Zealous Advocates or Self-interested Actors?
Assessing the Value of Plaintiffs' Law Firms in Merger Litigation

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Abstract

Using a hand-collected sample of 1,739 class actions that challenge the fairness of M&A transactions from the period 2003 through 2012, we examine the effectiveness of plaintiffs' law firms. We divide plaintiff law firms into top-10 and non-top-10 firms using various reputation measures. We further segregate top law firms into top 5 firms based on their popularity with informed plaintiffs and proven ability to obtain large attorneys' fees awards. We find that the presence of a top plaintiffs' law firm is significantly and positively associated with a higher probability of lawsuit success. These results hold even after controlling for selection bias - the likelihood that top law firms get to pick better cases that have higher chances of success. This success appears to stem from the fact that top plaintiffs' law firms are significantly more active in prosecuting cases than other plaintiffs' law firms: they file more documents in the cases they litigate and they are more likely to bring injunction motions to enjoin a transaction. Defendants are also less likely to file a motion to dismiss cases filed by top plaintiffs' law firms. Overall, we find evidence that an active litigation strategy aids top law firms in their success, which, in turn, feeds into their popularity. Our results inform the debate over shareholder litigation generally as well as giving courts guidance about the appropriate method for selecting lead counsel in shareholder class action litigation.

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1. Introduction

In the popular press, plaintiffs' law firms which specialize in bringing shareholder class actions challenging the terms of M&A deals are often vilified as 'leeches", or more soberly, as economic rent-seekers who take advantage of the litigation system (Eissman 2014). One prominent, negative view of these firms is that they "file early, then free ride," referring to the popular perception and academic theory that these firms are out to settle cases and not litigate (Weiss & White 2004). These plaintiffs' law firms can reap settlements because of the well-known costs and uncertainty related to corporate litigation which can push corporations to rationally settle cases rather than litigate vexatious claims. If this is correct, we would expect that plaintiffs' law firms would engage in little actual litigation of the merits of M&A class actions but rather would simply file complaints and seek to quickly negotiate settlements.

But is this view correct? In this paper, we examine the effectiveness of plaintiffs' law firms to see if there are differences between these firms in how they litigate cases and whether they are successful in obtaining relief for shareholders. We do so by focusing on the measureable actions of plaintiffs' law firms in litigation arising out of a M&A transaction, or what we will call merger litigation. Today, merger litigation has become ubiquitous with 97.5 percent of larger transactions in 2013 being targeted by a lawsuit (Cain & Davidoff 2014). The rise in merger litigation has led to increased criticism by judges, practitioners and academics that plaintiffs' law firms are seeking to take advantage of the litigation system by settling cases cheaply rather than bringing and pursuing strong claims (Thomas & Thompson 2012).

We analyze the role of plaintiffs' law firms in merger litigation using a hand-collected sample of 1,739 different merger lawsuits during the period 2003 through 2012. For each case and related M&A transaction, we search public filings to identify all of the law firms involved and whether they represented an individual, institutional investor or pension fund shareholder client. In merger litigation, multiple law firms are frequently involved in each action so that we find an average of 4.12 law firms listed in each case filed. We further find that, on average, suits name 2.44 different plaintiff shareholders as class representatives. We examine public court documents to determine which plaintiffs' law firm(s) is appointed lead counsel in each consolidated case. This permits us to identify the law firms most responsible for prosecuting the lawsuit for each transaction, which are called Lead Counsel, or in cases where there is more than one such firm, Co-Lead counsel. Simultaneously, we hand-collect all publicly available information about litigation activity and the outcomes for each lawsuit.

We use our dataset to examine three related questions concerning the performance of plaintiffs' law firms. First, who are the top law firms as determined by the number of transactions in which they file lawsuits? We determine the top 10 law firms ("top 10" firms) in two different ways: (a) lead or co-lead counsels by the number of large transactions, and (b) lead or co-lead counsels by the number of large transactions for non-individual named plaintiffs, as a screen for litigation quality ("Non-individual Named Plaintiffs").[1] We further define top 5 law firms as lead or co-lead counsels by number of large transactions for Non-individual Named Plaintiffs in which a court awarded at least $1 million per deal in attorneys' fees ("top 5" firms). This additional criterion acts as a further screen for lawsuit quality (based on past outcomes) and helps us better assess who are the best plaintiffs' law firms.

Overall, we find that the barriers to entry in merger litigation are low with as many as 336 law firms listed as plaintiffs' counsel in at least one suit during the period of our sample. However, the top 10 firms (by the various measures) have anywhere from a 35 percent to 45 percent market-share every sample year.

Law firms classified in the top 5 or top 10 in these categories on average behave differently than other law firms. We find that top firms tend to pursue transactions that exhibit indicia of greater potential conflicts of interest, such as management buy-outs. This is an indicator that these firms may be selecting better suits to pursue. However, there is also some evidence that, consistent with the findings of Cain & Davidoff (2014), the top 5 firms may be attempting to game the system by selecting among, and filing in, more favorable litigation forums in an effort to obtain higher attorneys' fees.

The second question we ask is whether these top plaintiffs' law firms obtain better results than other firms. The dominant strategy for a plaintiffs' law firm may be an entrepreneurial one: to file a large number of cases and settle quickly for a cheap payoff (Coffee 1985). Conversely, top firms may be willing to more vigorously litigate cases due to their greater resources, their desire to create or preserve reputational capital and their better ability to select strong cases. In our analysis, we find that top plaintiffs' law firms do engage in more

[1] As a robustness check, we also examine measures of top law firms that are based on dollar values of large transactions rather than their number (the value-weighted league table rather than the equally-weighted one).

vigorous litigation and produce statistically significantly superior results. We also find that the topmost 5 firms litigate more vigorously than the other law firms and produce statistically significant and superior results than even the top10 law firms.

Our results are robust even after controlling for selection bias – namely that top firms should, because of their greater reputation, be able to pick superior cases and so have better results. Adjusting for this selection bias, we still find that topmost 5 law firms file more documents, have fewer cases dismissed, win more procedural motions, and obtain more substantive settlements.

The final question we analyze is how do top plaintiffs' law firms produce these superior results? Strong results can be accomplished a variety of ways, including by litigating more actively, picking better cases, filing more cases, or being less willing to settle cases. Alternatively, it may be that these plaintiffs' law firms rely on their reputations among judges to obtain better judicial treatment, a less than optimal driver of litigation outcomes. This might be the case if these firms were engaging in forum shopping to get favorable judges to hear their cases.

Our results generally support the former view of top plaintiffs' law firms. We find that the top plaintiffs' law firms more actively litigate their cases than other law firms, filing more documents with the court as shown by the number of entries on the case docket sheets and bringing more significant motions such as motions to expedite discovery and motions for an injunction to stop transactions. These top firms are also less likely to have their cases dismissed and are more willing to file in Delaware where judges may be less lenient in allowing meritless cases to proceed.

If we add the additional criterion of the size of attorneys' fees commanded in the recent past to more finely to focus on the topmost 5 firms, we see that they engage more actively in litigation, are less likely to have their cases dismissed and are less likely to depend on Delaware courts for their success than the top 10 law firms. Indeed, the top 5 plaintiffs' law firms are much more active in terms of the number of documents filed as shown on the docket sheets in their cases, and appear to be more careful in terms of screening lawsuit quality, so that significantly fewer dismissal motions are filed by defense counsel in their cases as compared to cases filed by other top law firms.

Our results support the conclusion that there are important quality differences among plaintiffs' law firms, so much so that even among the top plaintiffs' law firms there are differences and strategies of varying utility. Our results provide a more textured view of the value of plaintiffs' lawyers in shareholder litigation: while some firms specialize in filing many cases, then settling them cheaply, other plaintiffs' law firms are more aggressive litigators in their quest to obtain more favorable results for their clients. For the most prominent top firms, we show that they succeed by adopting more aggressive litigation strategies.

Our findings shed light on what plaintiffs' law firms do in merger litigation. They are also grist for pursuing any reform effort of shareholder litigation generally, such as judicial involvement in the appointment of lead plaintiffs' counsel in shareholder class action litigation. We find evidence that such reform should be steered towards encouraging courts to select the firms who more actively litigate to play a lead role in such litigation. In other words, not all plaintiffs' law firms are alike and lawmakers, judges and regulators should act accordingly.

2. Literature Review and Theoretical Development

2.1 The Role of Plaintiffs' Law Firms

A number of papers examine class action corporate litigation and the role of plaintiffs' law firms. Coffee (1986) argues that plaintiffs' attorneys are utility-maximizing entrepreneurs. These attorneys manage a portfolio of cases with the expectation that only some cases will be successful. Coffee theorizes that plaintiffs' attorneys are social welfare-increasing private attorney generals, and he examines several reasons why attorneys bring non-meritorious actions. Coffee concludes that these actions "are uniquely vulnerable to collusive settlements that benefit plaintiffs' attorneys rather than their clients."

Thompson and Thomas (2004) collect corporate litigation cases filed in the Delaware Chancery Court in 1999 and 2000 and find that merger litigation dominates all other forms. They find several indicators that these suits have high levels of litigation agency costs, but also find a large number of beneficial settlements for shareholders. They interpret their findings to show that merger litigation was at that time performing a role reducing managerial agency costs. Weiss and White (2004) also undertake an analysis of plaintiffs' attorneys and corporate litigation for a smaller set of class action filings involving mergers in Delaware from 1999-2001.

These authors argue that shareholder litigation mostly benefits plaintiffs' attorneys as opposed to shareholders because they believe that law firms file opportunistic complaints in pursuit of quick settlements in exchange for receiving payments of attorneys' fees.

These papers focus on the agency problem in class action litigation, namely that plaintiffs' law firms are bringing suits on behalf of shareholders and not themselves. This provides plaintiffs' law firms the chance to act opportunistically to benefit themselves through early and insufficient settlements rather than acting for the benefit of shareholders (Perino 2012). The plaintiffs' law firm has been theorized to act in this manner when the expected benefit of settling for attorneys' fees is lower than the cost of continuing to litigate, taking into account the uncertainty of litigation (Coffee 1986). Additionally, Macey and Miller (1991) and Griffith and Lahav (2012) theorize that cheap settlements and attorneys' fees may be traded by plaintiffs' law firms in exchange for releases to the defendants and their willingness to not oppose the award of plaintiffs' attorneys' fees.[2]

In order to address this agency problem, judicial review of settlements has been utilized. However, this may fail to catch weak settlements due to information asymmetries and shareholders' inability to effectively monitor plaintiffs' law firms (Weiss and Beckerman 1995). Perino (2006) finds that in class actions generally plaintiffs' attorneys' fee awards are lower when market mechanisms are used to set fees, or when there is a monitor in the form of a sufficiently interested shareholder plaintiff. In terms of law firms themselves, one solution adopted by the Private Securities Litigation Reform Act (PSLRA) is to have shareholders with significant financial stakes as named plaintiffs because they will be more incentivized to monitor attorney conduct (Weiss & Beckerman 1995; Fisch 1997). Cox, Thomas & Bai (2008) find that post-PSLRA the merits matter in terms of lawsuits outcomes and that the presence of institutional shareholders as lead plaintiffs results in better outcomes. Relatedly, Perino (2012) finds that institutional shareholders in the form of pension funds are more likely to monitor class actions outcomes and attorneys' fees. Alternatively, law firms with more capital and willingness to create or preserve reputation may be more willing to prosecute cases and less economically incentivized to settle due to higher litigation costs (Coffee 1985). In this scenario,

[2] Interestingly, other than Macey and Miller's 1991 article, little attention has been focused on the agency costs associated with defendants' law firms in shareholder litigation. This deficiency almost certainly stems from the lack of disclosure about the attorneys' fees paid to defense side firms, which suggests that courts and legislatures should consider mandating disclosure of these fees.

plaintiffs' law firms which more actively litigate cases have a greater incentive to create value for shareholders.

2.2 The Effect of Litigation on M&A Transactions

There is little literature about the efforts of plaintiffs' law firms in shareholder litigation, or more specifically what these law firms do to be effective. However, a few studies examine the economic effects of merger litigation. Thomas and Thompson (2004) examine a sample of merger litigation brought in Delaware in 1999-2000. The authors find that attorneys' fees are lower and monetary awards are higher in merger litigation than in other types of corporate litigation. Krishnan, et al. (2012) study a sample of merger litigation during the same time period as in Thompson and Thomas (2004), and find that the presence of merger litigation has the economic effect of decreasing deal completion probability by 5.8%, but increasing takeover premiums by approximately 9%. Similarly, Rosenzweig (1986) examines a sample of failed hostile takeover offers between 1982 and 1985. He finds evidence that litigation brought in these offers adversely affects the outcome of a number of hostile bids. There is some evidence that the quality of merger litigation cases has declined over the past thirty years. (Thomas 2013).

3. Data Collection

Our sample contains all of the transactions listed in the FactSet MergerMetrics database and announced from Jan 1, 2003 through December 31, 2012 that meet the following criteria: a) the target is a U.S. firm publicly traded on NYSE, AMEX or NASDAQ stock exchanges, b) the transaction size is at least $100 million, so that we focus on large and economically significant transactions, c) the offer price is at least $5 per share, d) a merger agreement is signed and publicly disclosed through a filing with the Securities and Exchange Commission (SEC), and e) the transaction has been completed as of the end of 2012.

We review, by hand, merger proxy statements and tender offer documents filed with the SEC to determine if litigation is brought challenging the transaction. We exclude all transactions without litigation to arrive at a sample of 730 unique M&A deals. We then document all class action cases brought in connection with each deal in the following states: California, Delaware, Florida, New York and Texas.[3] We focus on these five states because they comprise 64.66% of the transactions in our sample, or 472 unique M&A deals, and these are the top five states for M&A litigation in our sample. No other state accounts for more than 2% of the litigation cases in our full sample. In addition, these top five states comprise 76.85% of jurisdictions of incorporation for the target companies in our sample. For each deal we also compile the number of suits brought in each of these jurisdictions. We note from court filings whether multiple cases are consolidated into one single case or are maintained as a single case.

For litigation outcomes, plaintiffs' attorneys, attorneys' fees, named plaintiffs' identities, and settlement terms, we review public filings and obtain the relevant court filings. Court filings are obtained directly from the court, from public filings on the Lexis/Nexis File and Serve Database, or from Bloomberg Law, and are reviewed by hand. We collect by hand, detailed information on lead law firms from the 2005, 2007, 2009 and 2010 print editions of Martindale-Hubbell, and link them to litigation data in such a way as to be free of look-ahead bias.

From MergerMetrics, we obtain data on the transaction value, offer price, consideration offered, form of acquisition (tender offer/merger), competing bids, target industry, and offer price. We also obtain from MergerMetrics transaction terms, including the presence or absence of a go-shop, the type of transaction (management buy-out, going private deal, etc.), sale process, and state of incorporation of targets. Finally, we use Thomson Financial's SDC Mergers and Acquisitions database to get information on termination fees, toeholds, and target takeover premium. We finally end up with our final sample of 1,739 M&A lawsuits in 472 unique M&A deals spanning the 10-year period Jan 1, 2003 through Dec 31, 2012, after applying screens that ensure all variables required for analysis are available.

4. Descriptive Statistics

Table 1 reports the broad descriptive statistics. The number of unique M&A deals for these 1,739 plaintiff lawsuits is 472, and there are, on average, 3.68 lawsuits filed per deal. The distribution of attorneys' fees awarded is skewed, with the mean of $1.4 million but a median of just over half million dollars, implying that a few highly successful lawsuits result in very large

[3] We also code in law firms who file lawsuits in other states if they participate in a settlement or the litigation in one of these five states with respect to the same deal.

fees. Indeed, the amount of attorneys' fees awarded in a case is a measure of law firm success, and we will later use it to construct one of our law firm reputation measures.

Table 2 shows descriptive statistics year-by-year of our final sample of M&A lawsuits spanning the 10-year period Jan 1, 2003 through Dec 31, 2012. Some interesting trends can be observed. Multi-state filing of lawsuits shows an increasing trend from 2005, as does filing in Delaware from 2009. The lawsuit dismissal rate shows a decline in the early years of the sample period, followed by an increasing trend in more recent years, although overall there has been little change. Similarly, median attorneys' fees show an increasing trend through 2008, followed by a decreasing trend thereafter, but with little net change during the sample period. These findings are consistent with those of Cain & Davidoff (2014) who find increasing rates of multi-state litigation and varying responses of the judiciary in terms of adjusting dismissal rates and attorneys' fees to attract litigation as shareholder class action litigation flows in and out of states. These results also show that in recent years Delaware may be gaining market share for corporate litigation, contrary to earlier findings (Armour, Black & Cheffins 2012).

5. Plaintiff Law Firm Reputation and Shareholder Litigation

5.1 Who are the Top Plaintiffs' Law Firms?

Since we want to focus on legal advisory services and their associated effects based on law firm popularity, we adopt a classification scheme that distinguishes firms with a major presence in the plaintiff legal advisory market from firms with a lesser presence. To this end, the annual league-table ranks of financial advisors (investment banks) and legal advisors (law firms) have been used in the prior literature in various contexts (see, e.g., Rau 2000, Krishnan et al. 2012, and Krishnan and Masulis 2013). Annual league table rankings are based on the total number of all M&A offers that a legal advisor is associated with as lead or co-lead, scaled by the number of the value of all M&A offers occurring that year (the equally-weighted market share measure). Alternatively, in a robustness check, we also examine the value-weighted market share measure. As is the convention in this literature, each advisor is given full credit for each offer in which it provides advisory services (Rau 2000, and Bao and Edmans 2011). In this paper, we follow this literature and whenever at least one plaintiff law firm associated with a deal is in the top-10 (or top-5) league tables, based on the 3 years prior to the offer announcement (to avoid look-ahead bias), the indicator variable *Top Law Firm* takes a value of one, and is zero otherwise.

Table 3 reports the names of top law firms, determined over our entire 10-year sample, in four different ways: (1) the number of deals in which a firm filed a complaint (Panel A, column 1) ; 2) the number of deals in which a firm was Lead or Co-lead Plaintiffs' counsel (*Reputation Measure 1*, Panel A, column 2); (3) the number of deals as Lead or Co-lead plaintiffs' counsel for cases with Non-individual Named Plaintiffs who, presumably, provide additional screening of lawsuit quality (*Reputation Measure 2*, Panel B, column 1); and (4) top 5 law firms selected on the basis of the number of deals as Lead or Co-lead plaintiffs' counsel to Non-individual Named Plaintiffs who also received at least $1 million in attorneys' fees, which are typically higher the more successful the outcome for the plaintiff (*Reputation Measure 3*, Panel B, column 2).

We select each of these metrics because they provide varying measures of law firm reputation. *Reputation Measure 1* simply tracks aggregate activity by law firms for economically significant cases where the firm is appointed Lead or Co-lead counsel. Being appointed Lead or Co-lead counsel by a court is an indicator that not only is that firm in charge of the litigation, but that the court has likely selected that firm for reputational and other meritorious reasons.[4]

Reputation Measure 2 tracks aggregate activity by law firms for cases where the firm is appointed lead or co-lead counsel, but limited to lawsuits where the named plaintiff is a non-individual. These plaintiffs are instead institutional shareholders such as mutual funds, pension funds and other types of institutional investors. A higher law firm ranking under this measure is an indicator of higher quality representation, since institutional investors have been found to be associated with better case outcomes, most likely because they provide more active monitoring of class counsel than individuals, and so may retain higher quality counsel (Cox, Thomas & Bai 2008; Perino 2012).

[4] In shareholder litigation brought in state court, unlike in federal securities litigation brought in federal court, judges have significantly more discretion when appointing lead and co-lead counsel. In Delaware, the most important state for corporate litigation, the appointment of lead counsel is based in part on the following factors: "(1) The quality of the pleading that appears best able to represent the interests of the shareholder class and derivative plaintiffs; (2) Weight to the shareholder plaintiff that has the greatest economic stake in the outcome of the lawsuit; and (3) Weight to whether a particular litigant has prosecuted its lawsuit with greater energy, enthusiasm or vigor than have other similarly situated litigants." Dutiel v. Tween Brands, Inc., No. 4743-CC (Del. Ch. Oct. 2, 2009) citing TCW Tech. Ltd. P'ship v. Intermedia Comm's, Inc., 2000 WL 1654504 at *4 (Del. Ch. Oct. 17, 2000). While these factors give substantial discretion to Delaware judges, they do encompass reputational metrics.

Reputation Measure 3 tracks aggregate activity by law firms where the firm is appointed Lead or Co-lead counsel in cases with Non-individual Named Plaintiffs and the firm was awarded attorneys' fees over $1 million. *Reputation Measure 3* differs from *Reputation Measure 2* in that it adds awards of attorneys' fees as an additional proxy for success. Attorneys' fees in shareholder class action litigation are awarded by a court after a favorable settlement or judgment on the merits of the case. Courts award higher attorneys' fees for better service to the class. *Reputation Measure 3* is limited to only the top 5 firms in this metric as opposed to measures 1 and 2 which are the top 10 law firms in the metric. In doing so, we seek to identify the topmost firms to see whether they are more successful than the other top lead law firms. Note, however, that the firms identified using the most stringent selection criterion, *Reputation Measure 3*, could result in *different* names as compared to those resulting from *Reputation Measure 2*.

Table A2 in the Appendix shows the number of appearances and the average equally–weighted percentage market share (that are based on number of deals) of the top law firms based on *Reputation Measure 1, Reputation Measure 2,* and *Reputation Measure 3,* using past three year rolling windows to avoid any look-ahead bias. We use top law firms identified as such every year without any look-ahead bias, in all our empirical analyses. The number of appearances in top-10 league tables in the years 2006 through 2012 (or top-5 league table in the case of *Reputation Measure 3*) is in the first column, and while the average market share of number of deals (computed as total market share divided by the total number of years, which is 7) is in the second column.

Both tables 3 and A2 show that the market for lead plaintiff law firms is dispersed, but with a few dominant law firms such as Robbins Geller Rudman & Dowd, Wolf Haldenstein Adler Freeman & Herz, and Milberg. The top 10 lead law firms are similar whether or not we screen on Non-individual Named Plaintiffs suits, and collectively enjoy around 35%-40% market share of the shareholder lawsuit market in our sample period. Under *Reputation Measures 1* and *2*, Robbins Geller Rudman & Dowd, Levi & Korsinsky, and Faruqi & Faruqi dominate the plaintiff lawsuit market. However, when we use Reputation Measure 3, which imposes the additional screen of $1 million in attorneys' fees awards received for work done in the recent past, then the top 5 names are Grant & Eisenhofer, Bernstein Litowitz Berger &

Grossmann, Kessler Topaz Meltzer & Check, Robbins Geller Rudman & Dowd, and Milberg, some of which appear on the other lists as well.

These results suggest that some of the strongest plaintiffs' law firms (based on the fees they are awarded) may actually file relatively fewer cases but yet litigate them to more successful outcomes for shareholders (which is why they receive large fees). Grant & Eisenhofer, Bernstein Litowitz Berger & Grossmann and Kessler Topaz Meltzer & Check may fit into this category. By comparison, some of the law firms listed as top 10 firms under *Reputation Measure 1* and *2* may file a larger number of cases, some of which may have weaker outcomes. We explore these questions more fully below.

5.2 What Deals Are Top Plaintiffs' Law Firms Associated With?

We examine several deal features in order to assess the quality of lawsuits filed by top law firms. These include the transaction value of the deal; whether the bidder and target are in the same industry; the target takeover premium based on the price per share paid by a bidder for a public target firm's shares relative to the target's pre offer-announcement stock price 1 week prior to the announcement date; whether the M&A bid is hostile or unsolicited; whether the deal incorporates target termination fees; whether the deal is a 100% cash one; whether it is a tender offer or a management buyout (MBO); whether the bidder has at least 5% stake in the target shareholding at the time of the bid (toehold); whether it is going private transaction, where a *Schedule 13E-3* has been filed with the SEC for the transaction due to the buyer being an affiliated party; whether a go shop provision exists, where the merger agreement includes a provision that allows the target company to actively solicit other potential bidders for a specific limited period of time after the merger agreement has been signed; whether there is a private equity participant, where one or more private equity firm is part of the purchasing group for the target firm; whether the target firm was sold in a transaction that was initiated via an auction process; whether the target firm is in a regulated industry, where communications, utilities, banks and financial companies are defined as highly regulated industries (see Agrawal and Knoeber's (1996) finding that M&A regulatory/execution risk is higher because of the stricter regulatory environment); whether a lawsuit is filed in more than 1 state, and 0 otherwise; and finally, whether a lawsuit could be filed in multiple jurisdictions.[5]

We include these control variables in our analysis based on the results found in prior literature, to link law firm reputation with indicators of case quality, and to tease out the associations of top law firms with lawsuit outcomes after controlling for case quality. Economic deal complexity can be positively correlated with the size of the transaction (Servaes and Zenner, 1996). Larger deals are also economically more important deals involving larger firms, often reflecting a bidder management's empire building motives. Prior research documents that intra-industry mergers are an increasing proportion of all M&A transactions (Andrade, Mitchell and Stafford, 2001) perhaps due to their less severe information asymmetry problems and more reliable realization of synergies. Hostile bids tend to be more difficult to complete than friendly bids. Cash deals are more complex from a legal point of view. Since the establishment of "Revlon duties" by Delaware courts in the mid-1980s, directors of target companies considering a cash offer (and some stock offers where the deal would produce a controlling shareholder in the combined entity) have the responsibility to obtain the highest price reasonably available in the short-term (Coates and Subramanian, 2000). Bates and Lemmon (2003) and Officer (2003) report that target-payable termination fee provisions are associated with higher deal completion rates as well as higher takeover premiums. Coates and Subramanian (2000) argue that such lockup provisions change deal completion rates. Tender offers can trigger special bidder obligations and potential liability under the Williams Act (Davidoff 2007; Klein and Coffee, 2007). Going private and private equity transactions attract additional merger litigation because of the target management's apparent conflicts of interest in consummating these transactions (Thompson and Thomas 2004). Auctions of companies and mergers where the target agrees to include a go shop provision in the parties' agreement will trigger the stricter Revlon doctrine in the Delaware courts and are more likely to attract litigation (Thompson and Thomas 2004). Finally, bidders with toeholds can have a greater ability to obtain favorable deal outcomes including substantial control benefits (Officer 2003), but toeholds are also viewed as aggressive bidder actions that tend to antagonize entrenched target managers and make successful deal completions more difficult (Betton and Eckbo 2000).

[5] We call this multijurisdictional potential. Multijurisdictional potential exists when a company is headquartered in one state but incorporated in another. This permits a law suit to be brought in either jurisdiction (Thomas 2013).

We use the data from 2003-2005 to construct the initial law firm reputation measures for 2006, so our analysis is over the period 2006-2012. Table 4 compares the associations between top law firms (determined on the basis of the three reputation measures described above) and non-top law firms, and various M&A deal/suit features. Examining the first two columns, we find that top law firms tend to be associated with a significantly higher proportion of deals with contentious features: target termination fees, the amount of which often tends to be a bone of contention, related industry deals, where antitrust and other regulatory issues may apply, and cash deals, where "Revlon duties" considerations may apply, as compared to non-top law firms. The most prestigious law firms – the top 5 law firms by *Reputation Measure 3* appear to rely less on Delaware court to achieve their results, as compared to top 10 firms determined by *Reputation Measure 2*.

Table A3 compares the associations of top law firms (determined on the basis of *Reputation Measure 2* (Panel A) and *Reputation Measure 3*(Panel B)) with deal/suit features, as compared to those with non-top law firms. We find that these top law firms tend to be associated with a significantly higher proportion of deals with other arguably contentious features: management buyouts (MBO) and going private deals. As previously discussed, Cain & Davidoff (2014) find that jurisdictional shopping by law firms can lead to higher attorneys' fees by leveraging jurisdictional competition and judicial desire to compete for cases by awarding higher attorneys' fees or granting fewer case dismissals. Our results partially support this finding, as it appears that the more prominent firms as measured by *Reputation Measure 2* are more willing to file multi-jurisdictional cases.

Thus, the conclusion from Tables 4 and A3 is that top law firms tend to be associated with a significantly higher proportion of deals with contentious features than non-top law firms. The more prominent firms are also generally more willing to file in multi-jurisdictional cases. However, the most prestigious law firms – the top 5 law firms by *Reputation Measure 3*- appear to rely less on Delaware court to achieve their results, as compared to the top 10 law firms.

Table 5 reports the pairwise Pearson correlation coefficients between different variables to check for multicollinearity. The table shows that MBO and going private deals often tend to be highly correlated. This is not surprising as both types of transactions are forms of leveraged buyouts. Furthermore suits with multi-jurisdictional potential, and actual filing in multiple states and in Delaware tend to highly correlated. Hence, in multivariate regression analysis, we use a going-private indicator (not both MBO and going-private indicators) and only the Delaware court filing indicator (and not multi-jurisdictional potential and multiple state filing indicators) to avoid multicollinearity.

We further examine the association of top law firms and case quality in Table 6. This table reports coefficients of logit regressions explaining the associations of top law firms with deal/suit characteristics. The regression specification used is:

$$
\begin{aligned}
(1)\quad \text{Top Law firm} = \; & \boldsymbol{\beta}_{\mathbf{Y}} + \boldsymbol{\beta}_{\mathbf{I}} + \beta_1 \times \text{Ln Offer Size} + \beta_2 \times \text{Industry Relatedness} + \\
& \beta_3 \times \text{Hostile} + \beta_4 \times \text{Target termination fees} + \beta_5 \times \text{Cash} + \beta_6 \times \text{Tender} + \\
& \beta_7 \times \text{Toehold} + \beta_8 \times \text{Going Private} + \beta_9 \times \text{Go shop} + \\
& \beta_{10} \times \text{Private equity participant} + \beta_{11} \times \text{Auction} + \\
& \beta_{12} \times \text{Target Regulated Industry} + \beta_{13} \times \text{Delaware filing} + \varepsilon,
\end{aligned}
$$

where Top Law firm is a top-10 law firm using *Reputation Measure 1* and *2* and a top-5 law firm using *Reputation Measure 3*, each year from 2006 through 2012, β_Y is a vector of 7 year fixed effects, and β_I is a vector of 10 bidder industry fixed effects, based on Fama-French industry sectors. Both vectors of fixed effects are used to capture any year- or industry-related common effects not specifically captured by the other explanatory variables. The explanatory variables and residuals from the above panel regression specification (1) can be correlated within law firms. To correct for such law-firm-specific correlations, we report *z*-statistics that are based on heteroskedasticity-consistent standard errors adjusted for law-firm clustering in all the regressions (see Petersen 2009).

Table 6 shows that top plaintiffs' law firms are significantly more associated with same industry acquisition bids than other law firms, as same industry mergers often raise antitrust and other regulatory issues. Consistent with the univariate results, top law firms are also significantly involved in deals that entail going private deals, which raise greater fiduciary duty issues. Top law firms tend to significantly less associated with hostile bids. Filing in Delaware also appears to be more frequent for top plaintiffs' law firms under *Reputation Measure 2*. This is interesting as it appears that when lead counsels work in a large number of large deals for informed clients, they prefer Delaware; however, when we add the criterion of past success as measured by large fees, the Delaware Chancery Court does not appear to be associated with that. The topmost 5 law firms using *Reputation Measure 3* are more likely to appear in cases involving bigger deals and are less likely to appear in hostile offers. We next examine what top law firms achieve in this litigation.

5.3 What do Top Plaintiffs' Law Firms Achieve?

We examine the associations between top law firms and a number of lawsuit outcomes. Consideration settlements provide increases in the deal price and are therefore the best outcome for the plaintiff shareholders. Amendment settlements and disclosure settlements result in some changes to deal protections and/ or increased disclosure to the shareholders, but no increase in the deal price, so they are weaker outcomes for the plaintiff. In particular, disclosure settlements have been criticized for awarding attorneys' fees with little real benefit to shareholders (Davidoff, Fisch & Griffith, forthcoming 2014).

Injunction motions that are granted generally create value for shareholders and show a strong litigation effort by the plaintiffs' counsel. If the plaintiffs' counsel is successful in having a motion to expedite granted that constitutes a positive, intermediate step in the litigation which shows effort by the plaintiffs' counsel in the case, and an early assessment by the judge of the merits of the case, but it is not a final outcome. In general, if the plaintiff files motions and they are granted, then that is a good signal about the merits of the case. However, if the defendants are filing motions successfully, then that frequently leads to an end of the lawsuit. For example, the granting of a motion to dismiss, or of the defendants' motion for summary judgment, are bad outcomes for plaintiffs as they result in the end of the case with no recovery. Plaintiffs also sometimes voluntarily dismiss an action which results in no recovery for the shareholders. This is likely to occur when the plaintiffs' law firm determines after filing an action, that the case lacks merit.

Table 7 shows the associations between the top law firms (based on our 3 reputation measures), non-top law firms, and law suit outcomes, over the period 2006-2012. The first 2 columns show that the probability that a court will grant a motion to expedite, or that the case will result in an amendment settlement, is significantly higher when a top lead law firm is involved than when other law firms are involved. On the other hand, the probability of dismissal by the plaintiff is significantly lower when a top 10 lead law firm is involved than when other law firms are involved. Additionally, we find that the most prestigious law firms – the top 5 – are significantly associated with a higher probability of obtaining consideration settlement, the best outcome for plaintiffs, and significantly associated with a lower probability of lawsuit dismissals, as compared to the top 10 law firms (as per *Reputation Measure 2*).

Table A4 reports the associations of lawsuit outcomes with top law firms (based on *Reputation Measures 2* and *3*) as compared with non-top law firms. Also shown are associations of lawsuit outcomes with topmost law firms (based on *Reputation Measure 3*) as compared with those of the *Bottom Law firms*, defined as those that were Lead or co-lead in only one lawsuit in rolling windows of past 3 years. This table confirms that the involvement of top law firms results in a significantly higher probability of a court granting a motion to expedite, or of the parties entering into an amendment settlement or a consideration settlement, in comparison to a non-top law firm. It further shows that a top law firm has a significantly lower probability of voluntarily dismissing a case if filed, and or of having a court grant an involuntary motion to dismiss, as compared to non-top law firm involvement.

Our findings thus support the conclusion that top lead law firms get superior lawsuit outcomes for their clients, and prosecute cases more successfully, as compared to other law firms. Indeed, the top 5 law firms, based on their popularity with non-individual plaintiffs and based on their large attorneys' fees' awards in the recent past, seem to deliver the best outcomes for their clients.

We next examine the associations between top lead law firms and lawsuit outcomes in a multivariate setting, using following regression specification:

$$\text{(2)}\quad \text{Success} = \boldsymbol{\beta_Y} + \boldsymbol{\beta_I} + \beta_1\times\text{Top-10 Law firm} + \beta_2\times \text{Ln Offer Size} + \beta_3\times \text{Industry Relatedness} + \beta_4\times \text{Hostile} + \beta_5\times\text{Target termination fees} + \beta_6\times\text{Cash} + \beta_7\times\text{Tender} + \beta_8\times\text{Toehold} + \beta_9\times \text{Going Private} + \beta_{10}\times \text{Go shop} + \beta_{11}\times \text{Private equity participant} + \beta_{12}\times \text{Auction} + \beta_{13}\times\text{Target Regulated Industry} + \beta_{14}\times\text{Delaware filing} + \varepsilon,$$

where success is lawsuit success and is defined in terms of Consideration settlement taking the value of 4, Injunction Motion Granted taking the value of 3, Amendment settlement taking the value of 2, Disclosure settlement taking the value of 1, and 0 otherwise. We adopt this outcome classification metric based on the strength of the outcome, with the best outcome being a Consideration settlement since it provides a monetary benefit to shareholders, and suit dismissal of any sort as the worst outcome for the plaintiffs. Ordered logit is used to estimate the coefficients of the above regression when Success is the dependent variable.

The first 3 columns of Table 8 report the regression coefficients, and the associated *z* statistics in parenthesis based on heteroskedasticity-consistent law-firm-clustered standard errors, of Ordered Logit regressions explaining the probability of success, where top law firms (using *Reputation Measure 1*, *2* and *3*) is the main explanatory variable. Recall *Reputation Measure 1* is the top-10 law firms determined on an annual basis on the number of deals as Lead or Co-lead in rolling windows of past 3 years. *Reputation Measure 2* is the top-10 law firms determined on the basis of number of deals as Lead or Co-lead to Non-individual Named Plaintiffs in the past 3 years. *Reputation Measure 3* is the top-5 law firms determined on the basis of number of deals as Lead or Co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years.

Although we control for offer characteristics and fixed effects in the above regression specification, it is still possible that top law firms are associated with specific lawsuit outcomes simply because they are associated with certain types of deals, in which these lawsuit outcomes are more likely. In other words, the more reputable law firms can choose to be associated with deals where litigation has a greater chance of success. To control for this form of selection bias, we employ an instrumental variable (IV) simultaneous equations regression model over our full sample, using limited information maximum likelihood (LIML) estimation (see Juergens and Lindsey 2009), where *Reputation Measure 3* is the endogenous covariate.

To be a valid IV, it should have the properties that while it strongly predicts the hiring of top 5 law firm, it is unrelated to the lawsuit outcomes being examined. However, all the deal characteristics that we examine can be argued to be related to lawsuit outcomes, invalidating their use as IVs under the exclusion requirement. So, we use *Same State Headquarters*, an indicator variable that takes the value of 1 if the law firm headquarters (HQ), as identified in the Martindale Hubbell database, is in the same state as the target HQ, and 0 otherwise, *Proximity to Courthouse*, an indicator variable that takes the value of 1 if the law firm has HQ or an office, as identified in Martindale Hubbell database, is in the state where the lawsuit was filed, and *Proportion Corp/Securities Litigation Attorneys*, the proportion of all attorneys in a law firm who practice Corporate and/or Securities Litigation for each Law Firm, determined from the Martindale Hubbell database.

The Martindale Hubbell data is from the years 2005, 2007, 2009 and 2010. We hand collect 2005 numbers from Martindale Hubbell and link them to the lawsuit data of 2006 and

2007 to avoid any look-ahead bias. Likewise, we link 2007, 2009 and 2010 Martindale Hubbell numbers to our lawsuit data pertaining to 2008-2009, 2010, and 2011-2012, respectively. In our final full sample of lawsuits spanning 2006-2012, about 20% of lead law firms and target firms have HQ's in the same state, about 37% of lead law firms have their HQ (or an office) in the state where the law suit was filed, while about 55%, on average, of all attorneys employed by a lead law firm list their main practice area as Corporate and/or Securities Litigation.[6]

Economically, the choice of these IVs is justified because expertise in corporate and/or securities litigation and the geographic proximity of the law firm headquarters to the target firm headquarters, or to the location where the law suit is filed, are likely to make the law firm a more attractive lead law firm to hire. Law firm competence in the relevant field of law and its access to resources is one of the factors that Delaware courts consider in deciding whether to appoint a plaintiffs' law firm as lead counsel (see Del Monte Foods Company Shareholder Litigation 2010; Thomas and Thompson 2012). In Del Monte, Delaware's Vice-Chancellor Laster stated that this factor requires the Court to consider "the proposed law firm's ability to provide effective representation." The percentage of a firm's attorneys that practice in the corporate/securities litigation field is a good proxy for this factor because it signals a concentration on this area.

Law firm proximity to the courthouse is important because judges may like to appoint lawyers who they know, and these are often local lawyers, which favor lead law firms that are headquartered or have an office in the state of lawsuit jurisdiction. Law firm office location was identified by several prominent plaintiffs' attorneys as an important determinant of firm selection. We informally surveyed a number of leading plaintiffs' attorneys on these measures, and they generally agreed with this conclusion. One lawyer wrote to us that "Many judges are prejudiced toward involving local firms in major litigation and are likely to have strong views about the qualifications of those firms. A judge may want to insure that a local firm has a more substantive role in what the court perceives as a major case, rather than just serving as local counsel." Another attorney wrote "Judges like to appoint lawyers who they know, who are often local lawyers. This factor would thus favor "lead" firms that are either located in

[6] On average, the lead law firms in our final sample employ around 57 attorneys, on average. The average proportion of lead law firms listing themselves as experts in Corporate and/or Securities Litigation on Martindale Hubbell is 76% on average. So, our *Proportion Corp/Securities Litigation Attorneys* measure is more conservative.

Delaware (where most firms are incorporated) or which have offices in one of your other 4 jurisdictions (where both the target companies and most non-Delaware litigation would be filed)."

Note that *Same State Headquarters* is based on the geographic location of law firm HQ while *Proximity to Courthouse* is based on the geographic location of any office of a law firm. Also, note that almost half of the number of deals in our sample entails lawsuits filed in multiple states. So these two geographic IVs are different. In fact, the correlation coefficient between these two IVs is only 26%. More importantly, there is no compelling reason to expect either measure of geographic proximity to be related to current lawsuit outcomes other than through the law firm hired, especially in the presence of controls for major offer and lawsuit characteristics and fixed effects.[7] The same holds true for concentration in corporate and securities litigation since simply because a firm has relatively more attorneys in one practice area does not indicate that they influence outcomes other than through the law firm hired.

Certainly, geographic co-location, in terms of proximity to the client or to the courthouse, satisfies the exclusion requirement of IVs because such co-location affects the matching of lead law firm to lawsuit, but not because the co-location enables the law firm to do a better job. However, one may argue economically, although we prove otherwise statistically, that *Proportion Corp/Securities Litigation Attorneys* reflects a law firm's specialty and that this specialty is related to the kind of lawsuits it engages in and, in turn, may be related to lawsuit outcomes. Thus, in general, geography-based IVs are less susceptible to this type of concern and hence we examine the results after controlling for selection bias in 2 different ways: (a) using only *Same State Headquarters* and *Proximity to Courthouse,* and (b) using all 3 of the above IVs to check whether the results are consistent.[8]

We examine the statistical validity of the instruments by performing over-identification tests (see, e.g., Krishnan et al. 2012). The *F*-statistic for the joint significance of the two geographic IVs (all 3 IVs) is 11.1 (11.9) for *Reputation Measure 3* (top 5 law firms), which is above the critical value of 10 recommended by Staiger and Stock (1997). Thus, the IVs strongly predict a top 5 law firm hire. Indeed, *Same State Headquarters*, *Proximity to Courthouse*, and *Proportion*

[7] In a somewhat related paper, Cheng, Huang, Li and Lobo (2010) use the three-day market return after the revelation day as the IV in controlling the self-selection bias in the association between institutional lead plaintiffs and case outcomes. They justify this IV only on statistical basis. We try and justify our IVs on both statistical and economic basis.

[8] Because of the need for overidentification in our selection bias correction procedure, we do not use one IV.

Corp/Securities Litigation Attorneys are all significantly and positively associated with a top 5 law firm hire. However, the *Anderson-Rubin* test statistic for over-identification yields insignificant *p*-values for lawsuit Success (defined in terms of Consideration settlement taking the value of 4, Injunction Motion Granted taking the value of 3, Amendment settlement taking the value of 2, Disclosure settlement taking the value of 1, and 0 for other outcomes), after controlling for other offer characteristics including top-5 lead law firm. So we fail to reject the joint null that the IVs are uncorrelated with the error term, which supports excluding them from the second-stage equation. We conclude that our IVs satisfy the exclusion requirement of a valid instrument.

The 4th (5th) column reports the results using *Reputation Measure 3* and using LIML simultaneous equations model after controlling for selection bias, where the IVs are the 2-vector of geographic IVs (all 3 IVs).

The results show that the top law firms are significantly and positively associated with a higher probability of lawsuit success for plaintiffs. As we move from *Reputation Measure 1* through *Reputation Measure 2* and finally to *Reputation Measure 3* after controlling for selection bias, the association becomes stronger. Same industry deals, which are often piggy back cases where the plaintiffs' chances of success is higher, and going-private deals, which have an inherent conflict of interest that makes it more likely that a lawsuit will succeed, are significantly associated with a higher probability of lawsuit success.

In sum, table 8 shows that top plaintiffs' law firms are associated with statistically significant and superior outcomes for their clients. These results hold even after controlling for the fact that top law firms may get to pick cases that have superior chances of lawsuit success. In untabulated results, we also find that the associations between top law firms and the probability of lawsuit success remain robust when top law firms are determined on the basis of *transaction value* of deals as lead counsels (the value-weighted reputation measures).

Table A5 in the Appendix report the results using the Market Share of law firm, determined every year on the basis of number of lawsuits in which a law firm is Lead or co-lead in rolling windows of past 3 years. The results show that plaintiffs' law firm market shares are associated with superior outcomes for their clients, but only at 10% significance level. Thus, whether a law firm is a top-5 (or top-10) law firm in the annual league-table rankings matters, the continuous market share variable is much less significantly associated with lawsuit success.

So *how* do top law firms achieve their success?

5.4 How do Top Plaintiffs' Law Firms Achieve Success?

To determine the reasons why top law firms achieve good outcomes for their clients, and hence enjoy high market shares in the shareholder M&A litigation market, we evaluate top law firms using several measures of lawsuit activity. We believe that lawsuit activity is a good indicator of how law firms achieve success for two reasons. First, more activity is generally associated with more effort and indicates that the law firm is pursuing a case more vigorously. Relatedly, vigorous plaintiffs' law firm activity is contrary to the "file early, then free ride" hypothesis put forth by Weiss & White (2004).

We examine litigation activity by counting the number of docket entries in our sample cases, as generally the better law firms work harder on their cases and so they should be making more filings and more docket entries. Filing injunction motions and motions to expedite further indicates litigation intensity, although it does not require as much effort as a high level of docket activity (e.g., filing a motion for expedited discovery counts as only one docket entry). Motions to dismiss are filed voluntarily by the defendants in some instances, most likely when the defendants believe a case lacks merit, and may indicate a lack of effort by the plaintiffs' law firm. Delaware filing is also included an activity indicator as the Delaware Chancery Court is sometimes said to be more demanding on attorneys than other courts in corporate cases. (Armour, Black & Cheffins 2012).

Table 9 reports univariate results showing associations between top plaintiffs' law firms and law firm activity, and comparing these associations with those of non-top law firms. We see that top law firms are significantly more active than non-top law firms in terms of the number of filings shown on their cases' dockets. More notably, we find that the most reputable law firms – the top 5- are significantly more active in terms of the number of docket entries in their cases, and have a significantly lower proportion of dismissal motions filed against their lawsuits, as compared to the top 10 law firms, determined by *Reputation Measure 2*. The top 5 law firms also depend significantly less on the Delaware Chancery Court to achieve law suit success than the top 10 law firms, determined by *Reputation Measure 2*.

Table A6 in the Appendix compares the associations between top plaintiffs' law firms as determined by *Reputation Measure 2* and *3* and law firm activity, with those of non-top law firms. Also shown are associations of lawsuit outcomes with topmost law firms (based on *Reputation Measure 3*) as compared with those of the *Bottom Law firms*, defined as those that were Lead or co-lead in only one lawsuit in rolling windows of past 3 years. We find that top law firms are significantly more active in terms of the number of docket entries and the number of injunction motions filed, as compared to non-top law firms. They also are associated with a significantly lower proportion of dismissal motions filed against their lawsuits (both voluntary and involuntary, and involuntary only), as compared non-top law firms. Overall, the results of tables 9 and A6 are consistent with prior findings that top law firms tend to work harder to win cases.

To delve deeper into examining how top law firms achieve success, we use law firm activity as an explanatory variable to examine law suit success in a multivariate regression setting. We first examine what explains lawsuit activity. The first column of Table 10 reports regression coefficients, and the associated *z* statistics in parenthesis based on heteroskedasticity-consistent law-firm-clustered standard errors, of Logit regressions explaining the probability of Lawsuit Activity, where Lawsuit Activity is defined in terms of Number of docket entries taking the value of 3 if equal to or more than 100, Injunction Motion filed taking the value of 2, Motion to Expedite filed taking the value of 1, and 0 every suit else. We use our most stringent *Reputation Measure 3* in the following regression specification as the main explanatory variable:

$$
\begin{aligned}
\text{(3) Lawsuit Activity} = \ & \boldsymbol{\beta_Y} + \boldsymbol{\beta_I} + \beta_1\times\text{Top-5 Law firm} + \beta_2\times\text{ Law firm Resources} \\
& \beta_3\times\text{Ln Offer Size} + \beta_4\times\text{ Industry Relatedness} + \\
& \beta_5\times\text{ Hostile} + \beta_6\times\text{Target termination fees} + \beta_7\times\text{Cash} + \beta_8\times\text{Tender} + \\
& \beta_9\times\text{Toehold} + \beta_{10}\times\text{ Going Private} + \beta_{11}\times\text{ Go shop} + \\
& \beta_{12}\times\text{ Private equity participant} + \beta_{13}\times\text{ Auction} + \\
& \beta_{14}\times\text{Target Regulated Industry} + \beta_{15}\times\text{Delaware filing} + \varepsilon,
\end{aligned}
$$

The first column shows that top law firms are significantly and positively associated with enhanced lawsuit activity, while Delaware filings are significantly and positively associated with enhanced lawsuit activity. Top 5 law firms appear to work harder to win their cases, and the Delaware Chancery Court appears to demand more from attorneys that file there. Regulated target firm deals, on the other hand, is significantly and negatively associated with enhanced lawsuit activity. We hypothesize that these cases may arise as piggy back cases following government regulators' investigations and therefore private law firms will not need to invest as much time and effort in bringing them.

The last 2 columns of Table 10 report regression coefficients, and the associated *z* statistics in parenthesis based on heteroskedasticity-consistent law-firm-clustered standard errors, of Ordered Logit regressions explaining the probability of Lawsuit Success, where Lawsuit Success is defined in terms of Consideration settlement taking the value of 4, Injunction Motion Granted taking the value of 3, Amendment settlement taking the value of 2, Disclosure settlement taking the value of 1, and 0 for other outcomes.

Also used as an important explanatory variable is *Law Firm Resources*, defined as the number of attorneys working for a lead law firm, manually collected from the Martindale Hubbell database as of 2005, 2007, 2009, and 2010 and linked to lawsuit data in such a way as to avoid any look-ahead bias. We examine results with and without controlling for selection bias. When selection bias controlled regression analysis is used, we use LIML regressions where the IVs are the 3-vector of *Same State Headquarters*, *Proximity to Courthouse* and *Proportion Corp/Securities Litigation Attorneys*.

Thus, the last 2 columns report coefficients of the following regression specification:

$$
\begin{aligned}
(4)\ \text{Success} = {} & \boldsymbol{\beta}_{\mathbf{Y}} + \boldsymbol{\beta}_{\mathbf{I}} + \beta_1\times\text{Top-5 Law firm} + \beta_2\times\text{Lawsuit Activity} + \\
& \beta_3\times\text{ Law firm Resources} + \beta_4\times\text{Ln Offer Size} + \beta_5\times\text{ Industry Relatedness} + \\
& \beta_6\times\text{ Hostile} + \beta_7\times\text{Target termination fees} + \beta_8\times\text{Cash} + \beta_9\times\text{Tender} + \\
& \beta_{10}\times\text{Toehold} + \beta_{11}\times\text{ Going Private} + \beta_{12}\times\text{ Go shop} + \\
& \beta_{13}\times\text{ Private equity participant} + \beta_{14}\times\text{ Auction} + \\
& \beta_{15}\times\text{Target Regulated Industry} + \beta_{16}\times\text{Delaware filing} + \varepsilon,
\end{aligned}
$$

The second column shows that both top law firms and lawsuit activity are significantly and positively associated with a significantly higher probability of lawsuit success. Confirming our earlier results, going-private and same-industry deals also have a higher probability of lawsuit success. The last column shows that, after controlling for selection bias, the associations of top law firm involvement and going private deals with lawsuit success become stronger.

Since we reported the results only for top-5 law firms in the above specification, in untabulated results, we check the associations of top law firms as defined by *Reputation Measure 1* and *Reputation Measure 2* and lawsuit success using regression specification (4) and after controlling for selection bias. We find that both *Reputation Measure 1* and *Reputation Measure 2* are positively and significantly associated with law suit success at the 5% significance level, while *Lawsuit Activity* is positively and significantly associated with law suit success in conjunction with *Reputation Measure 1* and *Reputation Measure 2*, at the 10% and 5% significance levels, respectively.

Law firm resources, defined as number of attorneys employed by a law firm, does not significantly affect law firm activity or lawsuit success. In untabulated results, we checked using number of partners or alternatively, number of associates in a law firm's payroll. These alternative measures of law firm resources are also not significantly associated with law firm activity or lawsuit success. This may be because individual cases are only staffed with a few lawyers and so larger plaintiffs' law firms devote their additional attorneys to filing and staffing more cases.

6. Conclusion

We examine the role of plaintiffs' law firms in shareholder class action merger litigation. Analyzing a unique, hand-collected database of 1,739 class action merger lawsuits during the period 2003 through 2012, we find that top plaintiffs' law firms as defined by a variety of reputation measures create better results for their clients than other plaintiffs' law firms. We find that the top plaintiffs' law firms are significantly and positively associated with a higher probability of lawsuit success for plaintiffs. This result holds even after controlling for selection bias - the fact that top law firms may get to pick cases that have superior chances of lawsuit success. The success is achieved by top plaintiffs' law firms through a variety of strategies that include being more active than other law firms in terms of filing more motions and papers with the court (a greater number of docket entries) than other law firms and by filing more injunction motions. Top law firms also have significantly fewer motions to dismiss filed against their cases by defendant law firms. Indeed, the most reputable 5 law firms (also screened on the basis of the size of attorney fees they command) are much more active in terms of the number of filings that they make (docket entries) in their cases and are more careful in screening for case quality such that fewer motions to dismiss are filed against them in comparison with even the top 10 law firms.

Our results inform the agency cost view of plaintiffs' law firms as agents and how best to address this conflict. They indicate that we should not only consider judge-centered or shareholder-centered solutions to the agency cost problems associated with plaintiffs' class action law firms. In fact, shareholder class action litigation might be best improved by courts selecting plaintiffs' law firms with more significant experience, activity and prior success. This is a particularly trenchant point since the PSLRA relies exclusively on the number of shares a law firm plaintiff has to appoint lead counsel. Our findings support a more holistic view of this decision, based on the evidence that we find that there is a difference among plaintiffs' law firms success rates and not just a difference between named plaintiffs.

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Table 1
Sample Descriptive Statistics

This table reports descriptive statistics of our final sample of M&A lawsuits that spans the 10-year period Jan 1, 2003 through Dec 31, 2012, after all screens that ensure all variables required for analysis are available.

Feature	
Number of Lawsuits	1,739
Number of M&A deals	472
Average number of law firms per lawsuit	4.12
Number of different law firms	336
Number of different lead/co-lead law firms	188
Number of Lead/co-lead law firms for Non-individual Named Plaintiffs	166
Number of Lead/co-lead law firms for Non-individual Named Plaintiff and charging at least $1 million as attorneys' fees	51
Average number of plaintiffs per lawsuit	2.44
Number of M&A deals with lawsuits filed in multiple states	229
Average attorneys' fees per lawsuit	$1.40 million
Median attorneys' fees per lawsuit	$0.55 million
Law firm with most appearances	Robbins Geller Rudman & Dowd
Law firm with most appearances as Lead/co-lead	Robbins Geller Rudman & Dowd
Law firm with most appearances as Lead/co-lead for Non-individual Named Plaintiffs	Robbins Geller Rudman & Dowd
Law firm with most appearances as Lead/co-lead for Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees	Robbins Geller Rudman & Dowd

Table 2
Year-by-Year Descriptive Statistics

This table shows the year-by-year descriptive statistics of our final sample of 1,739 M&A lawsuits spanning the 10-year period Jan 1, 2003 through Dec 31, 2012, after all screens that ensure all variables required for analysis are available. All Variables are defined in Table A1 of the Appendix.

Year	Number of Lawsuits	Multi-jurisdictional Potential	Multi-State filing	Delaware filing	Dismissed	Median Attorney Fee ($ mn)
2003	40	100.00%	58.82%	64.71%	70.59%	1.10
2004	32	90.70%	34.88%	58.14%	46.51%	0.45
2005	103	92.73%	14.55%	60.00%	56.36%	0.42
2006	144	86.89%	40.98%	45.90%	45.90%	0.47
2007	190	80.00%	37.33%	44.00%	46.67%	0.59
2008	106	84.44%	57.78%	48.89%	48.89%	0.85
2009	198	89.33%	60.00%	66.67%	36.00%	0.70
2010	382	92.37%	65.25%	72.88%	39.83%	0.58
2011	363	92.59%	78.52%	79.26%	49.63%	0.55
2012	181	90.00%	76.67%	78.89%	57.78%	0.50
Overall	1739	89.63%	57.28%	65.27%	47.76%	0.55

Table 3
Top Law Firms

Panel A shows top-10 law firms over our entire 10-year sample, arrived at by: (a) number of appearances in our final sample of lawsuits, and (b) number of appearances as Lead/Co-lead law firm in our final sample of lawsuits. Panel B shows top-10 law firms over our entire 10-year sample, arrived at by: (a) number of appearances as Lead/Co-lead law firm for Non-individual Named Plaintiffs in our final sample of lawsuits, and (b) number of appearances as Lead/Co-lead law firm for Non-individual Named Plaintiffs and charging at least $1 million as attorneys' fees in our final sample of lawsuits.

Panel A

Top-10 Law firms	Top-10 Law firms in Lead/Co-lead roles
Robbins Geller Rudman & Dowd	Robbins Geller Rudman & Dowd
Rosenthal Monhait & Goddess	Levi & Korsinsky
Levi & Korsinsky	Faruqi & Faruqi
Faruqi & Faruqi	Robbins Umeda
Rigrodsky & Long	Rosenthal Monhait & Goddess
Weiser Law Firm	Gardy & Notis
Robbins Umeda	Brualdi Law Firm
Gardy & Notis	Milberg
Wolf Haldenstein Adler Freeman & Herz	Rigrodsky & Long
Chimicles & Tikellis	Weiser Law Firm

Panel B

Top-10 Law firms in Lead/Co-lead roles for Non-individual Named plaintiffs	Top-5 Law firms in Lead/Co-lead roles for Non-individual Named plaintiffs and charging at least $1 million as attorneys' fees
Robbins Geller Rudman & Dowd	Robbins Geller Rudman & Dowd
Faruqi & Faruqi	Grant & Eisenhofer
Levi & Korsinsky	Bernstein Litowitz Berger & Grossmann
Robbins Umeda	Milberg
Rosenthal Monhait & Goddess	Kessler Topaz Meltzer & Check
Milberg	
Brualdi Law Firm	
Wolf Haldenstein Adler Freeman & Herz	
Weiser Law Firm	
Kessler Topaz Meltzer & Check	

Table 4
Top Plaintiff Law Firms and Deal Characteristics

This table shows the associations between top law firms (top-10 law firms determined on the basis of number of deals as Lead or co-lead in rolling windows of past 3 years: *Reputation Measure 1*; top-10 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years: *Reputation Measure 2*; and top-5 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years: *Reputation Measure 3*) and various deal features, for the period 2006-2012. All variables are defined in Table A1 of the Appendix.

Deal/Suit Feature	Non Top-10 Law firm suits	Top-10 Law firm suits by *Reputation Measure 1*	Top-10 Law firm suits by *Reputation Measure 2*	Top-5 Law firm suits by *Reputation Measure 3*
Average Transaction Value ($ mn)	3981	3149	3893	3918
Industry Relatedness%	0.464	0.533*	0.522	0.524
Target Takeover Premium %	26.33	28.17	27.36	27.86
Hostile/Unsolicited deal %	0.073	0.056	0.056	0.042
Target termination fees Indicator%	0.949	0.976*	0.977	0.978
Cash deals %	0.702	0.773*	0.761	0.710
Tender offer %	0.240	0.280	0.245	0.248
MBO %	0.030	0.040	0.049	0.057
Toeholds %	0.030	0.033	0.038	0.042
Going private%	0.077	0.103	0.129	0.127
Go Shop%	0.130	0.140	0.140	0.106
Private Equity Participant%	0.173	0.156	0.179	0.177
Auction%	0.371	0.426	0.414	0.404
Target firm Regulated Industry %	0.240	0.240	0.242	0.255
Multi-jurisdictional potential %	0.870	0.910	0.926	0.936
Multi-State Filing%	0.615	0.640	0.666	0.628
Delaware Filing%	0.648	0.676	0.729	0.670*

*, **, and *** denote significantly different from the numbers to the immediate left at the 10%, 5% and 1% levels respectively.

Table 5
Correlations Among Variables

This table shows the pairwise Pearson correlation coefficients between different variables: (1) Industry Relatedness, (2) Hostile/Unsolicited deals, (3) Target termination fees Indicator, (4) Cash deals, (5) Tender offers, (6) MBO, (7) Toeholds, (8) Going private, (9) Go Shop, (10) Private Equity Participant, (11) Auction, (12) Target firm Regulated Industry, (13) Multi-jurisdictional potential, (14) Multi-State Filing, and (15) Delaware Filing. The significantly high pairwise correlations are highlighted in bold.

	Variables													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2	0.14													
3	-0.00	-0.12												
4	-0.24	-0.16	0.18											
5	0.10	0.01	0.03	0.31										
6	-0.19	-0.01	-0.10	0.11	-0.03									
7	0.08	0.29	-0.01	-0.15	0.00	-0.03								
8	-0.13	0.15	-0.03	0.02	-0.06	**0.61**	0.17							
9	-0.30	-0.10	0.05	0.18	0.07	0.08	-0.04	0.11						
10	-0.41	-0.08	0.08	0.26	0.04	0.11	-0.05	0.15	0.21					
11	-0.17	-0.18	0.14	0.31	0.09	-0.04	-0.12	-0.03	-0.03	0.29				
12	0.14	-0.11	-0.16	-0.21	-0.14	-0.02	-0.01	-0.01	0.01	-0.06	-0.05			
13	-0.05	0.00	-0.01	0.08	0.06	-0.13	0.06	-0.05	-0.04	0.01	0.01	-0.13		
14	-0.03	0.04	0.08	-0.01	0.02	-0.05	0.06	0.01	-0.00	-0.01	-0.02	-0.07	0.36	
15	-0.07	0.05	-0.00	0.02	0.02	-0.03	0.08	0.00	0.04	0.03	-0.03	-0.08	**0.47**	**0.71**

Table 6
Top Plaintiff Law Firms and Deal Characteristics

This table reports the heteroskedasticity-consistent law-firm-clustered standard errors of Logit regressions explaining the associations of top law firms and deal characteristics, for the period 2006-2012. *Reputation Measure 1* is the top-10 law firms determined on the basis of number of lawsuits as Lead or co-lead in rolling windows of past 3 years. *Reputation Measure 2* is the top-10 law firms determined on the basis of number of lawsuits as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years. *Reputation Measure 3* is the top-5 law firms determined on the basis of number of lawsuits as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years. Also reported are Pseudo R^2 values. Included in the regressions as controls are β_Y, a vector of year fixed effects, and β_I, a vector of bidder industry fixed effects based on the 10 Fama-French industry classifications.

	Reputation Measure 1	*Reputation Measure 2*	*Reputation Measure 3*
Ln Offer Size	0.01	0.09	0.21**
	(0.17)	(1.22)	(2.39)
Industry Relatedness	0.44**	0.84***	0.49*
	(2.09)	(3.75)	(1.82)
Hostile/Unsolicited deal	-0.49	-0.91**	-1.23**
	(-1.22)	(-2.14)	(-2.23)
Target termination fees Indicator	0.31	0.07	0.67
	(0.63)	(0.14)	(0.87)
Cash deal Indicator	0.31	0.41	0.31
	(1.26)	(1.58)	(1.03)
Tender offer Indicator	0.21	0.11	0.21
	(0.94)	(0.46)	(0.78)
Toehold Indicator	0.29	0.21	0.75
	(0.51)	(0.39)	(1.24)
Going private Indicator	0.43	1.03***	0.67*
	(1.30)	(3.04)	(1.79)
Go Shop Indicator	0.12	0.01	-0.47
	(0.44)	(0.06)	(-1.23)
Private Equity Participant Indicator	-0.31	0.19	0.23
	(-1.12)	(0.65)	(0.65)
Auction Indicator	0.19	0.20	0.23
	(0.99)	(0.99)	(0.96)
Target firm Regulated Industry	0.64	0.64	-0.49
	(0.86)	(0.66)	(-0.52)
Delaware filing Indicator	0.18	1.00***	0.09
	(0.93)	(4.63)	(0.39)
β_Y	Yes	Yes	Yes
β_I	Yes	Yes	Yes
Pseudo R^2 (%)	5.53	10.14	8.29

*, **, and *** denote significantly different from zero at the 10%, 5% and 1% levels respectively.

Table 7

Top Plaintiff Law Firms and Lawsuit Outcomes

This table shows the association between top law firms (top-10 law firms determined on the basis of number of deals as Lead or co-lead in rolling windows of past 3 years: *Reputation Measure 1*; top-10 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years: *Reputation Measure 2*; and top-5 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years: *Reputation Measure 3*) and lawsuit outcomes, for the period 2006-2012. All variables are defined in Table A1 of the Appendix.

Lawsuit Outcome	Non Top-10 Law firm suits	Top-10 Law firm suits: *Reputation Measure 1*	Top-10 Law firm suits: *Reputation Measure 2*	Top-5 Law firm suits: *Reputation Measure 3*
Dismissed%	0.522	0.406***	0.382	0.269**
Involuntary Motion to Dismiss Granted%	0.043	0.036	0.021	0.035
Summary Judgment Granted%	0.010	0.016	0.010	0.007
Motion to Expedite Granted%	0.063	0.106**	0.108	0.099
Disclosure settlement%	0.354	0.386	0.357	0.397
Amendment settlement%	0.067	0.150***	0.182	0.227
Injunction Motion Granted%	0.020	0.013	0.010	0.014
Consideration settlement%	0.040	0.026	0.045	0.078*

*, **, and *** denote significantly different from the numbers to the immediate left at the 10%, 5% and 1% levels respectively.

Table 8
Top Plaintiff Law Firms and Lawsuit Outcomes: Multivariate Analysis

The first 3 columns report the regression coefficients, and the associated *z* statistics in parenthesis based on heteroskedasticity-consistent law-firm-clustered standard errors, of Ordered Logit regressions explaining the probability of success. Success is defined in terms of Consideration settlement taking the value of 4, Injunction Motion Granted taking the value of 3, Amendment settlement taking the value of 2, Disclosure settlement taking the value of 1, and 0 for other outcomes. *Reputation Measure 1* is the top-10 law firms determined on the basis of number of lawsuits as Lead or co-lead in rolling windows of past 3 years. *Reputation Measure 2* is the top-10 law firms determined on the basis of number of lawsuits as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years. *Reputation Measure 3* is the top-5 law firms determined on the basis of number of lawsuits as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years. The 4th column reports the results using *Reputation Measure 3* but using LIML simultaneous equations model after controlling for selection bias, where the Instrumental Variables (IVs) are a 2-vector of *Same State Headquarters* and *Proportion Corp/Securities Litigation Attorneys*. The 5th column reports the results using *Reputation Measure 3* but using LIML simultaneous equations model after controlling for selection bias, where the IVs are *Same State Headquarters*, *Proximity to Courthouse*, and *Proportion Corp/Securities Litigation Attorneys*. Also reported are Pseudo R^2 values. Included in the regressions as controls are β_Y, a vector of year fixed effects, and β_I, a vector of bidder industry fixed effects based on the 10 Fama-French industry classifications. All variables are defined in Table A1 of Appendix.

Probability of Lawsuit Success

	Top Law firm indicator is *Reputation Measure 1*	Top Law firm indicator is *Reputation Measure 2*	Top Law firm indicator is *Reputation Measure 3*	Top Law firm indicator is *Reputation Measure 3,* controlling for selection bias using 2-vector of geographic IVs	Top Law firm indicator is *Reputation Measure 3,* controlling for selection bias using all 3 IVs
Top Law firm indicator	0.36**	0.64***	1.30***	1.41***	1.59***
	(2.19)	(3.54)	(5.91)	(6.07)	(6.56)
Ln Offer Size	0.02	0.01	-0.04	-0.04	-0.02
	(0.29)	(0.06)	(-0.54)	(-0.50)	(-0.36)
Industry Relatedness	0.45**	0.38**	0.40**	0.41**	0.44**
	(2.38)	(1.97)	(2.04)	(1.99)	(2.12)
Hostile/Unsolicited	-0.13	-0.07	-0.01	-0.01	-0.03
deal	(-0.43)	(0.24)	(-0.03)	(-0.04)	(-0.11)
Target termination fees	1.00	0.98	0.77	0.87	0.89
Indicator	(1.46)	(1.40)	(1.10)	(1.25)	(1.27)
Cash deal Indicator	-0.06	-0.10	-0.01	-0.02	-0.05
	(-0.27)	(-0.42)	(-0.04)	(-0.05)	(-0.09)
Tender offer Indicator	0.08	0.12	0.06	0.08	0.12
	(0.46)	(0.64)	(0.36)	(0.46)	(0.69)
Toehold Indicator	-0.28	-0.32	-0.55	-0.56	-0.59
	(-0.64)	(-0.73)	(-1.16)	(-1.12)	(-1.19)
Going private Indicator	0.67*	0.58*	0.63*	0.62*	0.69*
	(1.92)	(1.66)	(1.74)	(1.70)	(1.84)
Go Shop Indicator	-0.24	-0.23	-0.10	-0.05	-0.04
	(-0.80)	(-0.78)	(-0.36)	(-0.19)	(-0.12)
Private Equity	0.45	0.40	0.37	0.32	0.31
Participant Indicator	(1.59)	(1.44)	(1.36)	(1.11)	(1.09)
Auction	0.11	0.08	0.06	0.08	0.09
	(0.60)	(0.44)	(0.34)	(0.40)	(0.51)
Target firm Regulated	0.51	0.48	0.68	0.70	0.71
Industry	(0.69)	(0.67)	(0.99)	(0.96)	(1.06)
Delaware filing	0.26	0.13	0.30*	0.30	0.33
Indicator	(1.49)	(0.76)	(1.66)	(1.59)	(1.61)
β_Y	Yes	Yes	Yes	Yes	Yes
β_I	Yes	Yes	Yes	Yes	Yes
Pseudo R^2 (%)	4.03	4.69	6.82	7.12	7.93

*, **, and *** denote significantly different from zero at the 10%, 5% and 1% levels respectively.

Table 9
Top Plaintiff Law Firms and Lawsuit Activity

This table shows the association between top law firms (top-10 law firms determined on the basis of number of lawsuits as Lead or co-lead in rolling windows of past 3 years: *Reputation Measure 1*; top-10 law firms determined on the basis of number of lawsuits as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years: *Reputation Measure 2*; and top-5 law firms determined on the basis of number of lawsuits as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years: *Reputation Measure 3*) and lawsuit activity, in the years 2006-2012. All variables are defined in Table A1 of the Appendix.
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Lawsuit Activity	Non Top-10 Law firm suits	Top-10 Law firm suits: *Reputation Measure 1*	Top-10 Law firm suits: *Reputation Measure 2*	Top-5 Law firm suits: *Reputation Measure 3*
Number of docket Entries	74.13	86.82*	90.02	99.66*
Injunction Motion Filed	0.387	0.420	0.452	0.475
Motion to Expedite Filed	0.424	0.440	0.442	0.460
Motion for Dismiss Filed	0.692	0.630	0.624	0.531 *
Involuntary Motion to Dismiss Filed	0.097	0.083	0.059	0.080
Filing in Delaware Court	0.649	0.676	0.729	0.670 *

*, **, and *** denote significantly different from the numbers to the immediate left at the 10%, 5% and 1% levels respectively.

Table 10
Top Plaintiff Law Firms, Lawsuit Activity, and Lawsuit Success

The first column report regression coefficients, and the associated *z* statistics in parenthesis based on heteroskedasticity-consistent law-firm-clustered standard errors, of Ordered Logit regressions explaining the probability of Lawsuit Activity, where Lawsuit Activity is defined in terms of Number of docket entries taking the value of 3 if equal to or more than 100, Injunction Motion filed taking the value of 2, Motion to Expedite filed taking the value of 1, and 0 every suit else. The last 2 columns report regression coefficients, and the associated *z* statistics in parenthesis based on heteroskedasticity-consistent law-firm-clustered standard errors, of Ordered Logit regressions explaining the probability of Lawsuit Success, where Lawsuit Success is defined in terms of Consideration settlement taking the value of 4, Injunction Motion Granted taking the value of 3, Amendment settlement taking the value of 2, Disclosure settlement taking the value of 1, and 0 for other outcomes. *Reputation Measure 3* is the top-5 law firms determined on the basis of number of lawsuits as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years. The 3rd column reports the results using *Reputation Measure 3* but using LIML simultaneous equations model after controlling for selection bias, where the Instrumental Variables (IVs) are *Same State Headquarters*, *Proximity to Courthouse*, and *Proportion Corp/Securities Litigation Attorneys*. Included is Law firm Resources, defined as the number of attorneys employed by the lead law firm, as an additional explanatory variable. Also reported are Pseudo R^2 values. Included in the regressions as controls are β_Y, a vector of year fixed effects, and β_I, a vector of bidder industry fixed effects based on the 10 Fama-French industry classifications. All variables are defined in Table A1 of Appendix.

	Law Suit Activity	Law Suit Success	
		(1)	(2)
Top-5 Law Firm Indicator	0.50**	1.56***	1.66***
	(2.14)	(5.24)	(6.32)
Law Suit Activity		0.45***	0.46***
		(6.33)	(6.70)
Law Firm Resources	0.19	0.05	0.06
	(0.87)	(0.35)	(0.61)
Ln Offer Size	-0.01	-0.04	-0.03
	(-0.21)	(-0.54)	(-0.55)
Industry Relatedness	0.33	0.36*	0.35*
	(1.52)	(1.81)	(1.76)
Hostile/Unsolicited deal	-0.26	0.04	0.05
	(-0.60)	(0.14)	(0.11)
Target termination fees Indicator	0.91*	0.72	0.75
	(1.65)	(0.96)	(1.33)
Cash deal Indicator	-0.32	0.01	0.01
	(-1.20)	(0.06)	(0.07)
Tender offer Indicator	0.21	0.06	0.10
	(0.97)	(0.31)	(0.55)
Toehold Indicator	-0.74	-0.48	-0.47
	(-1.23)	(-0.80)	(-0.89)
Going Private	0.07	0.71*	0.69**
	(0.20)	(1.84)	(2.11)
Go Shop	-0.01	-0.01	-0.02
	(-0.04)	(-0.05)	(-0.07)
Private Equity Participant	0.25	0.26	0.26
	(0.88)	(0.95)	(1.00)
Auction	-0.03	0.13	0.12
	(-0.17)	(0.70)	(0.67)
Target firm Regulated Industry	-1.72**	1.13	1.11
	(-1.97)	(1.47)	(1.29)
Delaware Filing Indicator	0.67***	0.04	0.01
	(3.15)	(0.21)	(0.10)
β_Y	Yes	Yes	Yes
β_I	Yes	Yes	Yes
Pseudo R^2 (%)	9.07	10.81	11.15

*, **, and *** denote significantly different from zero at the 10%, 5% and 1% levels respectively.

Appendix

Table A1

Definitions of Variables

Lawsuit Variables	*Description*
Number of Docket Entries	The number of litigation filings as recorded on the docket for the lead case.
Injunction Motion Filed	An indicator variable set equal to 1 if a motion to enjoin the transaction is filed by the plaintiffs' law firm in a particular case and 0 otherwise.
Motion to Expedite Filed	An indicator variable set equal to 1 if a motion to expedite the proceedings in the transaction is filed by the plaintiffs' law firm in a particular case and 0 otherwise.
Motion for Dismiss Filed	An indicator variable set equal to 1 if a motion to dismiss the case is filed by either the defendants' (involuntary dismissal) or plaintiffs' law firm (voluntary dismissal) in a particular case, and 0 otherwise.
Filing in Delaware Court	An indicator variable set equal to 1 if the case is filed in in Delaware Chancery Court, the state court of Delaware for the adjudication of corporate claims and 0 otherwise. .
Involuntary Motion to Dismiss Filed	An indicator variable set equal to 1 if a motion to dismiss filed by the defendants in a particular case and 0 otherwise.
Involuntary Motion to Dismiss Granted	An indicator variable set equal to 1 if a motion to dismiss filed by the defendants in a particular case is granted by the court and 0 otherwise.
Summary Judgment Granted	An indicator variable set equal to 1 if a motion for summary judgment filed by the defendants in a particular case is granted by the court and 0 otherwise.
Motion to Expedite Granted	An indicator variable set equal to 1 if a motion to expedite is filed by the plaintiffs' law firm and granted in a particular case by the court and 0 otherwise.

Amendment settlement	An indicator variable set equal to 1 if settlement requires the terms of the transaction to be revised and 0 otherwise.
Disclosure settlement	An indicator variable set equal to 1 if settlement requires the target to make additional disclosure concerning the transaction, and 0 otherwise.
Injunction Motion Granted	An indicator variable set equal to 1 if a motion to enjoin the transaction is filed by the plaintiffs' law firm in a particular case, and that motion is granted by the lower court and 0 otherwise.
Consideration settlement	An indicator variable set equal to 1 if settlement provides for an increase in the consideration payable to target shareholders, and 0 otherwise.
Lawsuit Activity	Lawsuit Activity is defined in terms of Number of dockets filed taking the value of 3 if equal to or more than 100, Injunction Motion filed taking the value of 2, Motion to Expedite filed taking the value of 1, and 0 every suit else.
Lawsuit Success	Lawsuit Success is defined in terms of Consideration settlement taking the value of 4, Injunction Motion Granted taking the value of 3, Amendment settlement taking the value of 2, Disclosure settlement taking the value of 1, and 0 for all other lawsuit outcomes.

Law firm Variables	*Description*
Reputation Measure 1	The top-10 law firms determined every year, on the basis of number of lawsuits in which a law firm is Lead or co-lead in rolling windows of past 3 years.
Reputation Measure 2	The top-10 law firms determined every year, on the basis of number of lawsuits in which a law firm is Lead or co-lead to Non-individual Named Plaintiffs in rolling windows of past 3 years.
Reputation Measure 3	The top 5 law firms determined every year, on the basis of number of lawsuits in which a law firm is Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in rolling windows of past 3 years.

Law Firm Market Share	Market Share of law firm determined every year, on the basis of number of lawsuits in which a law firm is Lead or co-lead in rolling windows of past 3 years.
Bottom Law Firms	The law firms that were Lead or co-lead in only 1 lawsuit in rolling windows of past 3 years.
Law Firm Resources	The number of attorneys employed by the lead law firm. The data is from Martindale Hubbell databases of 2005, 2007, 2009 and 2010. We hand collect 2005 numbers from Martindale Hubbell and link them to data of 2006 and 2007 to avoid any look-ahead bias. Likewise, we link 2007, 2009 and 2010 numbers from Martindale Hubbell to our data pertaining to 2008-2009, 2010, and 2011-2012, respectively.
Same State Headquarters	An indicator variable that takes the value of 1 if the law firm HQ as identified in Martindale Hubbell databases of 2005, 2007, 2009 and 2010, is in the same state as the target HQ, and 0 otherwise. Used as an Instrumental Variable for lead law firm selection.
Proximity to Courthouse	An indicator variable that takes the value of 1 if the law firm has HQ or an office, as identified in Martindale Hubbell databases of 2005, 2007, 2009 and 2010, is in the state of the jurisdiction of the law suit. Used as an Instrumental Variable for lead law firm selection.
Proportion Corp/Securities Litigation Attorneys	The proportion of all attorneys in a law firm who practice Corporate and/or Securities Litigation for each Law Firm, as identified in Martindale Hubbell databases of 2005, 2007, 2009 and 2010. Used as an Instrumental Variable for lead law firm selection.

Offer Variables	***Description***
Transaction Value	The value of the transaction (in $), which is the total value of consideration paid by the acquirer for the target, excluding fees and expenses.
Industry Relatedness	An indicator variable that takes the value of 1 when the bidder and target firms are from the same industry (using the 2-digit SIC code) and 0 otherwise.
Target Takeover Premium	Premium based on the price per share paid by a bidder for a public target firm's shares relative to the target's pre offer-announcement stock price 1 week prior to the announcement date.
Hostile/Unsolicited deal	An indicator variable set equal to 1 for hostile bids or unsolicited and 0 otherwise
Target Termination Fee	An indicator variable set equal to 1 for offers with a termination fee provision payable by target firms to bidders, and 0 otherwise.
Cash	An indicator variable set equal to 1 for 100% cash bids, and 0 otherwise.
Tender	An indicator variable set equal to 1 for tender offers, and 0 otherwise.
MBO	An indicator variable set equal to 1 for offers involving management buyouts, and 0 otherwise.
Toehold	An indicator variable set equal to 1 for offers where a bidder had a toehold of 5% or more, but less than 50%, in the target firm before the announcement date, and 0 otherwise.
Target-firm Regulated Industry	Communications, utilities, banks and financial companies.
Going Private Indicator	An indicator variable that takes the value of 1 when a *Schedule 13E-3* has been filed with the SEC for the transaction due to the buyer being an affiliated party, and 0 otherwise.

Go Shop Indicator	An indicator variable that takes the value of 1 when the merger agreement includes a provision that allows the target company to actively solicit other potential bidders for a specific limited period of time after the merger agreement has been signed, and 0 otherwise.
Private Equity Participant Indicator	An indicator variable that takes the value of 1 when one or more private equity firm is part of the purchasing group for the target firm, and 0 otherwise.
Auction	An indicator variable that takes the value of 1 when the target firm was sold in a transaction that was initiated via an auction process. An auction process for these purposes is defined as the target firm retaining an investment bank to hold a process to affirmatively solicit acquisition proposals, and 0 otherwise.
Delaware Filing	An indicator variable that takes the value of 1 when a lawsuit if filed in Delaware Chancery Court, and 0 otherwise.
Multi-Jurisdictional Potential	An indicator variable set equal to 1 if the headquarters state of a target firm is different than the state where the target firm is incorporated and 0 otherwise.
Multi-State filing	An indicator variable that takes the value of 1 when a lawsuit is filed in more than 1 state, and 0 otherwise.

Table A2
Top Plaintiff Law Firms Without Look-ahead Bias

Panel A shows broad descriptive statistics of Top-10 law firms by number of deals as Lead or co-lead to all Plaintiffs (using past 3 year rolling windows, so that there is no look-ahead bias). The number of appearances in top-10 league tables from 2006 through 2012 is shown in the first column, and the average market share by number of deals (computed as total market share divided by the total number of years, which is 7) is shown in the second. Panel B shows the same descriptive statistics of the top-10 law firms by number of deals as Lead or co-lead to Non-individual Named Plaintiffs (using past 3 year rolling windows). Panel C shows the same descriptive statistics of the top 5 law firms by number of deals as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees (using past 3 year rolling windows).

Panel A: Top-10 Law firms in Lead/Co-lead roles

Law firm	Number of Appearances	Average Market share
Robbins Geller Rudman & Dowd	7	10.97%
Wolf Haldenstein Adler Freeman & Herz	6	4.82%
Robbins Umeda	6	2.80%
Faruqi & Faruqi	5	3.74%
Weiser Law Firm	4	3.33%
Brualdi Law Firm	4	1.97%
Chimicles & Tikellis	4	1.47%
Rosenthal Monhait & Goddess	4	1.41%
Milberg	3	6.12%
Rigrodsky & Long	3	2.84%

Panel B: Top-10 Law firms in Lead/Co-lead roles for Non-individual Named Plaintiffs

Law firm	Number of Appearances	Average Market share
Robbins Geller Rudman & Dowd	6	7.42%
Wolf Haldenstein Adler Freeman & Herz	6	6.00%
Grant & Eisenhofer	5	2.54%
Milberg	4	6.72%
Faruqi & Faruqi	4	3.64%
Rigrodsky & Long	4	2.17%
Bernstein Litowitz Berger & Grossmann	4	2.08%
Chimicles & Tikellis	4	2.05%
Weiser Law Firm	3	2.54%
Robbins Umeda	3	1.64%

Panel C: Top-5 Law firms in Lead/Co-lead roles for Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees

Law firm	**Number of Appearances**	**Average Market share**
Robbins Geller Rudman & Dowd	6	9.82%
Grant & Eisenhofer	5	8.31%
Bernstein Litowitz Berger & Grossmann	5	7.56%
Milberg	4	5.48%
Kessler Topaz Meltzer & Check	4	4.76%

Table A3
Top Plaintiff Law Firms versus Non-top Plaintiff Law Firms: Deal Features

Panel A shows the associations between the top-10 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years (Reputation Measure 2) and various deal features, as compared to those of non-top law firms, for the period 2006-2012. Panel B shows the same associations with the top-5 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years (Reputation Measure 3). All variables are defined in Table A1 of the Appendix.

Panel A: Top-10 Law firms in Lead/Co-lead roles for Non-individual Named Plaintiffs

Deal/Suit Feature	Top-10 Law firm suits	Non Top-10 Law firm suits
Avg. Transaction Value (mn)	3893	3266
Industry Relatedness%	0.522	0.477
Target Takeover Premium %	27.36	27.13
Hostile/Unsolicited deals %	0.056	0.073
Target termination fees Indicator%	0.977	0.951*
Cash deals %	0.761	0.716
Tender offers %	0.245	0.274
MBO %	0.049	0.022*
Toeholds %	0.038	0.025
Going private%	0.129	0.054***
Go Shop%	0.140	0.130
Private Equity Participant%	0.179	0.152
Auction%	0.414	0.385
Target firm Regulated Industry %	0.242	0.238
Multi-jurisdictional potential %	0.926	0.856***
Multi-State Filing%	0.666	0.592*
Delaware Filing%	0.729	0.601***

*, **, and *** denote significantly different from the Top-10 law firm associated deals at the 10%, 5% and 1% levels respectively.

Panel B: Top-5 Law firms in Lead/Co-lead roles for Non-individual Named Plaintiffs charging at least $1 million as attorneys' fees

Deal/Suit Feature	Top-5 Law firm suits	Non Top-5 Law firm suits
Avg. Transaction Value (mn)	3918	3455
Industry Relatedness%	0.524	0.491
Target Takeover Premium %	27.86	27.06
Hostile/Unsolicited deals %	0.042	0.072
Target termination fees Indicator%	0.978	0.958
Cash deals %	0.710	0.746
Tender offers %	0.248	0.264
MBO %	0.057	0.028*
Toeholds %	0.042	0.028
Going private%	0.127	0.078*
Go Shop%	0.106	0.144
Private Equity Participant%	0.177	0.161
Auction%	0.404	0.397
Target firm Regulated Industry %	0.255	0.235
Multi-jurisdictional potential %	0.936	0.875**
Multi-State Filing%	0.628	0.624
Delaware Filing%	0.670	0.638

*, **, and *** denote significantly different from the Top-10 law firm associated deals at the 10%, 5% and 1% levels respectively.

Table A4
Top Plaintiff Law Firms versus Non-top Plaintiff Law Firms: Lawsuit Outcomes

Panel A shows the associations between the top-10 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years (*Reputation Measure 2*) and various lawsuit outcomes, as compared to those of non-top law firms, for the period 2006-2012. Panel B shows the same associations with the top-5 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years (*Reputation Measure 3*), and *Bottom Law Firms* defined as law firms that were Lead or co-lead in only 1 lawsuit in rolling windows of past 3 years. All variables are defined in Table A1.

Panel A: *Reputation Measure 2*

Lawsuit Outcome	Top-10 Law firm suits	Non Top-10 Law firm suits
Dismissed%	0.382	0.538***
Involuntary Motion to Dismiss Granted%	0.021	0.057**
Summary Judgment Granted%	0.010	0.015
Motion to Expedite Granted%	0.108	0.063**
Disclosure settlement%	0.357	0.382
Amendment settlement%	0.182	0.041***
Injunction Motion Granted%	0.010	0.022
Consideration settlement%	0.045	0.022*

*, **, and *** denote significantly different from the Top-10-law-firm suits at the 10%, 5% and 1% levels respectively.

Panel B: *Reputation Measure 3* and *Bottom Law Firms*

Lawsuit Outcome	Top-5 Law firm suits	Non Top-5 Law firm suits	Bottom Law firms
Dismissed%	0.269	0.524**	0.575 ***
Involuntary Motion to Dismiss Granted%	0.035	0.041	0.063 *
Summary Judgment Granted%	0.007	0.015	0.013
Motion to Expedite Granted%	0.099	0.081*	0.013 ***
Disclosure settlement%	0.397	0.362	0.363
Amendment settlement%	0.227	0.072***	0.025 ***
Injunction Motion Granted%	0.014	0.017	0.000
Consideration settlement%	0.078	0.019***	0.025 ***

*, **, and *** denote significantly different from the Top-5-law-firm suits at the 10%, 5% and 1% levels respectively.

Table A5
Plaintiff Law Firm Market Share and Lawsuit Outcomes: Multivariate Analysis

The table reports the regression coefficients, and the associated *z* statistics in parenthesis based on heteroskedasticity-consistent law-firm-clustered standard errors, of Ordered Logit regressions explaining the probability of success, using LIML simultaneous equations model after controlling for selection bias, where the IVs are *Same State Headquarters*, *Proximity to Courthouse*, and *Proportion Corp/Securities Litigation Attorneys*. Market Share of law firm is determined every year, on the basis of number of lawsuits in which a law firm is Lead or co-lead in rolling windows of past 3 years. Also reported are Pseudo R^2 values. Included in the regressions as controls are β_Y, a vector of year fixed effects, and β_I, a vector of bidder industry fixed effects based on the 10 Fama-French industry classifications. All variables are defined in Table A1 of Appendix.

	Probability of Lawsuit Success
Law Firm Market Share	1.06*
	(1.71)
Ln Offer Size	-0.03
	(-0.80)
Industry Relatedness	0.50***
	(2.71)
Hostile/Unsolicited deal	-0.13
	(-0.37)
Target termination fees Indicator	0.92
	(1.32)
Cash deal Indicator	0.01
	(0.02)
Tender offer Indicator	0.08
	(0.44)
Toehold Indicator	-0.28
	(-0.40)
Going private Indicator	0.64*
	(1.78)
Go Shop Indicator	-0.21
	(-1.12)
Private Equity Participant Indicator	0.50
	(1.55)
Auction	0.10
	(0.70)
Target firm Regulated Industry	0.66
	(0.67)
Delaware filing Indicator	0.32
	(1.51)
β_Y	Yes
β_I	Yes
Pseudo R^2 (%)	3.61

*, **, and *** denote significantly different from zero at the 10%, 5% and 1% levels respectively.

Table A6
Top Plaintiff Law Firms versus Non-top Plaintiff Law Firms: Lawsuit Activity

Panel A shows the associations between the top-10 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs in the past 3 years (*Reputation Measure 2*) and various lawsuit outcomes, as compared to those of non-top law firms, for the period 2006-2012. Panel B shows the same associations with the top-5 law firms determined on the basis of number of deals as Lead or co-lead to Non-individual Named Plaintiffs and receiving at least $1 million as attorneys' fees in the past 3 years (*Reputation Measure 3*), and *Bottom Law Firms* defined as law firms that were Lead or co-lead in only 1 lawsuit in rolling windows of past 3 years. All variables are defined in Table A1.

Panel A: *Reputation Measure 2*

Lawsuit Activity	Top-10 Law firm suits	Non Top-10 Law firm suits
Number of Docket Entries	90.02	71.82**
Injunction Motion Filed	0.452	0.360**
Motion to Expedite Filed	0.442	0.423
Motion for Dismiss Filed	0.624	0.694*
Involuntary Motion to Dismiss Filed	0.059	0.118**
Filing in Delaware Court	0.729	0.601***

*, **, and *** denote significantly different from the Top-10-law-firm suits at the 10%, 5% and 1% levels respectively.

Panel B: *Reputation Measure 3* and *Bottom Law Firms*

Lawsuit Activity	Top-5 Law firm suits	Non Top-5 Law firm suits	Bottom Law firms
Number of Docket Entries	99.66	74.74***	42.07***
Injunction Motion Filed	0.475	0.382**	0.300***
Motion to Expedite Filed	0.460	0.423	0.400
Motion for Dismiss Filed	0.531	0.700***	0.762***
Involuntary Motion to Dismiss Filed	0.080	0.092	0.120*
Filing in Delaware Court	0.670	0.638	0.612*

*, **, and *** denote significantly different from the Top-5-law-firm suits at the 10%, 5% and 1% levels respectively.