate litigation. Furthermore, much of this literature has taken the perspective of the defendant corporation, concentrating on the drivers of litigation risk, the incentive effects of the threat of litigation, or the impact of lawsuits on valuation and corporate actions.[1] In contrast, we look at litigation outcomes from the point of view of the plaintiffs and

[1] The drivers of litigation risk are examined by DuCharme, Malatesta, and Sefcik (2002), Field, Lowry, and Shu (2005), Ferris, Jandik, Lawless, and Makhija (2007), Peng and Roell (2008), Johnson, Ryan, and Tian (2009), Wang, Winton, and Yu (2010), Rogers, Van Buskirk, and Zechman (2011), Bollen and Pool (2012), Hutton, Jiang, and Kumar (2014), Biggerstaff, Cicero, and Puckett (2015), Khanna, Kim, and Lu (2015), Bliss, Partnoy, and Furchtgott (2018).

the law firms they hire. Our findings suggest that law firms affect settlement size, the risk of dismissal of the lawsuit, and fees, and that there are non-negligible differences in litigation outcomes associated with different law firms.

Second, our paper links the corporate finance literature on the effectiveness of corporate litigation with the law and economics literature on the principal-agent conflicts between law firms and their clients (e.g., Coffee (2010)). Extensive theoretical work has analyzed the design of plaintiff law firm incentives such as contingent fees (Rubinfeld and Scotchmer (1993), Sieg (2000), Santore and Viard (2001), and Spier (2007, p. 307-310)). We provide a set of novel stylized facts on the outcomes of corporate litigation: star law firms are associated with larger settlements, lower probability of a dismissal of the lawsuit, and, for a given settlement size, larger fees. This evidence can help calibrate existing models and inform further theory development.

Third, our paper contributes to the literature studying "expertise" intermediaries that connect corporations with investors, consumers, employees, regulators, and other companies – such as investment banks, consulting firms, auditing firms, or rating agencies. Plaintiff law firms share important features with those intermediaries: their task is to provide information and know-how to their clients, and their industries have a tier structure where rankings are prominent and where the leading firms capture large market shares. The existing evidence on whether the leading firms deliver a superior service is mixed (e.g., Louis (2005), Fang (2005), Bao and Edmans (2011), Golubov, Petmezas, and Travlos (2012), Griffin, Lowery, and Saretto (2014), Xia (2014)). Our results indicate that star plaintiff law firms outperform other law firms, even though part of their performance may be attributed to selection. They also point to visibility and

The incentive effects of exposure to litigation are analyzed by Chalmers, Dann, and Harford (2002), Chung and Wynn (2008), Hanley and Hoberg (2012), Brochet and Srinivasan (2014), Banerjee, Humphrey-Jenner, Nanda, and Tham (2018), Lin, Liu, and Manso (2020), Mezzanotti (2021). The impact of litigation on valuation and corporate actions is studied by Bizjak and Coles (1995), Haslem (2005), Bhattacharya, Galpin, and Haslem (2007), Fich and Shivdasani (2007), Karpoff, Lee, and Martin (2008a,b), Gande and Lewis (2009), Murphy, Shrieves, and Tibbs (2009), Rogers and Van Buskirk (2009), Cheng, Huang, Li, and Lobo (2010), Tian, Udell, and Yu (2016), Haslem, Hutton, and Smith (2017), Karpoff, Koester, Lee, and Martin (2017), Cohen, Gurun, and Kominers (2019).

information asymmetry vis-à-vis less sophisticated plaintiffs as forces that can sustain the stars' market share.

The remainder of the paper is organized as follows. Section II describes our data and variables. Section III provides the institutional background and discusses our empirical approach. Section IV presents the main results on the settlements obtained by star plaintiff law firms. Section V analyzes the relationship between the stars, uncertainty about the lawsuit's outcome, and visibility and information asymmetry. A brief conclusion follows.

II. Data and main variables of interest

A. Sample composition

We merge data from several sources on corporate litigation: Audit Analytics Litigation (AA), ISS Securities Class Action Services (ISS), the Federal Court Cases Integrated Data Base (FCC), and the Stanford Securities Class Action Clearinghouse (SCAC). Moreover, we hand-collect additional information from the SEC Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. We merge lawsuits in the different databases by defendant company, court, docket number, filing date, and settlement date.

Our dataset combines these sources to assemble a comprehensive collection of corporate lawsuits against U.S. publicly listed firms settled over the period 1970-2020. Together, our sources cover 98,865 individual lawsuits with known resolution, i.e., settled or dismissed. When we require complete information on the settlement amounts and the identity of the plaintiff law firms, the sample is reduced to 35,138 lawsuits. Out of them, 82% are brought before federal courts, 17% before state courts, and the remaining 1% comprise a small number of lawsuits brought before foreign courts, regulators, or alternative dispute resolutions. In comparison, out of 75 published and working papers involving corporate litigation data in the economics, finance, accounting, and law literatures since 1995 (Appendix Table A.1), the largest dataset with complete information comprises around 18,000 lawsuits, and all restrict the attention to federal court cases. Figure 1 describes the number of corporate lawsuits over time; the data coverage is sparse until 1991,

but after that date we observe an increase in litigation, reaching a peak in the 2006-10 period with nearly 12,000 lawsuits against U.S. public companies.[2]

Our dataset comprises a broad range of law firm practice areas, summarized in Figures 2.A and B.[3] Around 50% of the lawsuits in our data (17,777) are securities, shareholder, and derivative lawsuits, out of which 14,436 are shareholder class actions and 1,858 are derivative lawsuits.[4] Among the remaining practice areas, the most frequently occurring ones are intellectual property and privacy (4,792), employment (3,361), and product liability (3,069). While securities, shareholder, and derivative lawsuits are the most frequent, they are the third largest category in terms of average settlement (Figure 2.B).[5] Notable lawsuits in our data include shareholder class actions, such as the one against Enron (settled in 2008 for $7.2 bn); product liability lawsuits, such as the one against GlaxoSmithKine over the drugs Paxil, Wellbutrin, and Avandia (settled in 2012 for $3 bn); intellectual property lawsuits, such as the one against Abbott Laboratories for patent infringement (settled in 2009 for $1.8 bn); or employment lawsuits, such as one brought by African-American employees against the Coca-Cola Company on the grounds of racial discrimination (settled in 2000 for $192 million). In comparison, most of the existing literature described in Appendix Table A.1 (59 out of 76 papers) tends to focus on one practice area exclusively, the most common types being shareholder class actions (31 papers), regulatory enforcement actions (12 papers),[6]

[2] Haslem, Hutton, and Smith (2017) run a number of tests on a large sample of 83,260 lawsuits; they have complete information on the resolution of the lawsuit, however, on a smaller sample of 6,091 lawsuits. Because our data only include lawsuits that have been resolved by 2020, there is some truncation in Figure 1, as some lawsuits filed in the 2016-2020 period have not been resolved (settled or dismissed) by 2020.

[3] We adopt a classification of broad practice areas used in the legal profession from Legal500, an international ranking firm specializing in the legal sector with the United States as one of their main jurisdictions (https://www.legal500.com/c/united-states/).

[4] In a shareholder class action, a specific group or "class" of shareholders who have shared a common damage (for example, shareholders who have bought the stocks of the company during a given time period) pursues claims for that damage. A class action requires that the number of parties (plaintiffs, defendants, or both) is so numerous that it would be impractical for each plaintiff to pursue an individual claim; a common question of law must exist, which makes it more efficient to hear all claims at once, and all cases must have a common issue. In a derivative lawsuit, the interests of all shareholders are encompassed. Before they can bring a derivative lawsuit, shareholders must petition the corporation's management to rectify the behavior that prompts the lawsuit. We enumerate the law firm practice areas Appendix Table B.1.

[5] Settlement amounts, just as all dollar values in our study, are expressed in terms of constant 2015 dollars.

[6] In our data, lawsuits related to regulatory enforcement actions fall into several litigation practice areas (78% are comprised in the "Securities, shareholder, and derivative" practice area). Call, Martin, Sharp, and Wilde (2018) using the data of Karpoff, Koester, Lee, and Martin (2017) report 1,133 regulatory enforcement actions (we thank professor

and intellectual property and privacy (9 papers). Because star plaintiff law firms are typically active over multiple practice areas, we run our tests including all litigation areas; however, as we show in robustness checks, our main results hold when we restrict the sample to the largest category, i.e., shareholder lawsuits.

[Insert Figures 1 and 2.A-D about here]

When we break down our sample by industry (Figure 2.C and D), we find that out of the 12 Fama-French industries, lawsuits are most frequent in Finance and Business equipment. The largest average settlement amounts are found in Manufacturing, Healthcare, and Finance.

Multiple plaintiff and defendant law firms can be involved in a given lawsuit. In corporate litigation, nearly all law firms tend to specialize as either plaintiff or defendant (primarily to avoid conflicts of interest); we focus on plaintiff law firms.[7] Law firms are partnerships, and they are typically named after their most senior partners. Their names may change over time, reflecting e.g., a promotion to "name partner" or the departure of one or more name partners from the firm. We standardize firm names to account for alternative spellings, abbreviations, and typos, and to track firms across the different sources and over time. The lawsuits in our dataset involve 9,913 individual plaintiff law firms; the average lawsuit is associated with two plaintiff law firms, and the average plaintiff law firm participates in ten lawsuits in our sample.

Throughout the analysis, we require that the outcome of a given lawsuit is known, i.e., that the lawsuit has been either settled in court (voluntary under the auspices of the court or by court order) or dismissed in court by the end of our sample period.[8] Settlement occurs in 52% of the lawsuits in our data. Where we observe the settlement amount, we collect from the case description the amount of the settlement covered by insurance. Insurance coverage is, however, not universally disclosed; in our data, out of 18,100 settled lawsuits, 1,572 reveal it.

Jerry Martin for sharing the data). We find the same number in our data. Unreported tests, omitted for brevity, show that all of our results are qualitatively and quantitatively similar if we treat lawsuits related to regulatory enforcement actions as a separate litigation practice area.

[7] In robustness tests described below, we control for the status of the defendant law firms.

[8] Virtually no corporate lawsuits go to trial; the vast majority are either settled or dismissed.

For settled cases in the overall sample, settlements are on average around $24 million (Table 1). These figures are consistent with earlier studies (e.g., Baker and Griffith (2007), and references therein). The lawsuits with insurance disclosure involve larger settlements; for those lawsuits, the average settlement amount is around $33 million. Although the difference is not statistically significant, in economic terms this suggests that (i) our baseline tests focus on the portion of the data that is economically more relevant, and (ii) those tests are based on a set of lawsuits where plaintiff law firms seemingly generate larger amounts of money for their clients. Insurance coverage is on average 70% of the settlement, and in 58% of lawsuits with available information, the insurance covers over 90% of the settlement (we discuss the relationship between insurance coverage and settlement amounts in greater detail in Section IV.A).

[Insert Table 1 about here]

B. Star law firms

The key variable of interest in our study is an indicator for dominant, or "star" law firms. We consider several alternative indicators, based on our data as well as on practitioner rankings from the corporate litigation industry.[9]

The simplest star plaintiff law firm indicator is based on a ranking of plaintiff law firms by the settlement amounts that they have generated over time. Cumulative settlement amounts are a natural measure of law firm status, as settlements are often reported by the press (especially for the most notable lawsuits), can be observed by their clients, and determine the firms' revenues. Moreover, revenues are an important input of many popular law firm rankings, which are widely available to industry practitioners and prospective clients. Fees are also closely related to law firm revenues, but they are more sparsely populated in our data sources; and as we confirm in robustness checks, the information contained in the settlement is similar.

[9] We focus on rankings of law firms rather than individual lawyers. Law firm rankings are prominent in the industry and visible to prospective clients; and ranking companies tend to emphasize them: for instance, the Legal500 rankings, discussed below, stress that they focus on "teams, not individuals" and that they seek an "assessment of the overall strength and depth of a practice group." Other prominent practitioner rankings, such as Am Law or Vault Law 100, also focus on law firms rather than individuals.

We construct a $Star$ indicator as follows. We compute the cumulative settlement amount generated by each law firm in a given litigation practice area over a five-year period up to year $t-1$. We then rank law firms in year t in each practice area based on their cumulative settlements. The top 10 are designated as the stars.[10] The one-year lag between cumulative settlement amounts and law firm ranks ensures that the information about past performance (settlement) is available to prospective clients in year t, and that there is no overlap between the dependent variables in most of our tests (related to settlements in individual lawsuits) and the law firm's rank.[11] Star law firms (based on the $Star$ indicator) are associated with 33% of all settlements in our data. Each year 532 plaintiff law firms are active in our sample (1,004 after 2010), and we observe a total of 9,913 law firms, suggesting non-trivial entry and exit.

For robustness, we also consider four alternative measures of law firm status. First, $Star\ (fees)$ is a top-10 firm indicator based on cumulative past fees rather than settlements.[12] Second, we define $Star\ (count)$ based on the cumulative number of past settlements instead of the amount. Third, we define $Rank$ as a continuous measure of law firm status, equal to the cumulative 5-year settlement amount normalized to lie between 0 and 1. This measure reflects the concentration of the distribution of market shares among law firms, assigning a higher value to firms with larger cumulative settlements.

Fourth, $Star\ (Legal500)$ is an indicator derived from the law firm rankings produced by Legal500, an international research and ranking company specializing in the legal sector. Legal500 publishes rankings, available since 2008, based on in-depth interviews with the law firms as well as peer and client feedback. $Star\ (Legal500)$ is equal to 1 if a law firm belongs to the set of "top tier" law firms in a given litigation

[10] We rank plaintiff law firms within law firm practice areas (listed in Appendix B) each year, to account for the possibility of specialization, i.e., a law firm may be dominant in some litigation areas but not in others. In robustness checks, omitted for brevity but available upon request, we find similar results if rank law firms by their cumulative settlements over all practice areas.

[11] In a number of cases, several firms act as plaintiff law firms on a given lawsuit. In our tests, we consider a given lawsuit as having a star plaintiff law firm if the team of plaintiff law firms contains at least one star. Similar results obtain if we use instead the fraction of stars among multiple plaintiff law firms on a given lawsuit.

[12] If the fees are not disclosed in the case descriptions, in the construction of this variable we impute the value of 30% of the settlement, which is close to the median fraction of the settlement amount destined to fees in our data and considered an industry standard (Baker and Griffith (2007, 2011), Spier (2007, p. 307)).

area and year.[13] Although the data coverage of $Star$ ($Legal500$) is smaller than for our other measures and the construction of Legal500's rankings less transparent, this variable is a useful complement as it reflects practitioner opinion. $Star$ ($Legal500$) and the $Star$ indicator agree in defining the plaintiff law firm as a star or non-star in 84% of the lawsuits in our sample, indicating that, although not perfectly correlated, the two measures capture similar information.

C. Other variables of interest

In most of our tests we use control variables derived from the CRSP/Compustat Merged database. We match CRSP/Compustat to defendant corporations in our lawsuit data, using the SEC's Central Index Key (CIK) reported in the AA database and the tickers reported in the AA and SCAC databases, and by manually screening the defendant corporations' names where these identifiers are not available.

The main set of control variables used throughout the paper are: Size (natural logarithm of the defendant corporation's total assets), yearly sales growth rate, leverage (total liabilities divided by total assets), book-to-market ratio, and stock return (monthly average over a one-year period); following Kim and Skinner (2012) we also control for stock return skewness, stock return volatility, and share turnover (ratio of the number of shares traded to the number of shares outstanding). These variables are defined with yearly frequency and expressed in their values as of the end of the year prior to a given lawsuit's filing date.

In robustness checks, we supplement these variables with additional controls retrieved from CRSP/Compustat, the IBES analyst forecast database, BoardEx, and the Thomson Reuters 13F Institutional Holdings database. We list the additional controls in Section IV.C and define them in Appendix Table B.1.

In the tests on changes to corporate governance described in Section IV.D, we consider several measures related to governance quality. We consider two governance indexes, the Gompers, Ishii, and Metrick (2003) G-index and the Bebchuk, Cohen, and Ferrell (2009) E-Index. We also analyze CEO changes and CEO compensation package data from the Compustat ExecuComp database, and board composition measures from BoardEx. These variables are also defined in Appendix Table B.1.

[13] The mean (median) number of Legal500 top tier firms in a given law firm practice area and year is 22.7 (21.0).

Finally, in tests discussed in Section V, we look at the pricing of litigation insurance the year prior to the filing of a lawsuit. We retrieve information on insurance prices from two sources. The first one is a proprietary database from a leading directors and officers (D&O) insurer, covering the premiums paid by its clients over the period 2006-2016. The second source is D&O insurance premiums disclosed by companies incorporated in the state of New York, mandated by New York Business Corporation Law, Section 726(d) (Donelson, Hopkins, and Yust (2018)), reporting premiums from 1994 onwards. We retrieve the disclosed premium payments from 10-K and DEF-14A annual filings.

III. Institutional background and testable hypotheses

A. The market for corporate litigation insurance

Corporate litigation insurance is a central risk management tool. The features of the corporate insurance market, which we discuss below, indicate that companies seek coverage for the full extent of the liability they expect and that insurers provide such coverage competitively. This suggests that litigation insurance coverage reflects an unbiased estimate of the expected settlement amount.

Corporations purchase litigation insurance in packages typically including multiple policies. A prominent example is D&O insurance, purchased by nearly all S&P500 firms (Larcker and Tayan (2021, p. 74)), which provides indemnity for costs associated with securities litigation and some fiduciary duty cases. Packages may also insure against liability for employment practices, professional liability, product liability, or environmental liability, among others.[14] Insurance contracts also include a prior claims exclusion, which rules out the possibility that the coverage may be ex post increased over the course of a lawsuit.

Prior to underwriting litigation insurance, the insurers obtain information about litigation risk from prospective insured corporations, collected through the application process and via independent research.

[14] Some of the policies may have deductibles, which can reduce the insurance premium. The savings from deductibles are generally considered small and involve the risk of the company bearing higher costs in the event of litigation (Guggenheim and Henderson (2008)). A Tower Perrins (2008) survey reports that 66% of surveyed firms purchase D&O insurance with no deductibles at all.

Prospective insureds have an incentive to transparency in their application because an applicant furnishing untrue information creates the basis for a subsequent rescission action – in other words, the insurer may refuse to pay in the event of a future lawsuit settlement. The insurer's research is based on public data as well as on private information obtained from meetings with the applicant's senior management, typically covered by nondisclosure agreements. The information collected through these channels has broad scope, and ranges from the prospective insured's financials and corporate strategy to incentives and governance, to the background and personality of the managers (Baker and Griffith (2007)). Moreover, policies are renewed on a frequent basis (in many cases yearly), so that the data on which they are based is timely. Indeed, Core (2000) finds evidence that (D&O) premiums reflect the quality of the insured corporation's governance. In sum, the insurers collect information that enables them to form an unbiased assessment of the litigation risk of the prospective insured. That assessment is reflected in the insurance premium and coverage. Although some insurers have large market shares (for instance ACE, AIG, and Chubb in the D&O segment), in general the market for corporate litigation insurance is competitive and there are low barriers to entry. In addition, "shopping" for less expensive coverage is common (Baker and Griffith (2007)). These features suggest that corporate litigation insurance premiums are competitive, so that companies likely do not under-insure their litigation risk.[15]

The combination of (i) competitive markets for insurance and (ii) the fact that companies likely do not under-insure due to non-competitive market conditions suggests that the corporate litigation insurance coverage provides an unbiased estimate of the litigation settlement amounts a given corporation expects to face conditional on litigation. That is consistent with a literature documenting the information content of corporate litigation insurance (Boyer and Stern (2014), Chalmers, Dann, and Harford (2002), Core (2000)).

B. Identification challenge and empirical strategy

[15] On the other hand, companies may in principle purchase more coverage than their expected liability. We discuss this possibility in Section IV.D and find that it is unlikely to account for our findings.

In the first part of our analysis, we focus on the effect of the star plaintiff law firm on the expected settlement amount. The main empirical challenge we face is that the star law firm may be able to generate a large settlement on any lawsuit (treatment effect) or it may just be more likely retained on lawsuits with ex ante large expected settlements (selection effect). Separating the treatment and selection effects requires a benchmark for the expected settlement amount that does not condition on the plaintiff law firm that brings the lawsuit. We rely on litigation insurance coverage as such a benchmark. Intuitively, if a corporation purchases litigation insurance covering it for $100 million, it reveals that it expects that, in the event of litigation, it may be liable to settle for $100 million (we formalize this intuition in an equilibrium model in Appendix D).

The institutional features of the litigation insurance market described in the previous section suggest that insurance coverage can be a good benchmark, as insurance companies have access to public as well as private litigation-relevant information and insurance itself is competitively priced. Moreover, litigation insurance is purchased prior to the filing of a lawsuit (typically, in the preceding year) and therefore prior to knowing the plaintiff law firm that the defendant corporation will face, if any.[16]

In addition to these institutional features, two pieces of empirical evidence support the notion that insurance coverage reflects the expected settlement amount in the event of litigation, and that insurance prices reflect the likelihood of a lawsuit. First, tests reported in Appendix Table C.1 show that insurance payout alone explains 77% of the observed settlement amounts, whereas control variables as well as defendant, litigation area, and resolution year fixed effects explain only about 15%. Appendix Figure C.1, moreover, shows that in nearly 60% of the settled lawsuits in our data the settlement amount exceeds the insurance payout by no more than 10%. Second, evidence summarized in Appendix Figure C.2 shows that insurance prices increase in the two years prior to the filing of a corporate lawsuit, with a statistically significant increase precisely prior to the filing. That is consistent with the notion that the insurance provider has access to information that the likelihood of a lawsuit has increased. Taken together, this evidence

[16] The prior claims exclusion rules out the possibility that the insurance coverage may be altered after the filing of a lawsuit.

suggests that insurance companies do not apply one-size-fits-all contracts, but rather tailor their policies to specific information about their clients.

IV. The performance of star plaintiff law firms

A. Baseline results

This section reports our baseline test, relating the outcome of the lawsuit on the $Star$ plaintiff law firm indicator. We estimate:

$$y_{if} = \alpha + \beta Star_f + \gamma' x_{if} + \varepsilon_{if} \quad (1)$$

where $Star$ denotes the star law firm indicator, equal to 1 if plaintiff law firm f is a top-10 law firm, and the control variables in x include firm size (log-total assets), sales growth, leverage, book-to-market, stock return, stock return skewness, stock return volatility, stock turnover. The regression includes fixed effects for the resolution (settlement or dismissal) year and, depending on the specification, for defendant corporation and law firm practice area. The dependent variable y_{if} is the natural logarithm of 1 plus the amount of the settlement (expressed in millions of 2015 dollars) on lawsuit i with plaintiff law firm $f, LogSettlement_{if}$, the natural logarithm of 1 plus the part of the settlement covered by the litigation insurance (also expressed in millions of 2015 dollars), $LogCoverage_{if}$, or the difference $LogSettlement_{if} - LogCoverage_{if}$.

The estimates are reported in Table 2. Columns (1)-(2) indicate that star law firms are associated with 39-48% larger settlements, on average, than other plaintiff law firms. Columns (3)-(4) show that much of that difference (32-39 percentage points) is predicted by the insurance payout, based on the insurance purchased by the defendant corporation prior to the filing of the lawsuit and to knowing the identity of the plaintiff law firm. Column (5) shows that the star law firms' performance, net of the insurance benchmark, is a more modest 8%, or 7% when we include control variables and defendant corporation and litigation

area fixed effects in column (6).[17] Relative to the mean settlement of $24.5 million (Table 1), the estimates of column (2) imply that star law firms are associated with a $9.6 million (= 0.39 × $24.5 million) larger settlement. The estimates of column (6), on the other hand, imply a $1.6 million (0.066 × $24.5 million) larger settlement net of the insurance benchmark. The implied selection effect is therefore $8 million (= $9.6 million – $1.6 million). Relative to the median settlement of $3.1 million, the corresponding effects are $1.2 million (column (2)) and $202,000 (column (6)), implying a $1 million selection effect. These findings suggest that out of the larger settlements associated with star law firms, 17% is related to treatment and that as much as 83% may constitute selection.

A separate question is how much the stars' clients pay in the form of fees. Plaintiff law firms are typically compensated with a "no gain, no pay" contingent fee (Spier (2007, p. 308)).[18] Anecdotal evidence from practitioners suggests that fees, as a percentage of the settlement amount, are lower in larger settlements. We confirm this in the estimates reported in Table 3, where we find a negative relation between the percentage fees and $LogSettlement$. That relationship is significantly weaker for star plaintiff law firms (the coefficients in columns (1) and (3) are smaller in magnitude than in columns (2) and (4)). The implication is that, for a given settlement amount, star plaintiff law firms charge higher fees. As an illustration, for the average settlement amount of $24.5 million (Table 1), based on the estimates of columns (3)-(4) the star law firms charge 6 percentage points higher fees (= $(0.062 - 0.043) \times \ln(1 + 24.5)$), an economically large difference relative to the average fees of 31% of the settlement amount. In dollar terms, that corresponds to about $1.5 million. For the median settlement of $3.1 million, the corresponding value is about $83,100.

Taken together, these results are consistent with the notion that the star plaintiff law firms have a superior performance and generate non-trivial value for their clients. However, a large part of the stars'

[17] In the tests reported in Table 2, the sample is restricted to lawsuits where the insurance payout on the settlement is disclosed or where the lawsuit is dismissed, since $LogCoverage$ and $LogSettlement - LogCoverage$ are defined only in those cases. Appendix Table C.2 reports additional tests, where the log-settlement amount is regressed on the $Star$ indicator, on the set of observations where the insurance payout is not disclosed. The estimates of these regressions are very close to the ones reported in Table 2, columns (1)-(2).

[18] Defense law firms, on the other hand, are usually compensated with an hourly fee.

performance (over 80%) is predicted by the insurance benchmark, suggesting that selection (i.e., the star is retained on a lawsuit where a less prestigious law firm could presumably obtain a similar settlement) plays a non-negligible role. In addition, other things equal the stars charge higher fees.

[Insert Tables 2 and 3 about here]

C. Robustness

We run a number of robustness checks on the baseline test, summarized in Table 4, where we estimate regressions with as dependent variables $LogSettlement$ (columns (1)-(2)) and $LogSettlement - LogCoverage$ (columns (3)-(4)). For brevity, only the coefficients on the star law firm indicators are reported, but all regressions include all control variables and fixed effects used in Table 2.

First, in panel A we consider alternative proxies for law firm status: $Star\ (fees)$, $Star\ (count)$, $Rank$ (continuous law firm rank), and $Star\ (Legal500)$, all defined above in Section II.B. We re-estimate the baseline regression (equation (1)), replacing $Star$ by those alternative proxies. In all cases, the results are similar to our baseline: star law firms (or a higher value of the continuous variable $Rank$) are associated with higher settlement amounts, but with more modest settlements net of the insurance benchmark.

[Insert Table 4 about here]

Second, in panel B we restrict the sample to shareholder lawsuits in general, and to shareholder class actions in particular. In both cases, we find similar estimates of the coefficient on the $Star$ indicator as in the baseline of Table 2.[19]

Third, in panel C we consider alternative standard errors. To address a potential correlation between $LogSettlement$ (and $LogSettlement - LogCoverage$) on the left-hand side of equation (1) and $Star$ on the right-hand side induced by past settlements (which define $Star$), we run regressions in the spirit of Fama and MacBeth (1973), drawing inference from the average coefficients from year-by-year cross-sectional regressions corresponding to equation (1). As each cross-sectional regression is estimated on one

[19] Appendix Table C.2 reports the estimates of these regressions in greater detail.

year of data only, serial correlation in settlement amounts is not a concern.[20] The average coefficient estimates and statistical significance are close to our baseline, suggesting that the results of Table 2 are unlikely to be affected by serial correlation. In addition, we re-estimate our baseline regression with two-way clustered standard errors, clustering by defendant firm and court.[21] The statistical significance of the resulting estimates is comparable to those of Table 2.

Fourth, in panel D we include a large number of additional control variables as well as additional fixed effects to the baseline regression. We include additional controls for (i) defendant firm financial characteristics (dividend payout ratio, ROA, interest coverage ratio, R&D-to-sales ratio, advertising-to-sales ratio, staff-to-sales ratio, and discretionary accruals ratio), (ii) its transparency and liquidity (analyst forecast dispersion, forecast errors, and coverage, bid-ask spread, Amihud (2002) illiquidity ratio, and idiosyncratic volatility), and (iii) the quality of its corporate governance and its ownership structure (Bebchuk, Cohen, and Ferrell's (2009) E-index, board size, log-CEO salary, bonus, and equity pay, institutional ownership level, equity stake controlled by the top 10 largest institutional shareholders, ownership of institutional block-holders, number of institutional investors, number of institutional block-holders, and institutional ownership Herfindahl-Hirschman index (HHI)). All additional control variables are defined in Appendix Table B.1. We also augment these regressions including filing year and court fixed effects. In all cases, the estimates of the coefficients on the $Star$ indicator remain close to those presented in Table 2.

Fifth, in panel E we split the sample based on the status of the defense law firm facing the plaintiff law firm. We gauge the status based on a five-year rank count of the number of dismissed lawsuits associated with a given defense law firm, mirroring $Star(count)$ for plaintiff law firms. Intuitively, the

[20] Due to the smaller number of observations per resolution year prior to 1992, we constrain the sample to the resolution years from 1992 onwards in this test. Although serial cross-correlation between settlement amounts and the $Star$ indicator is not a problem with the Fama-MacBeth approach, serial correlation in the $Star$ indicator itself and the other right-hand side variables can still be an issue. To adjust for that, the standard errors apply the Newey-West correction, based on a 5-year lag window.

[21] We include clusters for each individual federal court (e.g., United States District Court for the Southern District of New York) or state court (e.g., Pennsylvania Court of Common Pleas) where the lawsuits in our data are brought.

more lawsuits are dismissed, the better the performance of the defense law firm. Splitting the sample into three terciles based on the defense law firm's ranking, in the regressions with $LogSettlement - LogCoverage$ on the left-hand side we find that the coefficient on the $Star$ indicator shrinks to virtually zero when the ranking of the defense law firms is high, but is close to the baseline of Table 2 when the defense law firms have medium and low rank. This implies that the plaintiff star effect is further eroded when the defendant corporation hires a star defendant law firm. When looking at raw settlements, the coefficient on the $Star$ indicator is smaller when the defense law firm rank is low, but it is close to Table 2 when it is medium or high.

Sixth, in panel F we examine the performance of star plaintiff law firms over different sub-periods: pre-2000, 2001-2005, 2006-2010, and post-2010. Whereas there is some variation in the stars' performance based on raw settlement amounts across sub-periods, their performance net of the insurance benchmark is close to the baseline results of Table 2.

In additional tests, reported in Appendix Table C.3, we relate the stock returns around the filing and resolution of the lawsuits to the $Star$ indicator. We find that star plaintiff law firms are associated with more negative returns upon the filing of the lawsuit. They are also associated with more positive returns (over a narrow event window) around the resolution of the lawsuit when the lawsuit is dismissed.

Taken together, the checks discussed in this section are in line with our baseline results and are consistent with the notion that star plaintiff law firms outperform other law firms and that a large part of the stars' performance is predicted by insurance benchmark, suggesting a non-trivial selection effect.

D. Alternative explanations

We discuss three possible alternative explanations for our finding of a modest outperformance of the star law firms relative to other law firms once we adjust for the insurance coverage benchmark: (i) measurement error due to the censoring of insurance coverage in dismissed lawsuits, (ii) the possibility that

the insurance coverage incorporates part of the effect of the star law firms, and (iii) non-monetary effects associated with the stars.[22] As we discuss below, none of these alternatives appears to explain our findings.

First, measurement error can arise from the fact that when a lawsuit is dismissed and the settlement amount is therefore zero, the amount of insurance paid out on the settlement is also zero. Because the actual insurance coverage purchased by the defendant company is not zero but a positive amount (nearly all publicly listed firms purchase litigation insurance), that results in a more favorable estimate of the plaintiff law firm's performance net of the insurance coverage benchmark. This could lead us to underestimate the performance of star law firms if their lawsuits are more frequently settled (we come back to this point in Section V). We address this possibility in tests reported in Table 5: in column (1), we estimate a Tobit model assuming censoring of the dependent variable $LogSettlement - LogCoverage$ at zero; in column (2), we impute the unobserved values of $LogCoverage$ in the dismissed lawsuits using multiple imputation combined with Markov Chain-Monte Carlo (Rubin (1987), Schaefer (1997)). In both cases, the estimated effect of the $Star$ law firm indicator is close to our baseline of Table 2, column (6), suggesting that measurement error is unlikely behind our results.[23]

[Insert Table 5 about here]

Second, we might underestimate the performance of the stars, if defendants facing stars tend to have higher insurance coverage and/or defendants facing non-stars lower insurance coverage.[24] We run two

[22] Another potential driver of our results is the possibility that when a defendant corporation faces multiple lawsuits in a sequence, they reduce the overall available insurance coverage so that the plaintiff law firms' performance is artificially inflated. Unlike the other alternative explanations discussed in this section, this mechanism could induce a bias in favor of star law firms (to the extent that they tend to face defendant corporations with multiple lawsuits). Several tests, reported in Appendix Table C.4, indicate however that this mechanism does not appear to have a significant impact on our findings.

[23] We provide additional details about the multiple imputation approach in Appendix E. In additional tests, omitted for brevity, we apply alternative approaches to address the unobserved $Coverage$ in dismissed lawsuits, obtaining results close to our baseline. If we apply list-wise deletion, restricting the sample to the settled lawsuits, the coefficient on the $Star$ indicator is 0.090 (t-stat: 0.95); if we impute the average insurance coverage associated with lawsuits of the same type settled in the same year, the coefficient estimate is 0.064 (t-stat: 5.66).

[24] Note that the institutional features of the corporate litigation insurance market discussed in Section III.A suggest that it is unlikely that corporations systematically under-insure. Expensive insurance prices are unlikely because the insurance market is competitive (there are low entry barriers for insurers). Insured corporations may increase deductibles, reducing the effective coverage to lower the overall insurance cost; but even that appears to be associated with modest gains at best (Guggenheim and Henderson (2008)).

checks against this possibility. To illustrate the first one, suppose that when the defendant company expects a large lawsuit, it also expects to face a star plaintiff law firm and buys a larger insurance coverage. Suppose that the star plaintiff law firm raises the expected (log-)settlement amount by A, and suppose that a corporation purchases an additional insurance (log-)coverage B if it expects a large lawsuit brought by a star. Let w_{LS} denote the proportion of observations in equation (1) associated with large settlements and star law firms, w_{SS} the proportion of small settlements with star law firms, and w_{LNS} and w_{SNS} the corresponding proportions with non-star law firms. A regression of $LogSettlement - LogCoverage$ on the $Star$ indicator then estimates:

$$w_{LS} \times (A - B) - w_{LNS} \times (-B) + w_{SS} \times A - w_{SNS} \times 0. \quad (2)$$

If defendants that expect large lawsuits and star law firms tend to buy larger insurance coverage, we expect $w_{LS} > w_{LNS}$, leading to underestimating the effect of the stars, A. Equation (2) indicates that this problem can be solved by stratifying the sample such that $w_{LS} \approx w_{LNS}$ and $w_{SS} \approx w_{SNS}$. To that end, we resort to a matching approach: for each lawsuit with a star plaintiff law firm, we seek a matching lawsuit in the same litigation practice area, settled in the same year, and having the closest settlement size.[25] The results, reported in Table 5, column (3), show an estimate of the coefficient on the $Star$ law firm indicator of 0.030 (t-stat: 5.89), smaller than the baseline of Table 2. This suggests that our findings are not driven by a correlation between insurance coverage and the presence of a star law firm.

In the second check, we split the sample based on the defendant corporation's cash holdings the year prior to the filing of the lawsuit (above/below the median). Corporations that have lower cash holdings may be more conservative and tend to purchase more insurance (leading to a lower estimate of the performance net of the insurance benchmark), whereas those with high cash holdings may be willing to purchase relatively less insurance because their cash buffer could absorb higher settlement amounts. The results are reported in Table 5 (columns (4)-(5)). The estimates of the coefficient on $Star$ in the high- and

[25] For dismissed lawsuits, where the settlement amount is zero, we require in addition that the matching lawsuit is associated with a defendant corporation closest in size to the defendant facing the star law firm.

low-cash holdings sub-groups are not significantly different from each other; and we find a larger coefficient in the low-cash holdings sub-group, suggesting that our results are not driven by cash-rich companies buying less insurance. Together, these two checks indicate that the results of Table 2 are not an artifact of insurance coverage absorbing part of the effect of star law firms.

Third, a final potential alternative explanation is that the payoff that the plaintiffs seek is not exclusively monetary, but rather they derive a benefit from changes in management and/or governance practices of the defendant corporation. The defendant might thus be able to avoid having to pay a large settlement on condition of implementing changes to its governance structure. As argued by Romano (1991), this would be a salutary Coasian outcome, where the defendant company, rather than the court, is able to redress the problems that give rise to the lawsuit in the first place. The beneficial impact of star law firms may thus manifest itself, rather than in higher settlement amounts, in changes in governance at the defendant corporation. We examine percentage changes, between the year prior to the filing of the lawsuit and the year of its resolution, in the Gompers, Ishii, and Metrick (2003) and Bebchuck, Cohen, and Ferrell (2009) governance indexes as well as in several variables related to board composition and CEO compensation; and we also look at whether the CEO changes around the lawsuit.[26] To account for the fact that different lawsuits have different durations, whenever we look at percentage changes we express them in annual terms, dividing by the number of years between the filing and the resolution date. The results are reported in Table 6. In panel A, we show that most of these variables change significantly between the year-end prior to filing date and the end of the settlement/dismissal year for the *average* lawsuit: there is evidence of board restructuring, CEO changes, and changes in CEO compensation contract restructuring (with more emphasis on the salary component and less on variable pay in the form of bonus and equity-based remuneration). These results do not unambiguously indicate governance improvements – in fact, the increases in the Gompers, Ishii, and Metrick (2003) and Bebchuck, Cohen, and Ferrell (2009) indexes

[26] The data required to build the Gompers, Ishii, and Metrick (2003) index are only available in the "legacy" version of the MSCI (formerly GMI) database; for that reason, the number of observations in the corresponding column of Table 6 is smaller.

suggest a worsening governance. To test if any governance changes are *more* likely when the plaintiff law firm is a star, in panels B (for all lawsuits) and C (for shareholder lawsuits) we estimate:

$$\Delta G_{if} = \alpha + \beta Star_f + \gamma' x_{if} + \varepsilon_{if} \quad (3)$$

The dependent variable ΔG denotes the annualized percentage change in a given corporate governance quality proxy over the period from the end of the year before lawsuit i is filed to the end of the year when it is settled (or dismissed). x is the vector of control variables used throughout; as in the previous tests, the regressions also include fixed effects for lawsuit resolution year, defendant corporation, and litigation practice area. Overall, we find little evidence that lawsuits with star plaintiff law firms are associated with governance improvements (or just changes) beyond the average lawsuit. Across the different specifications, the coefficient on $Star$ is small and mostly statistically indistinguishable from zero; we find, however, a negative and significant coefficient when looking at the change in equity-based compensation (the ratio of restricted stocks and options awards to total compensation), in the general case as well as in shareholder lawsuits. This evidence provides little support for the notion that star plaintiff law firms generate, beyond their effect on dollar settlements, non-monetary benefits for the clients in the form of improvements in classic corporate governance measures.[27]

[Insert Table 6 about here]

V. Stars and lawsuit outcome uncertainty; star visibility and plaintiff sophistication

The results examined thus far show that a sizeable component of the settlements associated with star plaintiff law firms is predicted by the insurance coverage that the defendant purchases the year prior to the filing of the lawsuit (and prior to knowing what plaintiff law firm it will face), suggesting selection. We

[27] In Appendix Table C.5, we repeat the tests of Table 6 separating settled and dismissed lawsuits. The results are mostly qualitatively similar to Table 6; however, we find a decrease in CEO salary and increase in CEO equity pay around the average settled lawsuit, and the opposite pattern around dismissed lawsuits. When we separate settled and dismissed lawsuits, we do not detect a significant relationship between any of the governance quality proxies and the $Star$ indicator. In further tests, omitted for brevity, we also consider a range of indexes of corporate social responsibility from the MSCI (formerly KLD) database, related to employee relations, diversity, community, human rights, and environmental performance. We find no evidence of any association between those indexes and $Star$, suggesting that even broadening the scope of governance changes is unlikely to reveal a material effect of stars along this dimension.

now discuss two additional tests. The first one asks to what extent the stars create value for their clients by reducing the chances of a dismissal of the lawsuit. The second one asks if the stars' market share is sustained by visibility and an information advantage vis-à-vis unsophisticated plaintiffs.

A. Impact of the stars on uncertainty about the lawsuit outcome

We first ask if the stars' dominance can be explained by their ability to reduce uncertainty about the outcome of the lawsuit. If this were the case, then the reduced litigation uncertainty for the plaintiffs may justify the payment of higher fees to stars. In Table 7, columns (1)-(2), we find that star plaintiff law firms reach a settlement about 7-12% more frequently than other law firms. This estimate too can be a combination of a treatment effect (i.e., the star increases the chances of a settlement) and a selection effect. In particular, the selection could be positive, if the star tends to be retained in lawsuits that have a high probability of reaching a settlement regardless of what law firm brings them, but also negative, for instance if plaintiffs tend to hire star law firms on more challenging lawsuits that have ex ante lower chances of success. In the latter case, the estimates from Table 7 may understate the value created by the stars.

To address this possibility, we relate the star law firm indicator to the price of litigation insurance, which is set prior to the filing of a lawsuit and, based on the institutional arguments of Section II.A and the evidence summarized in Appendix Figure C.2, reflects the likelihood of a successful lawsuit. If the stars are retained on lawsuits that have ex ante lower chances of success, defendant corporations facing a star should be paying a lower insurance premium ex ante.

Corporate litigation insurance prices, unlike coverage, are rarely disclosed. We obtain information on prices for a sample of D&O insurance contracts that combines a proprietary database from a leading D&O insurer over the period 2006-2016 and the D&O insurance premiums disclosed by companies incorporated in the state of New York, as mandated by New York Business Corporation Law, Section 726(d) (Donelson, Hopkins, and Yust (2018)), retrieved from the 10-K and DEF-14A annual filings as described in Section III. For each defendant corporation in the intersection between our sample of lawsuits and these data, we compute the ratio between D&O insurance premium payments and the corporation's

total assets, the year prior to the filing of the lawsuit; we regress this ratio on the $Star$ indicator. For the subset of observations deriving from the proprietary database, we can also observe the ex ante insurance coverage; we thus compute the ratio between the insurance premium payment and the coverage. The results, reported in Table 7, columns (3)-(6), show a statistically insignificant and *positive* coefficient on the $Star$ indicator. This is inconsistent with the notion that star plaintiff law firms are retained on ex ante more challenging lawsuits, suggesting that the 12% effect from Table 7 is an upper bound on the stars' impact on the likelihood of reaching a settlement.

[Insert Table 7 about here]

B. Visibility and plaintiff sophistication

Another force that can sustain the market share of star plaintiff law firms is their visibility and information asymmetry vis-à-vis unsophisticated clients. We present two pieces of evidence substantiating this view. First, we run a test similar to an event study around the year when a plaintiff law firm achieves star status in a given litigation area.[28] For each year within a 7-year (–3,+3) or 11-year (–5,+5) window around the year 0 in which a plaintiff law firm reaches star status within a litigation area (according to our basic definition based on settlement amount), we form a "matching portfolio" comprising all plaintiff law firms active in that litigation area that do not become stars, and compute their average performance as the average $LogSettlement$ or $LogSettlement - LogCoverage$. If a given law firm is not associated with a settlement in a given year, the value of its performance is set to 0. We then compute the difference between the (future-)star's performance ($LogSettlement$ or $LogSettlement - LogCoverage$) and the performance of the matching plaintiff law firms, before and after the achievement of star status.

The results are reported in Table 8. In the years prior to becoming stars, future-stars reach settlements that are on average about 65% larger than the matching law firms. That difference rises by 22 percentage points to about 87% in the subsequent years. A different pattern emerges when we look at the performance net of the insurance coverage benchmark. In that case, the future-stars outperform the

[28] We thank Alma Cohen for suggesting this test to us.

matching law firms by around 6-7% prior to achieving star status; but the extent of their outperformance remains unchanged, or slightly diminishes, in the subsequent years. This is consistent with the notion that settling larger lawsuits (and thus becoming a star) increases visibility for the law firm and attracts more clients and larger lawsuits in the future (columns (1) and (2) of Table 8); but at the same time, the underlying ability of the law firm to generate a settlement beyond what the insurance coverage benchmark predicts does not change (columns (3) and (4) of Table 8).

[Insert Table 8 about here]

Second, the effects of information asymmetry may be exacerbated when the plaintiffs are not sophisticated, as they may be less able to screen the law firms they hire. Indeed, anecdotal evidence indicates that often (especially for the larger suits) the initiative behind a lawsuit rests with the plaintiff law firm, which pursues prospective clients with aggressive marketing strategies.[29] To address this possibility, we manually screen plaintiff names in our sample lawsuits and identify plaintiffs that are more likely sophisticated. We focus on two categories: Institutional investors (e.g., mutual fund companies) and authorities (the Department of Justice and the SEC). We argue that these plaintiffs likely have sufficient sophistication to adequately screen the law firms they hire; therefore, we should expect a stronger performance for the star law firms that represent them. The results, reported in Table 9, support this argument. In the lawsuits with sophisticated plaintiffs, the coefficient on the $Star$ indicator is 0.114 (t-stat: 2.57), larger than the baseline estimate of Table 2, column (6), and nearly four times larger than in lawsuits without sophisticated plaintiffs.

[Insert Table 9 about here]

Conclusion

[29] For instance, law firms may issue press releases encouraging potential plaintiffs to join a class action lawsuit. On June 11, 2021, law firm Bronstein, Gewirtz & Grossman, LLC notified "investors that a class action lawsuit has been filed against ContextLogic, Inc. and certain of its officers, on behalf of shareholders who purchased or otherwise acquired ContextLogic securities between December 16, 2020 through May 12, 2021," inviting them to join the lawsuit as plaintiffs.

We study the performance of dominant plaintiff law firms (stars) in corporate litigation, on a novel, comprehensive sample of corporate lawsuits in the U.S. over the period 1970-2020. Star plaintiff law firms are on average associated with 48% larger settlement amounts than other law firms. A sizeable part of that difference, however, is predicted by the litigation insurance coverage that defendant corporations purchase prior to the filing of the lawsuit (and prior to knowing what plaintiff law firm, if any, they will face). This suggests a selection effect, i.e., an economic mechanism that matches star plaintiff law firms to lawsuits where a less prestigious law firm might be able to obtain a similar outcome. A number of checks indicate that this is not explained by censoring of the insurance coverage in the case of dismissed lawsuits, by the insurance coverage absorbing part of the treatment effect of the stars, or by cash-rich defendants purchasing lower insurance coverage (or cash-poor defendants purchasing higher insurance coverage). We also find that stars are more likely to reach a settlement compared to other law firms. Two pieces of evidence suggest that visibility and information asymmetry faced by the plaintiffs contribute to sustaining the market share of the stars. First, although after achieving star status law firms obtain larger settlement amounts, their performance net of the litigation insurance benchmark does not improve. Second, the stars' net-of-benchmark performance is higher when they represent more sophisticated plaintiffs, such as investment companies or the SEC, who can likely better screen the law firms they retain. Our results contribute to our understanding of the economics of the legal profession, of the effectiveness of litigation as a tool of discipline corporations, and of the governance of corporate litigation.

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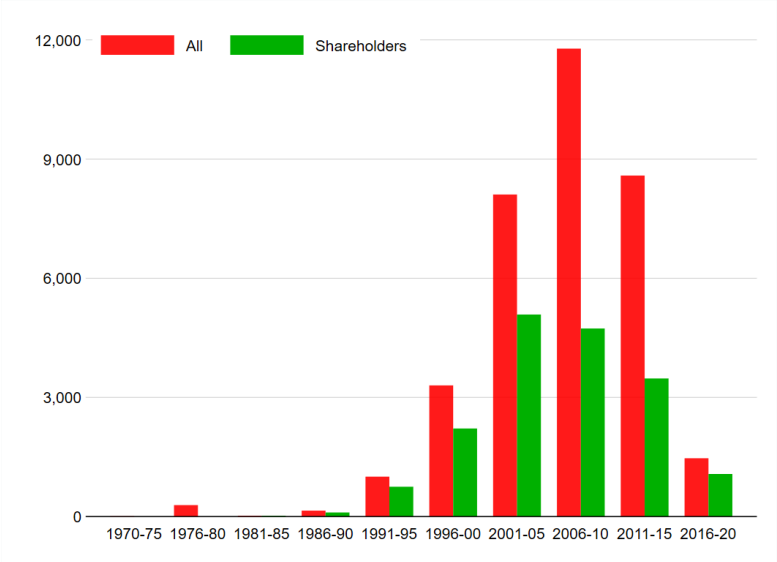
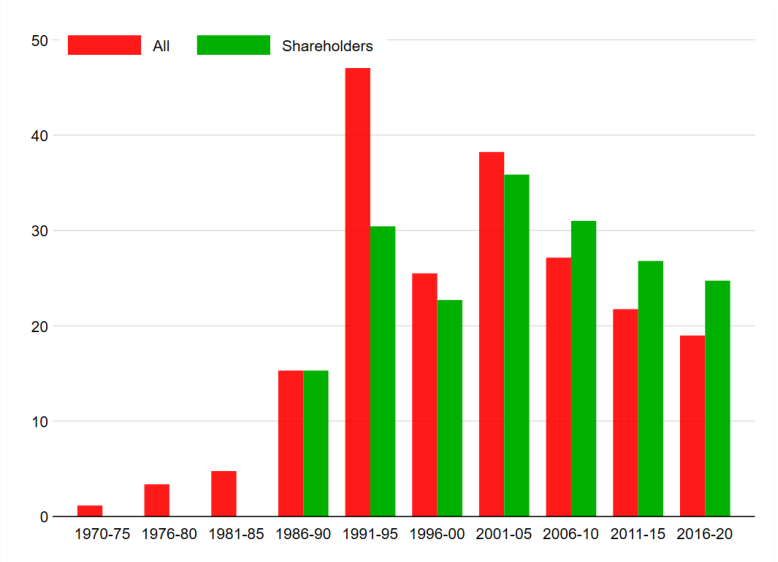
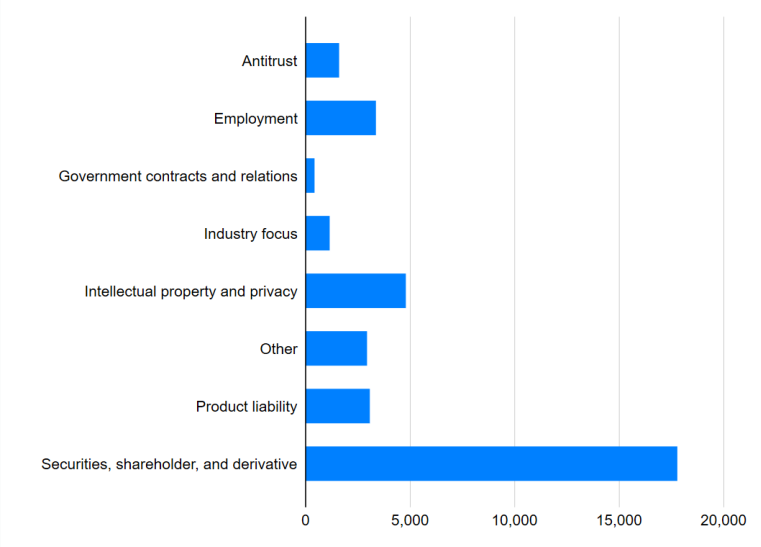


A. Lawsuit filings

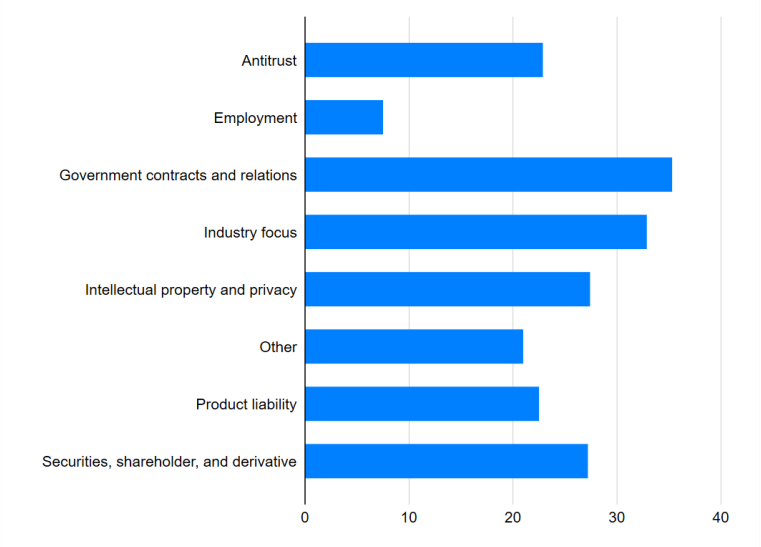


B. Average settlement amounts ($MM)

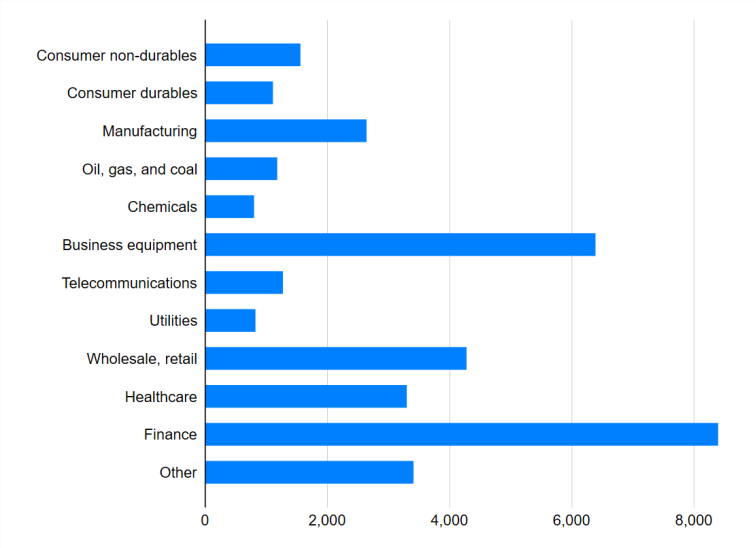
Figure 1 Lawsuit filings and average settlement amounts, 1970-2020
In panel A, the figure plots the number of all corporate lawsuits (red bars) and shareholder lawsuits (green bars) filed in each 5-year period since 1970. In panel B, it plots the average settlement amount (in 2015 $MM) associated with all corporate lawsuits (red bars) and shareholder lawsuits (green bars) settled in the same periods. The sample includes corporate lawsuits in our data that have been settled or dismissed over the period 1970-2020.



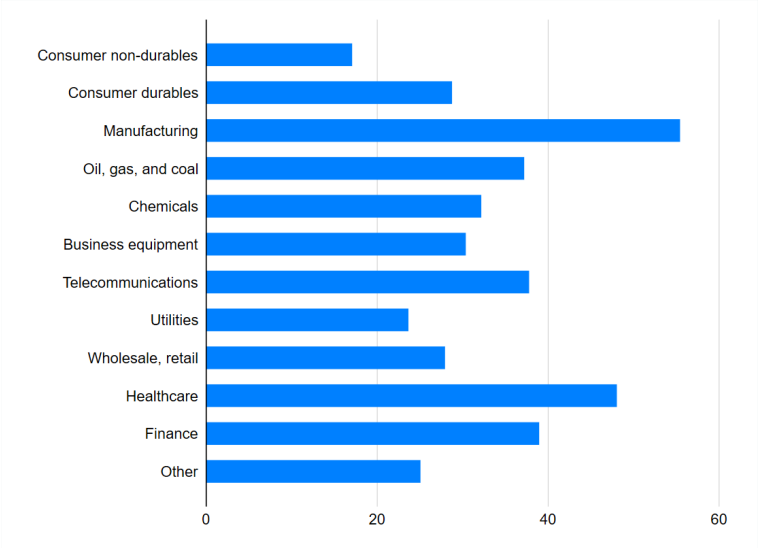
A. Lawsuit filings, by practice area



B. Average settlement amount, by practice area



C. Lawsuit filings, by industry



D. Average settlement amount, by industry

Figure 2 Lawsuit sample composition by industry and plaintiff law firm practice area
The figure describes the composition of the lawsuit sample by litigation practice area (panels A and B) and Fama-French 12 industry (panels C and D). Panels A and C report the number of lawsuits filed in each litigation practice area and industry, and panels B and D the corresponding average settlement amounts (in 2015 $MM). The sample includes corporate lawsuits in our data that have been settled or dismissed over the period 1970-2020.

Table 1 Descriptive statistics

The table reports descriptive statistics for the main variables used in the analysis. For all variables, one observation corresponds to one lawsuit. Settlement ($MM) denotes the settlement, reported in millions of 2015 dollars. The variables Settlement | Lawsuit settled ($MM) and Settlement | Insurance coverage ($MM) are identical to Settlement ($MM), except in that the sample is restricted to observations where the lawsuit is settled and where insurance coverage data are available respectively. All the variables are defined in Appendix Table B.1.

Variable	Mean	St. dev.	P5	P25	Median	P75	P95	N
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Star (0/1)	0.218	0.413	0.000	0.000	0.000	0.000	1.000	35,138
Lawsuit settled (0/1)	0.515	0.500	0.000	0.000	1.000	1.000	1.000	35,138
Lawsuit duration (months)	33.065	28.055	2.200	12.900	25.267	44.267	99.200	35,138
Settlement ($MM)	12.619	58.866	0.000	0.000	0.000	3.383	45.466	35,138
Settlement | Lawsuit settled ($MM)	24.497	80.227	0.000	0.577	3.105	11.503	109.580	18,100
Settlement | Ins. coverage ($MM)	33.308	99.151	0.000	1.597	4.993	16.002	152.425	1,572
Insurance coverage ($MM)	12.437	23.277	0.000	0.777	3.389	10.785	81.438	1,572
Ins. coverage (fract. of settl. amount)	0.697	0.369	0.000	0.385	0.904	1.000	1.000	1,572
Fees (fract. of settlement amount)	0.311	0.183	0.075	0.250	0.300	0.333	0.811	5,841
Size	8.783	2.923	4.117	6.587	8.718	10.745	13.840	34,788
Sales growth	0.249	0.791	-0.271	-0.019	0.079	0.245	1.176	34,069
Leverage	0.617	0.262	0.164	0.433	0.613	0.854	0.968	26,346
Book-to-market	0.569	0.461	0.089	0.256	0.461	0.736	1.458	25,694
Return	0.001	0.045	-0.083	-0.019	0.007	0.026	0.066	27,658
Return volatility	0.129	0.082	0.042	0.070	0.107	0.162	0.299	27,590
Return skewness	0.151	0.752	-1.094	-0.336	0.123	0.626	1.468	27,510
Share turnover	0.245	0.211	0.041	0.106	0.183	0.309	0.667	27,698

Table 2 Star plaintiff law firms and lawsuit outcomes

The table shows the estimates of:

$$y_{if} = \alpha + \beta Star_f + \gamma' x_{if} + \varepsilon_{if}$$

In columns (1) and (2) the dependent variable is the log-settlement amount $LogSettlement$ on lawsuit i with plaintiff law firm f. In columns (3) and (4), the dependent variable is the log-insurance coverage $LogCoverage$. In columns (5) and (6), it is the difference between log-settlement amount and log-insurance coverage. $Star$ is an indicator variable equal to 1 if the plaintiff law firm ranks among the top-10 (based on the value of obtained settlements) in a given litigation practice area, and 0 otherwise (whenever multiple plaintiff law firms are bringing one lawsuit, the indicator is set to 1 if at least one of them is a top-10 firm). x is a vector of control variables listed in the table, including lawsuit resolution year, defendant firm, and litigation practice area fixed effects. All the variables are defined in Appendix Table B.1. The t-statistics, reported in parentheses, are based on standard errors clustered by defendant corporation.

	LogSettlement		***LogCoverage***		***LogSettlement − LogCoverage***	
	(1)	(2)	(3)	(4)	(5)	(6)
Star	0.476	0.390	0.393	0.324	0.083	0.066
	(17.52)	(9.47)	(16.43)	(9.13)	(11.44)	(5.69)
Size		0.038		0.040		-0.003
		(1.27)		(1.63)		(-0.27)
Sales growth		0.157		0.133		0.023
		(3.60)		(3.74)		(1.99)
Leverage		-0.268		-0.196		-0.071
		(-2.24)		(-1.92)		(-1.82)
Book-to-market		-0.135		-0.104		-0.031
		(-3.06)		(-2.80)		(-2.90)
Return		0.412		0.225		0.187
		(1.21)		(0.83)		(1.41)
Return volatility		0.776		0.585		0.191
		(2.63)		(2.30)		(2.02)
Return skewness		-0.022		-0.019		-0.003
		(-1.71)		(-1.86)		(-0.68)
Share turnover		-0.371		-0.339		-0.033
		(-3.49)		(-3.76)		(-1.01)
Resolution year f.e.	Y	Y	Y	Y	Y	Y
Defendant corp. f.e.		Y		Y		Y
Practice area f.e.		Y		Y		Y
R^2	0.10	0.40	0.10	0.41	0.03	0.22
N	18,607	12,011	18,607	12,011	18,607	12,011

Table 3 Plaintiff law firm fees and settlement amount

The table shows the estimates of a regression where the dependent variable is the ratio $Fees/Settlement$ (the dollar fees paid out to the plaintiff law firm divided by the dollar settlement), regressed on the log-settlement amount $LogSettlement$ and the control variables and fixed effects used in Table 2. In columns (1) and (3), the sample is restricted to the set of settled lawsuits associated with a star plaintiff law firm and for the sample with available fees information; in columns (2) and (4), the subsample comprises cases with non-star plaintiff law firms. The row labeled "Difference F test (p-value)" reports the F test statistic for the difference between the coefficients on $LogSettlement$ in columns (1) and (2) and in columns (3) and (4), as well as the associated p-values. The t-statistics, reported in parentheses, are based on standard errors clustered by defendant company.

Subsample:	**Star**	**Non-Star**	**Star**	**Non-Star**
	(1)	(2)	(3)	(4)
LogSettlement	-0.031	-0.060	-0.043	-0.062
	(-15.63)	(-20.25)	(-10.68)	(-10.62)
Controls			Y	Y
Resolution year f.e.	Y	Y	Y	Y
Defendant corp. f.e.			Y	Y
Practice area f.e.			Y	Y
R^2	0.17	0.18	0.44	0.55
N	2,485	3,357	1,061	1,406
Difference F test (p-value)	60.65 (0.00)		5.61 (0.02)	

Table 4 Robustness

The table reports robustness checks on the baseline results. Each row corresponds to the estimates of two regressions similar to Table 2; in columns (1) and (2), the dependent variable is the log-settlement amount; in columns (3) and (4) it is the difference between log-settlement amount and log-insurance coverage. For brevity, only the coefficient on the $Star$ indicator is reported (or a related variable capturing the status of the plaintiff law firm), along with the associated t-statistic. Each regression includes the full set of control variables used in Table 2, columns (2), (4), and (6), as well as resolution year, defendant corporation, and litigation practice area fixed effects. The first row reproduces the estimates of Table 2, columns (2) and (6). In panel A, the $Star$ indicator is replaced by alternative proxies for the plaintiff law firm's star status (defined in Section II and Appendix Table B.1). In panel B, the sample is restricted to shareholder lawsuits or shareholder class actions. In panel C, alternative treatments of the standard errors are examined. In panel D, the baseline regressions of Table 2 are augmented with additional controls (related to the defendant corporation's financials, its transparency and liquidity, its governance and ownership; for definitions see Appendix Table B.1) and fixed effects (filing year and court). In panel E, the sample is split into terciles based on the defense law firm's ranking (based on number of cases won over the previous five years). In panel F, the sample is split into four sub-periods.

	$LogSettlement$		$LogSettlement - LogCoverage$	
	(1)	(2)	(3)	(4)
Star (baseline; based on settlement values)	0.390	(9.47)	0.066	(5.69)
A. Alternative law firm status proxies				
Star (fees)	0.378	(9.05)	0.064	(5.43)
Star (count)	0.315	(8.68)	0.071	(6.43)
Rank (continuous law firm rank)	0.689	(9.24)	0.119	(4.90)
Star (Legal500)	0.388	(8.32)	0.038	(3.68)
B. Shareholder lawsuits				
All shareholder lawsuits	0.381	(8.85)	0.071	(5.63)
Shareholder class actions	0.377	(7.34)	0.054	(3.50)
C. Alternative standard errors				
Fama-MacBeth combined with Newey-West with 5-year lag	0.376	(5.50)	0.068	(5.27)
Cluster: defendant and court	0.390	(7.32)	0.066	(2.95)
D. Additional controls and fixed effects				
Defendant corporation financials	0.416	(7.98)	0.070	(4.43)
+ Transparency and liquidity	0.420	(7.84)	0.076	(4.57)
+ Governance and ownership	0.407	(7.60)	0.070	(4.01)
+ Filing year and court f.e.	0.405	(7.76)	0.067	(3.80)
E. Status of the defense law firm (terciles)				
Low	0.293	(4.26)	0.057	(1.39)
Medium	0.392	(4.33)	0.089	(3.20)
High	0.390	(4.60)	0.008	(0.21)
F. Sub-periods				
Pre-2000	0.202	(1.71)	0.030	(0.96)
2001-2005	0.727	(6.17)	0.085	(3.15)
2006-2010	0.393	(6.45)	0.060	(2.92)
Post-2010	0.289	(5.55)	0.069	(4.59)

Table 5 Censoring of insurance coverage in dismissed lawsuits; insurance coverage absorbing part of the effect of the star plaintiff law firms

The table report the estimates of regressions corresponding to Table 2, column (6). Columns (1) and (2) report two checks against the possibility of measurement error driven by censoring of insurance coverage in dismissed lawsuits. Column (1) reports the estimates of a Tobit regression where the dependent variable is the difference $LogSettlement - LogCoverage$, assumed to be censored at zero (the marginal effect of the $Star$ indicator is reported). Column (2) reports the estimates of a regression where the unobserved insurance coverage in dismissed lawsuits is imputed, using Markov chain-Monte Carlo multiple imputation (MCMC-MI; Appendix E provides more details about this approach). Columns (3), (4), and (5) report two checks against the possibility that the insurance coverage absorbs part of the effect of star plaintiff law firms. In column (3), every lawsuit with a star plaintiff law firm is matched to a lawsuit with a non-star plaintiff law firm, in the same litigation area and having similar settlement amount (for dismissed lawsuits, a matching lawsuit is selected where the defendant corporation has the closest size). In columns (4) and (5), the sample is split based on the cash-to-total assets ratio of the defendant corporation the year prior to the filing of the lawsuit, above and below the median. The row labelled "Difference F test (p-value)" reports the F test statistic for the difference between the coefficients on the $Star$ indicator in columns (4) and (5) and the associated p-value.

		Multiple	**Matched**	**Cash holdings**	
	Tobit	**imputation**	**sample**	**High**	**Low**
	(1)	(2)	(3)	(4)	(5)
Star	0.041	0.063	0.030	0.050	0.081
	(10.46)	(0.59)	(5.89)	(3.57)	(4.32)
Controls	Y	Y	Y	Y	Y
Resolution year f.e.	Y	Y	Y	Y	Y
Defendant corp. f.e.	Y	Y	Y	Y	Y
Practice area f.e.	Y	Y	Y	Y	Y
R^2	—	—	0.26	0.21	0.34
N	12,011	12,011	4,536	7,386	5,859
Difference F test (p-value)				1.76 (0.19)	

Table 6 Changes in governance around corporate lawsuits

The table reports checks for the possibility that star plaintiff law firms have an impact on the quality of corporate governance of the defendant corporation, beyond their impact on settlement amounts. Panel A computes average changes around all lawsuits and shareholder lawsuits in a number of dimensions of governance between the year-end prior to the filing date and the year-end of the lawsuit resolution year: The Gompers, Ishii, and Metrick (2003) G-index and the Bebchuck, Cohen, and Ferrel (2009) E-index, changes in board composition (departures, additions, change in size), CEO changes, and changes in CEO compensation (salary, bonus, equity-based, and total). Each cell reports the average (or average % change), with the corresponding t-statistic in parenthesis (based on standard errors clustered around defendant corporation). Panel B reports the estimates of specifications analogous to Table 2, where the dependent variable is one of the changes in governance dimensions analyzed in panel A (all specifications include controls and resolution year, defendant corporation, and litigation practice area fixed effects). Panel C reports similar regressions, restricting the sample to shareholder lawsuits. In all specifications the *t*-statistics, reported in parentheses, are based on standard errors clustered around defendant corporation.

	Governance indexes		**Board**			**CEO**	**Changes in CEO compensation**			
	G-Index	**E-Index**	**Departures**	**Additions**	**ΔSize**	**change (Y/N)**	**Salary**	**Bonus**	**Equity-based**	**Total**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A. Average changes in governance-related variables										
All lawsuits	0.010	0.059	0.951	1.252	-0.327	0.142	0.132	-0.191	-0.189	0.346
	(6.51)	(24.75)	(60.96)	(73.87)	(-31.89)	(54.82)	(31.68)	(-37.70)	(-47.60)	(25.44)
Shareholder lawsuits	0.014	0.031	1.100	1.336	-0.268	0.156	0.133	-0.217	-0.248	0.331
	(3.01)	(4.07)	(33.26)	(38.95)	(-14.23)	(14.73)	(9.67)	(-9.69)	(-15.97)	(7.59)
B. Regression estimates; all lawsuits										
Star	0.007	-0.007	-0.028	-0.034	-0.011	0.016	-0.016	-0.032	-0.038	-0.045
	(1.06)	(-1.00)	(-0.40)	(-0.43)	(-0.23)	(1.64)	(-0.64)	(-1.95)	(-3.56)	(-0.61)
R^2	0.47	0.36	0.33	0.32	0.27	0.24	0.30	0.42	0.57	0.24
N	2,288	9,526	7,259	7,445	7,256	16,060	11,395	10,504	11,334	11,499
C. Regression estimates; shareholder lawsuits										
Star	0.010	-0.010	-0.056	-0.077	0.010	0.014	-0.008	-0.028	-0.030	-0.019
	(1.27)	(-1.53)	(-0.74)	(-0.91)	(0.18)	(1.36)	(-0.38)	(-1.56)	(-2.78)	(-0.25)
R^2	0.57	0.34	0.45	0.45	0.37	0.41	0.30	0.55	0.67	0.26
N	1,087	2,980	3,067	3,175	3,066	5,842	4,118	3,623	4,058	4,146

Table 7 Probability to reach a settlement; insurance premium

In columns (1) and (2), the table reports the estimates of a probit model (column (1)) and a linear probability model (column (2)) where the dependent variable is an indicator equal to 1 if a given lawsuit is settled and 0 if it is dismissed, regressed on the $Star$ indicator, the full set of control variables used throughout, and fixed effects (in column (1), the marginal effect of the $Star$ indicator is reported). In columns (3)-(6), the table reports the estimates of regressions where the dependent variable is the ratio of the insurance premium paid by the defendant corporation the year prior to the filing of the lawsuit, divided by total assets (columns (3)-(4)) or by the amount of insurance coverage (columns (5)-(6)). In columns (3)-(4), data on insurance premiums are obtained combining a proprietary dataset from a leading insurance company with the disclosures made by firms incorporated in the state of New York, mandated by New York Business Corporation Law, Section 726(d). These regressions include an indicator equal to 1 for defendants incorporated in the state of New York. In columns (5)-(6), the sample is restricted to the lawsuits matching the proprietary dataset.

	Probability of settlement		**Insurance premium-… …-to-total assets**		**…-to-coverage**	
	(1)	(2)	(3)	(4)	(5)	(6)
Star	0.068	0.124	0.082	0.008	0.075	0.051
	(10.55)	(8.91)	(1.63)	(0.84)	(0.16)	(0.26)
Controls	Y	Y		Y		Y
Resolution year f.e.	Y	Y	Y	Y	Y	Y
Defendant corp. f.e.		Y		Y		Y
Practice area f.e.	Y	Y		Y		Y
R^2	—	0.42	0.09	0.93	0.29	0.98
N	12,009	12,009	830	830	219	219

Table 8 Changes in performance around the year a law firm achieves star status

The table reports tests looking at the performance of plaintiff law firms around the time they achieve star status. In columns (1)-(2), for each plaintiff law firm that achieves star status, the average log-settlement is computed each year in a 7-year (-3,+3) or 11-year (-5,+5) window around the year it becomes a star in a given litigation area. Yearly average log-settlements are also computed, over the same years, for a set of matching plaintiff law firms that do not achieve star status in that litigation area. The yearly average log-settlements are then regressed on an intercept and a $Post$ indicator, equal to 1 for the years following the achievement of star status. In columns (3)-(4), the same procedure is repeated, replacing average log-settlements by the average difference between log-settlement and log-insurance coverage. In all specifications, the standard errors are two-way clustered by law firm and calendar year.

	$LogSettlement$		$LogSettlement - LogCoverage$	
Years around achieving star status:	(–3,+3)	(–5,+5)	(–3,+3)	(–5,+5)
	(1)	(2)	(3)	(4)
Post	0.216	0.227	-0.028	0.002
	(3.43)	(3.78)	(-0.93)	(0.08)
Intercept	0.643	0.650	0.074	0.063
	(5.07)	(6.42)	(2.37)	(2.88)
R^2	0.00	0.01	0.00	0.00
N	50,207	68,343	50,207	68,343

Table 9 Sophisticated and less sophisticated plaintiffs

The table reports the estimates of regressions similar to Table 2, column (6), where the dependent variable is the difference between the log-settlement amount and the log-insurance coverage. The sample is split between lawsuits where the plaintiffs are sophisticated (institutional investors, the DOJ, and the SEC) and other lawsuits. The row labelled "Difference F test (p-value)" reports the F test statistic for the difference between the coefficients on the $Star$ indicator in the regressions in columns (1) and (2) and the associated p-value.

	Sophisticated plaintiffs	**Less sophisticated plaintiffs**
	(1)	(2)
Star	0.114	0.029
	(2.57)	(2.19)
Controls	Y	Y
Resolution year f.e.	Y	Y
Defendant corp. f.e.	Y	Y
Practice area f.e.	Y	Y
R^2	0.45	0.45
N	1,298	8,036
Difference F test (p-value)	3.63 (0.05)	

Appendix (for online publication)

Appendix A. Empirical studies on corporate litigation since 1995

Table A.1 Empirical studies on corporate litigation since 1995

The table lists, in chronological order, empirical studies involving corporate litigation data in the economics, finance, accounting, and law literatures. For each study, it reports the litigation practice area, the number of lawsuits analyzed, the sample period, and the type of court where the lawsuits are filed. Litigation practice areas are classified as: [1A] = Securities class action, [1B] = Derivative action, [1C] = Other shareholder lawsuit, [2] = Intellectual property, [3] SEC and DOJ enforcement action, [4] = Antitrust, [5] = Industry focus, [6] = Employment, [7] = Product liability, and [9] = Any/not specified. The number of lawsuits in Helland (2006) was retrieved via personal communication with the author; for Lin, Liu, and Manso (2020), it is based on the paper's online appendix; for Cohen, Gurun, and Kominers (2016, 2019), it is based on Cohen, Gurun, and Kominers's (2016) online appendix; for Correia (2014), it is based on the sample of Karpoff, Lee, and Martin (2008); Haslem, Hutton, and Smith (2017) run a number of tests on 83,260 lawsuits, but have complete information on the resolution of the lawsuit only for 6,091 cases.

Paper	Litigation practice area	Nr. lawsuits	Sample period	Court
Bizjak and Coles (1995)	[4]	396	1973-1983	Federal
Lanjouw and Lerner (2001)	[2]	252	1990-1991	Federal
Lanjouw and Schankerman (2001)	[2]	5,452	1975-1991	Federal
Chalmers, Dann, and Harford (2002)	[1A]	9	1992-1996	Federal
Lowry and Shu (2002)	[1A]	106	1990-1997	Federal
Ferris, Jagannathan, and Pritchard (2003)	[1A]	133	1996-1998	Federal
DuCharme, Malatesta, and Sefcik (2004)	[1A]	314	1988-2001	Federal
Thompson and Thomas (2004)	[1B]	57	1999-2000	Federal
Field, Lowry, and Shu (2005)	[1A]	78	1996-2000	Federal
Haslem (2005)	[8]	965	1994-1998	Federal
Helland (2006)	[1A] + [3]	2,207	1994-2002	Federal
Bhattacharya, Galpin, and Haslem (2007)	[2] + [4] + [5] + [6] + [7]	3,076	1995-2000	Federal
Ferris et al. (2007)	[1B]	215	1982-1994	Federal
Fich and Shidvasani (2007)	[1A]	216	1998-2002	Federal
Karpoff, Lee, and Martin (2008)	[3]	788	1978-2006	Federal
Peng and Roell (2008)	[1A]	479	1996-2002	Federal
Gande and Lewis (2009)	[1A]	377	1996-2003	Federal
Johnson, Ryan, and Tian (2009)	[3]	87	1992-2005	Federal
Murphy, Shrieves, and Tibbs (2009)	[2] + [4] + [5] + [6] + [7]	452	1982-1996	Federal
Rogers and Van Buskirk (2009)	[1A]	827	1996-2005	Federal
Cheng et al. (2010)	[1A]	1,811	1996-2005	Federal
Daines, Gow, and Larcker (2010)	[1A]	338	2005-2009	Federal
Dyck, Morse, and Zingales (2010)	[1A]	501	1996-2004	Federal
Erickson (2010)	[1B]	182	2005-2006	Federal
Galasso and Shankerman (2010)	[2]	5,131	1975-2000	Federal
Karpoff and Lou (2010)	[3]	632	1988-2005	Federal
Searle (2010)	[2]	95	1996-2008	Federal
Wang, Winton, and Yu (2010)	[1A] + [3]	110	1996-2007	Federal

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Paper	Litigation area	Nr. lawsuits	Sample period	Court
Kedia and Rajgopal (2011)	[3]	132	1997-2002	Federal
Rogers, Van Buskirk, and Zechman (2011)	[1A]	165	2003-2008	Federal
Yu and Yu (2011)	[1A]	205	1998-2004	Federal
Atanasov, Ivanov, and Litvak (2012)	[1C]	44	1975-2007	Federal
Bollen and Pool (2012)	[3]	317	1997-2009	Federal
Donelson et al. (2012)	[1A]	423	1996-2005	Federal
Hanley and Hoberg (2012)	[1A]	165	1996-2005	Federal
Humphery-Jenner (2012)	[1A]	416	1996-2007	Federal
Kim and Skinner (2012)	[1A]	2,497	1996-2009	Federal
Lennox, Lisowsky, and Pittman (2012)	[3]	797	1981-2001	Federal
Schmidt (2012)	[1A]	60	2001-2007	Federal
Kaplan and Williams (2013)	[1A]	1,211	1986-2009	Federal
Wang (2013)	[1A] + [3]	688	1995-2002	Federal
Brochet and Srinivasan (2014)	[1A]	921	1996-2010	Federal
Correia (2014)	[3]	788	1978-2006	Federal
Cotropia, Kesan, and Schwartz (2014)	[2]	7,705	2010-2012	Federal
Deng, Willis, and Xu (2014)	[1A]	156	1996-2006	Federal
Arena and Julio (2015)	[1A] + [8]	2,794	1996-2006	Federal
Benmelech and Frydman (2015)	[1A]	132	1996-2004	Federal
Biggerstaff, Cicero, and Puckett (2015)	[1C]	1,099	1978-2011	Federal
Billings and Cedergreen (2015)	[1A]	478	2002-2012	Federal
Borisov, Goldman, and Gupta (2015)	[3]	62	2001-2005	Federal
deHaan et al. (2015)	[3]	284	1990-2008	Federal
Donelson, Hopkins, and Yust (2015)	[1A] + [3]	755	1998-2010	Federal
Galasso and Shankerman (2015)	[2]	1,357	1975-2010	Federal
Hutton, Jiang, and Kumar (2015)	[8]	8,544	1993-2008	Federal
Khanna, Kim, and Yu (2015)	[3]	212	1996-2006	Federal
Cohen, Gurun, and Kominers (2016)	[2]	17,564	2005-2015	Federal
Giannetti and Wang (2016)	[3]	704	1980-2009	Federal
Liu (2016)	[1A] + [3]	2,080	1988-2006	Federal
Tian, Udell, and Yu (2016)	[1A]	205	1995-2005	Federal
Fahlenbrach, Low, and Stulz (2017)	[1A]	492	1995-2010	Federal
Haslem, Hutton, and Smith (2017)	[8]	6,091	1996-2010	Federal
Karpoff et al. (2017)	[1A] + [3]	7,336	1982-2015	Federal
Banerjee et al. (2018)	[1A]	1,375	1996-2012	Federal
Bliss, Partnoy, and Furchtgott (2018)	[1A]	2,210	2003-2010	Federal
Cline, Walkling, and Yore (2018)	[1A] + [3]	1,876	1996-2012	Federal
Cohen and Gurun (2018)	[8]	14,412	1995-2013	Federal

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Paper	Litigation area	Nr. lawsuits	Sample period	Court
Glaeser (2018)	[2]	134	1996-2013	Federal
Parsons, Sulaeman, and Titman (2018)	[3]	13,000	1970-2009	Federal
Adhikari, Agrawal, and Malm (2019)	[8]	8,341	2002-2011	Federal
Appel (2019)	[1B]	1,695	1984-2000	Federal
Cohen, Gurun, and Kominers (2019)	[2]	17,564	2005-2015	Federal
Huang, Hui, and Li (2019)	[1A]	1,973	1994-2014	Federal
Lin, Liu, and Manso (2020)	[1A] + [1B]	4,210	1994-2013	Federal
Billings, Cedergren, and Dube (2021)	[1A]	654	2001-2015	Federal
Heese, Krishnan, and Ramasubramanian (2021)	[3]	439	2002-2012	Federal

Appendix B. Variable descriptions

Table B.1 Variable descriptions

The following table reports the description of all the variables used in the analysis. The data on lawsuits and law firms combines information from the Audit Analytics Litigation (AA), ISS Securities Class Action Services (ISS), Federal Court Cases: Integrated Data Base (FCC), and the Stanford Securities Class Action Clearinghouse (SCAC). All accounting data come from Compustat and stock trading information from CRSP; those variables are expressed in their value as of the end of the fiscal year prior to the lawsuit filing date (the relevant Compustat and CRSP data items are listed in parentheses). All dollar values are expressed in 2015 constant prices.

Variable name	Description
Star	Indicator variable equal to 1 for top-10 plaintiff law firms. For each law firm and year $t-1$, the cumulative settlement amount generated by the firm in lawsuits in a given practice area over the previous 5 years (up to and including $t-1$) is computed. Law firms are ranked based on the cumulative settlement amount, and the top 10 are designated as "stars" for year t.
Star (fees)	Indicator variable equal to 1 for top-10 plaintiff law firms, based on 5-year cumulative fees. If on a given lawsuit the fees are not reported, they are imputed as 30% of the settlement amount (Baker and Griffith (2007), Spier (2007)).
Star (count)	Indicator variable equal to 1 for top-10 plaintiff law firms, based on the 5-year cumulative number of lawsuits brought by the firm.
Rank (continuous law firm rank)	Law firm rank, based on the 5-year cumulative settlement amount and normalized to be expressed as a number between 0 and 1.
Star (Legal500)	Indicator for top plaintiff law firms based on the Legal500 rankings. It is equal to 1 if a given law firm belongs to the set of "top tier" law firms designated by Legal500 in a given litigation practice area and year.
Case settled (Y/N)	Indicator variable equal to 1 if a lawsuit is settled, and 0 if it is dismissed.
Settlement	Settlement amount, expressed in millions of 2015 U.S. dollars.
Insurance coverage	Part of the settlement paid out by litigation insurance, expressed in millions of 2015 U.S. dollars.
Fees	Amount spent by the plaintiffs in prosecuting the case, for lawyers, law firms, legal representation, and other related expenses, expressed in millions of 2015 U.S. dollars.
Federal case	Indicator variable equal to 1 the lawsuit is brought before a federal court, and 0 otherwise.
Litigation practice areas	Antitrust; Employment; Government contracts and relations; Industry focus; Intellectual property and privacy; Product liability; Securities, shareholder, and derivative; and Other.
Size	Natural logarithm of total assets expressed in millions of 2015 U.S. dollars, as of the year prior to the lawsuit's filing date.
Sales growth	Yearly rate of growth of sales, as of the year prior to the lawsuit's filing date.
Leverage	Ratio of total liabilities to total assets, computed via the WRDS Financial Ratios Suite, based on Compustat data, as of the year prior to the lawsuit's filing date.

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Variable name	Description
Book-to-market	Ratio of the book value of equity to market value, computed via the WRDS Financial Ratios Suite based on data from the CRSP/Compustat Merged Database, as of the year prior to the lawsuit's filing date.
Return	Cumulative 12-month stock return (computed in December prior to the lawsuit's filing date).
Return std. dev.	Standard deviation of monthly stock returns (computed over a 12-month period ending in December prior to the lawsuit's filing date).
Return skewness	Skewness of monthly stock returns (computed over a 12-month period ending in December prior to the lawsuit's filing date).
Share turnover	Average monthly turnover (computed as the monthly trading volume divided by shares outstanding, computed in December prior to the lawsuit's filing date).
ROA	Return on assets, computed as the ratio of net income to lagged total assets via the WRDS Financial Ratios Suite, based on Compustat data.
Dividend payout ratio	Dividend payout ratio, computed as the ratio of dividends to lagged total assets via the WRDS Financial Ratios Suite, based on Compustat data.
Interest coverage ratio	Interest coverage ratio, computed as the ratio of EBIT to interest payments via the WRDS Financial Ratios Suite, based on Compustat data.
R&D/Sales	Ratio of R&D expenses to sales, computed via the WRDS Financial Ratios Suite, based on Compustat data.
Advertising/Sales	Ratio of advertising expenses to sales, computed via the WRDS Financial Ratios Suite, based on Compustat data.
Staff/Sales	Ratio of staff expenses to sales, computed via the WRDS Financial Ratios Suite, based on Compustat data.
Accruals ratio	Ratio of discretionary accruals to the average between lagged and contemporaneous total assets, computed via the WRDS Financial Ratios Suite, based on Compustat data.
Analyst forecast dispersion	Dispersion of analyst EPS forecasts, computed as the standard deviation of analyst EPS forecasts from the IBES database, divided by the absolute value of the mean EPS estimate.
Analyst forecast error	Absolute value of the difference between the mean analyst EPS forecast and the actual EPS, divided by the mean EPS estimate.
Analyst coverage	Natural logarithm of 1 plus the number of analysts following a given corporation.
Bid-ask spread	Ratio of the bid-ask spread to the midpoint close stock price from CRSP.
Amihud ratio	Yearly average Amihud (2002) illiquidity ratio. The Amihud ratio is defined as the ratio between the absolute daily change in the stock price, divided by the dollar trading volume expressed in millions of dollars.
Idiosyncratic volatility	Yearly standard deviation of the daily residuals from the Fama-French three-factor model.
G-index	Gompers, Ishii, and Metrick (2003) governance index.
E-index	Bebchuk, Cohen, and Ferrell (2009) entrenchment index.
Board size	Number of directors on the board, retrieved from BoardEx.

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Variable name	Description
CEO salary	Salary of the CEO, retrieved from Compustat ExecuComp.
CEO bonus	Annual bonus of the CEO, retrieved from Compustat ExecuComp.
CEO equity pay	Annual equity-based compensation of the CEO, defined as the sum of the value of stock options and restricted stocks grants received in a given year.
CEO total compensation	Sum of CEO salary, CEO bonus, and CEO equity pay.
Institutional ownership	Percentage of the firm's stocks held by 13F institutional investors from the Thomson Reuters 13F data.
Top-10 institutional investor ownership	Percentage of the firm's stocks held by the top 10 13F institutional investors.
Institutional block holders	Percentage of the firm's stocks held by block-holders.
Number of institutional shareholders	Number of 13F institutional investors holding any shares of the firm.
Number of institutional block holders	Number of 13F institutional block holders holding any shares of the firm.
Institutional ownership HHI	Herfindhal-index of institutional ownership concentration, based on 13F institutional investors holdings.

Appendix C. Additional results

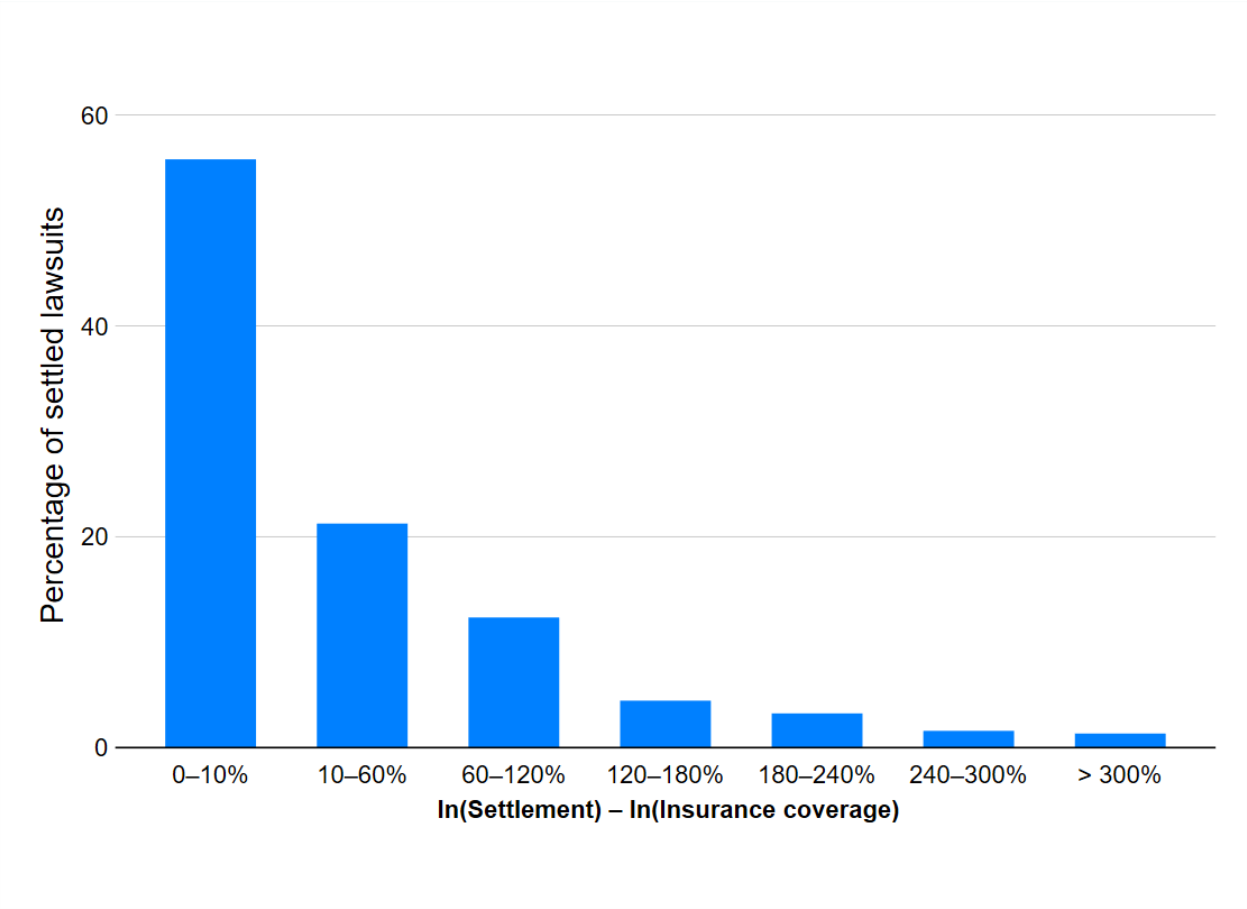

Figure C.1 Settlement and insurance coverage, settled lawsuits
The figure plots on the horizontal axis categories for the difference between log-settlement amount and log-insurance coverage, and on the vertical axis the percentage of settled lawsuits corresponding to each category. It indicates that for nearly 60% of the lawsuits in our sample, the settlement amount does not exceed the insurance coverage by more than 10%.

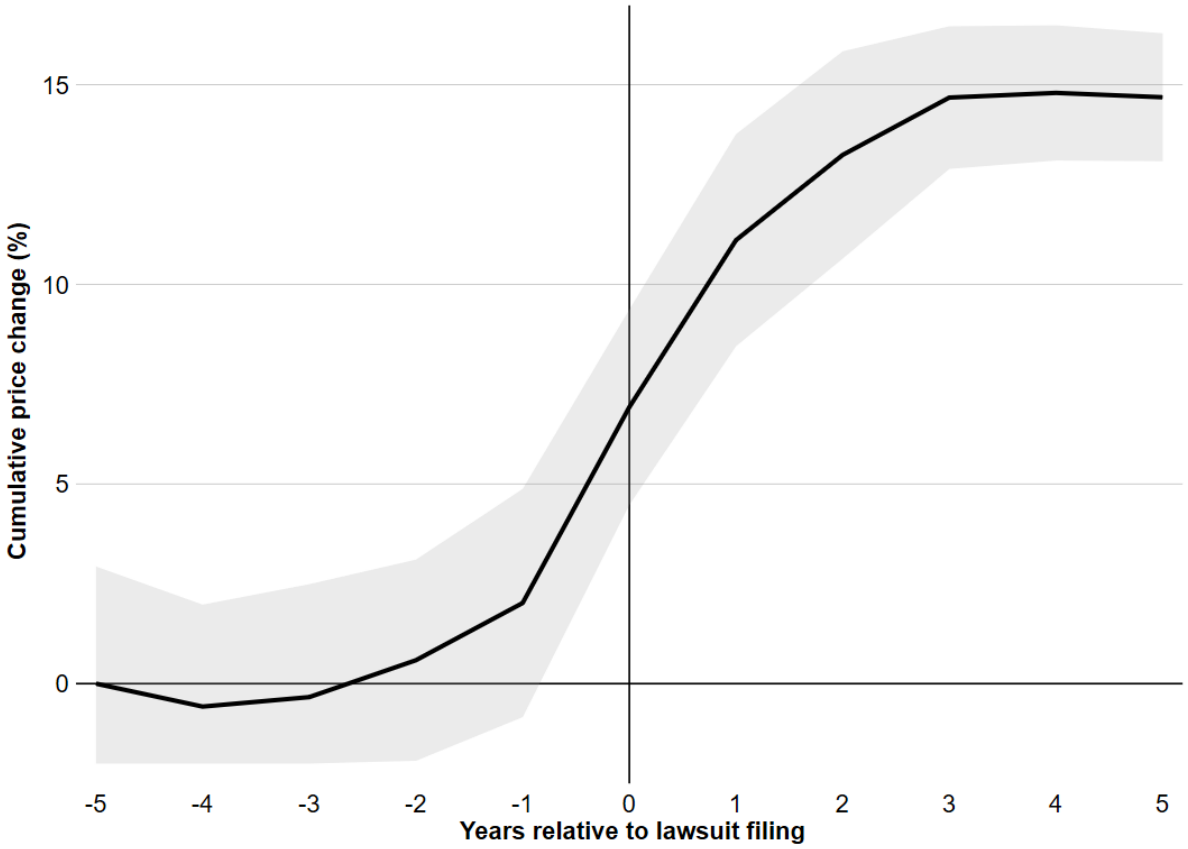

Figure C.2 Change in insurance pricing around corporate lawsuits
The graph plots the cumulative abnormal insurance price return over the (-5,+5)-year period around corporate lawsuits, based on the sample of the proprietary data from the leading insurance provider. Those data contain detailed information about the price per unit paid by defendant corporations. We compute yearly percentage changes (returns) on the price per unit paid by each defendant corporation, net of the average for a matching group of insured corporations belonging to the same Fama-French 12 industry. The graph plots the average cumulative insurance price percentage change, and the shaded area marks the 95% confidence band around it.

Table C.1 Predictive power of insurance coverage

The table reports the estimates of regressions where the dependent variable is $LogSettlement$, the log-settlement amount, regressed on a number of explanatory variables. In column (1), the explanatory variables are the control variables used throughout the analysis. In column (2), the regression is augmented by $LogCoverage$, the log-insurance coverage. In column (3), log-settlement is regressed on log-insurance coverage alone. In column (4), all explanatory variables are included, in addition to resolution year, defendant corporation, and litigation practice area fixed effects. The sample is based on the sample of lawsuits analyzed throughout the paper, restricted to the settled lawsuits where the insurance coverage can be directly observed; one observation corresponds to one lawsuit. In all specifications the t-statistics, reported in parentheses, are based on standard errors clustered around defendant corporations.

	(1)	(2)	(3)	(4)
LogCoverage		0.949	1.005	0.835
		(45.32)	(54.06)	(18.08)
Size	0.149	0.078		-0.185
	(5.20)	(6.09)		(-1.01)
Sales growth	0.074	-0.01		0.036
	(1.10)	(-0.41)		(0.34)
Leverage	-0.429	-0.168		-0.227
	(-1.67)	(-1.46)		(-0.26)
Book-to-market	-0.492	-0.197		-0.133
	(-4.02)	(-3.80)		(-0.63)
Return	-3.024	-0.048		1.215
	(-3.52)	(-0.11)		(0.64)
Return skewness	-0.235	-0.028		-0.188
	(-3.46)	(-0.77)		(-2.04)
Return volatility	4.216	0.842		1.247
	(6.01)	(2.38)		(1.17)
Share turnover	-0.513	0.134		0.158
	(-2.23)	(1.14)		(0.41)
Intercept	0.923	-0.075	0.392	
	(4.10)	(-0.70)	(9.65)	
Resolution year f.e.				Y
Defendant corp. f.e.				Y
Practice area f.e.				Y
R^2	0.11	0.77	0.77	0.93
N	1,092	1,092	1,572	1,092

Table C.2 Star plaintiff law firms and settlements: additional results

The table reports additional results on the relationship between star plaintiff law firms and corporate lawsuit settlements. Columns (1) and (2) report the estimates of regressions corresponding to columns (1) and (2) of Table 2, where the sample is restricted to lawsuits for which data on the insurance coverage is not available. The estimates of the coefficients on the $Star$ indicator are very close to those of Table 2, and statistically indistinguishable from them based on the F-test for the difference reported in the bottom line of the table. Columns (3)-(6) report the estimates of regressions corresponding to columns (2) and (6) of Table 2, restricting the sample to shareholder lawsuits (columns (3)-(4)) and shareholder class actions (columns (5)-(6)). All specifications except column (1) include the full set of controls and fixed effects used in Table 2.

			Shareholder lawsuits		**Shareholder class actions**	
	No insurance coverage data		$\boldsymbol{LogSettlement}$	$\boldsymbol{LogSettlement - LogCoverage}$	$\boldsymbol{LogSettlement}$	$\boldsymbol{LogSettlement - LogCoverage}$
	(1)	(2)	(3)	(4)	(5)	(6)
Star	0.465	0.385	0.381	0.071	0.377	0.054
	(12.32)	(4.63)	(8.85)	(5.63)	(7.34)	(3.50)
Controls		Y	Y	Y	Y	Y
Resolution year f.e.	Y	Y	Y	Y	Y	Y
Defendant corp. f.e.		Y	Y	Y	Y	Y
Practice area f.e.		Y	Y	Y	Y	Y
R^2	0.07	0.35	0.47	0.29	0.56	0.40
N	16,526	10,125	4,969	4,969	3,469	3,469
F test (p-value)	0.051 (0.82)	0.003 (0.96)	0.350 (0.55)	1.254 (0.26)	0.152 (0.70)	1.272 (0.26)

Table C.3 Stock returns around the filing and resolution of lawsuits

The table reports the estimates of regressions of the stock returns around the filing or resolution of a lawsuit on the $Star$ indicator, along with the set of controls used throughout (see Table 2) and with resolution year, defendant corporation, and litigation practice area fixed effects. For each lawsuit, the defendant corporation's cumulative abnormal (market-adjusted) stock return (CAR) over the 3-day (-1,+1) or 7-day (-3,+3) window around the filing date or the resolution date (settlement or dismissal) is computed. Columns (1)-(2) focus on returns around the filing date, columns (3)-(4) around the settlement date, and columns (5)-(6) around the dismissal date. In all specifications, the t-statistics, reported in parentheses, are based on standard errors clustered by defendant corporations.

			Lawsuit resolution date			
	Lawsuit filing date		**Settled lawsuits**		**Dismissed lawsuits**	
	CAR(–1,+1)	**CAR(–3,+3)**	**CAR(–1,+1)**	**CAR(–3,+3)**	**CAR(–1,+1)**	**CAR(–3,+3)**
	(1)	(2)	(3)	(4)	(5)	(6)
Star	-1.377	-2.630	0.142	0.008	0.404	0.186
	(-4.59)	(-7.13)	(0.90)	(0.03)	(2.45)	(0.69)
Controls	Y	Y	Y	Y	Y	Y
Resolution year f.e.	Y	Y	Y	Y	Y	Y
Defendant corp. f.e.	Y	Y	Y	Y	Y	Y
Practice area f.e.	Y	Y	Y	Y	Y	Y
R^2	0.47	0.51	0.32	0.32	0.24	0.25
N	20,848	20,850	8,055	8,055	9,290	9,290

Table C.4 Defendant companies facing multiple lawsuits

The table reports tests examining the relationship between the baseline effect documented in column (6) of Table 2 (with as dependent variable $LogSettlement - LogCoverage$) and the number of lawsuits that a given defendant company faces in a given calendar year. The variable *Nr. lawsuits* equals the number of lawsuits filed against a given company in a given year. The variable *Prior settlements ratio* is defined as the ratio between the total settlement amount the defendant firm faces in a given year and the average yearly settlement amount it has faced over the previous 5 years. In specification (1), the *Star* law firm indicator is interacted with the natural logarithm of *Nr. lawsuits*; in specification (2), it is interacted with indicators for number of lawsuits equal to 2, between 3 and 5, 6 and 10, and greater than 10. In specification (3), the *Star* law firm indicator is interacted with the natural logarithm of *Prior settlements ratio*; in specification (4), it is interacted with an indicator for *Prior settlements ratio* larger than its median (equal to 1). The control variables are equal to those included in the baseline regression of column (6) in Table 2. In all specifications the t-statistics, reported in parentheses, are based on standard errors clustered by defendant corporations.

	(1)	(2)	(3)	(4)
Star	0.050	0.021	0.042	0.018
	(2.73)	(1.04)	(3.67)	(1.32)
Star × ln(Nr. Lawsuits)	0.013			
	(1.22)			
ln(Nr. Lawsuits)	0.009			
	(1.91)			
Star × (Nr. lawsuits = 2)		0.009		
		(0.29)		
Star × (2 < Nr. lawsuits ≤ 5)		0.068		
		(2.30)		
Star × (5 < Nr. lawsuits ≤ 10)		0.133		
		(2.79)		
Star × (Nr. lawsuits > 10)		0.022		
		(0.63)		
Star × Prior settlements ratio			0.001	
			(2.64)	
Prior settlements ratio			0.001	
			(3.36)	
Star × (Prior settlements ratio > 50th pctl)				0.114
				(3.21)
Controls	Y	Y	Y	Y
Nr. lawsuits group indicators		Y		
Pr. settlements ratio > 50th pctl indicator				Y
Resolution year f.e.	Y	Y	Y	Y
Defendant corp. f.e.	Y	Y	Y	Y
Practice area f.e.	Y	Y	Y	Y
R^2	0.23	0.22	0.26	0.25
N	11,168	12,012	11,168	11,168

Table C.5 Changes in governance around corporate lawsuits – Settled and dismissed lawsuits

The table reports tests similar to the ones of Table 6, separating settled and dismissed lawsuits. Panel A reports the average changes in governance-related variables around settled and dismissed lawsuits, and panels B and C regressions on the *Star* indicator, along with the control variables and fixed effects used throughout, for settled and dismissed lawsuits respectively.

	Governance indexes		**Board**			**CEO**	**Changes in CEO compensation**			
	G-Index	**E-Index**	**Departures**	**Additions**	**ΔSize**	**change (Y/N)**	**Salary**	**Bonus**	**Equity-based**	**Total**
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A. Average changes in governance-related variables; settled and dismissed lawsuits										
Settled lawsuits	0.013	0.044	1.150	1.389	-0.276	0.146	-0.246	-0.263	0.259	0.014
	(7.50)	(13.76)	(46.84)	(53.68)	(-16.83)	(37.69)	(-32.18)	(-41.17)	(15.91)	(16.18)
Dismissed lawsuits	0.004	0.070	0.772	1.126	-0.373	0.139	0.139	-0.139	-0.120	0.429
	(1.55)	(20.64)	(39.62)	(51.01)	(-29.44)	(39.81)	(22.92)	(-20.95)	(-25.61)	(-19.93)
B. Regression estimates; settled lawsuits										
Star	0.002	-0.008	-0.073	-0.166	0.06	0.017	-0.036	-0.023	0.075	0.001
	(0.47)	(-0.96)	(-0.78)	(-1.50)	(0.89)	(1.03)	(-1.54)	(-1.64)	(0.88)	(0.45)
R^2	0.56	0.33	0.38	0.37	0.33	0.31	0.47	0.62	0.23	0.60
N	1,376	4,001	3,179	3,284	3,178	7,175	4,951	5,346	5,459	11,249
C. Regression estimates; dismissed lawsuits										
Star	0.007	0.002	0.005	0.08	-0.065	0.018	-0.001	-0.018	-0.09	-0.001
	(0.40)	(0.22)	(0.05)	(0.62)	(-0.82)	(1.09)	(-0.02)	(-1.02)	(-0.92)	(-0.21)
R^2	0.54	0.47	0.39	0.37	0.37	0.26	0.46	0.57	0.33	0.55
N	741	5,232	3,499	3,582	3,497	8,437	5,170	5,596	5,644	11,046

Appendix D. Empirical framework

In this appendix, we present a simple framework to illustrate our empirical approach. We explain how the stars' observed performance incorporates a treatment and a selection component, and how we can use insurance coverage to separate them in our tests. We assume that a lawsuit has an intrinsic baseline settlement amount (capturing the selection effect), and that the actual settlement can be increased relative to that benchmark depending on the ability of the plaintiff law firm (capturing the treatment effect).

Consider a stylized setting with the following players: a corporation, which may receive a lawsuit; insurance companies, which provide insurance against that lawsuit; and law firms, which may represent the plaintiffs on the lawsuit. There are two potential plaintiff law firms, a star (S) and a non-star (NS). The stars may differ in terms of (a) their tendency to be retained on lawsuits with a larger baseline settlement value, and (b) their ability to raise the expected settlement value above the baseline, giving rise to the empirical challenge to separate the treatment and selection components of the stars' performance. There are three dates 0, 1, and 2; zero discount rates and universal risk-neutrality are assumed.

At time 0, the corporation purchases insurance against lawsuits on a competitive insurance market. It seeks insurance due to institutional reasons, reflecting the fact that nearly all public U.S. firms have one; but it is otherwise risk-neutral.[30] Also at this date, the corporation determines how much insurance coverage to purchase. At time 1, each law firm is retained by the plaintiffs on a lawsuit. At time 2, the lawsuit is settled or dismissed, and all payoffs are realized. The model's solution yields expressions for the equilibrium settlement amounts and insurance coverage, which we will relate to our empirical strategy.

The solution proceeds by backwards induction: First, we determine the law firms' choice at time 1; next, we use it as an input for the corporation's and insurance companies' choices at time 0.

Let δ denote the probability that a given lawsuit reaches a settlement at all. Assume first that δ is the same for all lawsuits; below we relax this assumption and discuss the implications. A baseline settlement value $R \in [0, \infty)$ is associated with each lawsuit. Each corporation observes at time 0 the value of R

[30] For instance, it may be difficult to hire managers without providing them with D&O insurance (e.g., Larcker and Tayan (2021, p. 74)).

associated with the potential lawsuit it faces at time 1 and uses it as an input in its decision to purchase insurance coverage.

The actual settlement value, however, may be larger than R: conditional on reaching a settlement, the law firm scales up the expected settlement amount relative to the "baseline" R by a factor $k \geq 1$, interpreted as the treatment ability of the law firm, so that the final settlement amount is kR. Stars and non-stars have treatment abilities denoted by k_S and k_{NS}, in principle different from each other. The expected settlement given R and the law firm's treatment ability k is thus given by:

$$E(Settlement|k, R) = \delta kR. \tag{D.1}$$

The law firm's payoff is equal to a fraction of the settlement, and thus it equals 0 if a settlement is not reached (that is consistent with the "no win, no pay" contingent compensation that is predominant in corporate litigation (Brickman (1989), Horowitz (1995), Krishnan and Kritzer (1999)).[31] Similarly, the law firm's payoff is 0 if it does not pursue the lawsuit. Under these assumptions, both law firms always want to pursue their lawsuits.

At time 0, the corporations and the insurance companies know R. Neither, on the other hand, knows what plaintiff law firm the corporation will face in a potential lawsuit at time 1. Corporations therefore demand an amount of insurance coverage equal to the expected settlement amount conditional on the lawsuit reaching a settlement, i.e., $\bar{k}R$ where $\bar{k} \equiv \frac{1}{2}(k_S + k_{NS})$ denotes the average law firm's treatment ability. Insurance companies are competitive, so they set an insurance premium equal to the present value of the expected settlement they may have to pay, i.e., $\delta\bar{k}R$. That is a fair price from the point of view of the risk-neutral corporation, so that no players have an incentive to deviate, and the model's solution is complete.

In the data, we observe the average settlement amount associated with a given law firm from equation (D.1). Introducing indexes for law firm f and lawsuit i and a multiplicative error term $e^{\varepsilon_{if}}$ and taking logs yields the following expression for the log-settlement amount $LogSettlement$:

[31] For simplicity, we abstract from any fixed costs that the plaintiff law firm may face.

$$\ln\left(1 + Settlement_{if}\right) = 1 + \ln(\delta) + \ln\left(k_f\right) + \ln(R_i) + \varepsilon_{if}. \quad \text{(D.2)}$$

If the star law firm is retained in lawsuit i and the non-star in lawsuit j the difference between the settlements is in expectation:

$$\underbrace{\ln(k_S) - \ln(k_{NS})}_{\text{Treatment effect}} + \underbrace{\ln(R_i) - \ln\left(R_j\right)}_{\text{Selection effect}} \quad \text{(D.3)}$$

In other words: If the star plaintiff law firm is associated with larger average settlements, that can be because it is able to reach a larger settlement ($k_S > k_{NS}$), because it tends to be retained in lawsuits that yield larger settlements in the first place ($R_i > R_j$), or both. That clarifies the empirical challenge of separating the treatment and selection effects.

Looking at the amount of insurance that is paid out in the settlement can help address that challenge. In our setting, the average insurance paid out in lawsuits litigated by law firm f is $\delta\bar{k}R$, i.e., the insurance coverage purchased by the defendant corporations $\bar{k}R$ times the proportion δ of lawsuits that reach a settlement. Proceeding in a similar way as for the settlement amount, introducing indexes and a multiplicative error term $e^{\eta_{if}}$ and taking logs yields:

$$\ln\left(1 + Coverage_{if}\right) = 1 + \ln\left(\delta_f\right) + \ln\left(\bar{k}\right) + \ln(R_i) + \eta_{if}. \quad \text{(D.4)}$$

where $Coverage_{if}$ denotes the dollar insurance amount that is paid out in the settlement. If the star law firm is retained in lawsuit i and the non-star in lawsuit j, in expectation the difference in insurance coverage between the defendants in the two lawsuits is:

$$\ln(R_i) - \ln\left(R_j\right) \quad \text{(D.5)}$$

That corresponds to the selection effect. It follows that comparing $LogSettlement - LogCoverage$ between star and non-star law firms yields in expectation:

$$\ln(k_S) - \ln(k_{NS}) \quad \text{(D.6)}$$

thus isolating the treatment effect. The above expression clarifies our baseline approach of comparing the difference between log-settlement and log-insurance coverage between lawsuits brought by star and non-star plaintiff law firms, to assess the treatment effect of the stars.

Suppose now that the star and non-star plaintiff law firms have different probabilities of reaching a settlement δ_S and δ_{NS}. In this case equation (B.3) is modified as:

$$\underbrace{\ln(\delta_S) - \ln(\delta_{NS}) + \ln(k_S) - \ln(k_{NS})}_{\text{Treatment effect}} + \underbrace{\ln(R_i) - \ln(R_j)}_{\text{Selection effect}} \tag{D.7}$$

The above expression indicates that our baseline approach still removes the selection effect $\ln(R_i) - \ln(R_j)$; however, the treatment effect may be driven by the effect of the star law firm on the settlement amount ($\ln(k_S) - \ln(k_{NS})$) or on the probability of a settlement ($\ln(\delta_S) - \ln(\delta_{NS})$).

To assess the latter component, recall that the insurance premium is $\delta\bar{k}R$ and the (ex ante) insurance coverage $\bar{k}R$, so that the ratio between the two returns the probability of reaching a settlement δ. If again the star law firm is retained in lawsuit i and the non-star in lawsuit j, taking logs we have in expectation:

$$\underbrace{\underbrace{\ln(\delta_S) + \ln(\bar{k}) + \ln(R_i)}_{\text{Log-insurance premium}} - \left[\underbrace{\ln(\bar{k}) + \ln(R_i)}_{\text{Log-insurance coverage}}\right]}_{\text{Lawsuit brought by the star plaintiff law firm}} -$$

$$\underbrace{\left\{\underbrace{\ln(\delta_{NS}) + \ln(\bar{k}) + \ln(R_j)}_{\text{Log-insurance premium}} - \left[\underbrace{\ln(\bar{k}) + \ln(R_j)}_{\text{Log-insurance coverage}}\right]\right\}}_{\text{Lawsuit brought by the non-star plaintiff law firm}} = \ln(\delta_S) - \ln(\delta_{NS}) \tag{D.8}$$

This illustrates the tests in Section V.A.

Appendix E. Imputation of insurance coverage data with MCMC-MI data augmentation

This appendix illustrates the Markov Chain-Monte Carlo with multiple imputation (MCMC-MI) data augmentation algorithm used to impute insurance coverage values in the tests discussed in Section IV.D. When a lawsuit is dismissed, both the settlement amount and the insurance coverage are set to zero. Most likely, however, the insurance coverage is not zero, i.e., the censoring due to a given lawsuit's dismissal masks the law firm's negative performance. We thus seek to obtain imputed values for the insurance coverage in the dismissed cases, using the available information.

The intuition behind the MCMC-MI approach is as follows. A naïve solution to the problem could be mean imputation, i.e., imputing an average value in the place of the unobserved insurance coverage. Mean imputation, however, artificially reduces the variance of the imputed variable, and does not preserve relationships between variables such as correlations.

Multiple imputation (MI) addresses these difficulties by drawing multiple imputed values from the joint distribution of the variables in the data, thus preserving their variability and correlations. The Markov Chain-Monte Carlo method (Rubin (1987), Schaefer (1997, p. 68)) obtains the joint distribution as the limit of a Markov chain based on the observed data.

The procedure is then repeated m times, yielding m multiple imputations for the unobserved insurance coverage data, and inference is drawn by averaging the estimates across the m imputations. In our tests, we set $m = 500$ and rely on Rubin's (1996) standard errors.

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