Just Friends? Managers' Connections to Judges[†]

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Abstract: We study the impact of social connections between judges and executives on the outcomes of Securities Class Action Litigation (SCAL). Judges who are socially connected to a firm's executives are significantly more likely to dismiss lawsuits against the firm. There is also evidence of faster resolution and lower payout amounts in connected cases. The favorable outcomes cannot be explained by the lower severity of connected cases, or by court, judge, or firm characteristics. Our results are more pronounced when executives connected to the judge are named defendants in the lawsuits, when connected cases involve less visible lawsuits or firms, and when connections between judges and executives are likely more direct. Our evidence indicates that social connections influence judge impartiality and meaningfully alter SCAL outcomes.

*Keywords***:** social connections; litigation; security class action; judge biases; financial reporting, disclosure
*JEL Classification***:** G39, K22, K41, K42, M49, M59, P48

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1. Introduction

An impartial and effective judicial process is key to securing the trust of both external capital market participants such as investors and analysts, and also managers and directors.[1] The *ex post* ability of shareholders to rely on the judicial process to launch securities class-action litigation acts as a powerful external governance force disciplining corporate disclosure, financial reporting and managers' actions.[2] However, personal biases of judges can compromise the impartiality of their rulings and affect the outcomes of shareholder litigation alleging fraud or misleading disclosure. Our goal in this paper is to examine one challenge to judge impartiality, judges' social connections to corporate executives. We examine whether such social connections lead to more favorable outcomes of Rule 10b-5 Securities Class Action Litigation (SCAL) for defending firms and quantify the impact of these connections.

The Code of Conduct for United States judges explicitly forbids judges to allow social relationships, among others, to influence their conduct or judgment.[3] Judges often contend that they are trained to appreciate the importance of impartiality and can therefore make attempts to eliminate the influence of personal biases from their decisions (Nugent 1994). At the same time, judicial discretion has been a mainstay of the U.S. legal system, and extensively discussed in academic legal literature. Kahneman, Sibony and Sunstein (2021) note that disparities in judicial rulings are not just present and well-acknowledged, they are pervasive and striking, and symptomatic of the wide discretion judges wield in issuing court decisions. The literature on corporate litigation has only recently begun to recognize the influence of court and judge characteristics on court outcomes, which in turn, has implications for litigation risk and

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[1] See La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1997, 1998 and 2002), Shleifer and Vishny (1997), Leuz, Nanda and Wysocki (2003), La Porta, Lopez-de-Silanes, Pop-Eleches, and Shleifer (2004), Lerner and Schoar (2005), Hail and Leuz (2006).

[2] See Skinner (1994), Skinner (1997), Field, Lowry and Shu (2005), Hopkins (2018), Huang, Roychowdhury and Sletten (2020).

[3] The following link contains the Judicial Code of Conduct: https://www.uscourts.gov/judges-judgeships/code-conduct-united-states-judges#:~:text=A%20judge%20should%20respect%20and,and%20impartiality%20of%20the%20judiciary.&text=A%20judge%20should%20not%20allow,influence%20judicial%20conduct%20or%20judgment.

corporate decisions.[4] Furthermore, there is accumulating evidence across multiple aspects of corporate activity and governance that social relationships bias business outcomes in settings where one would normally expect arms-length professional relationships.[5] No such evidence exists in the context of judicial rulings. If judges are indeed subject to biases, then social connections are a potentially salient source of such biases.

Identifying social connections between judges and executives at sued firms that are exogenous to the cases themselves is challenging. For example, once a lawsuit proceeds to trial, both plaintiffs and defendants may attempt to select lawyer firms and legal teams that are socially or professionally connected to the appointed judge, to secure favorable hearings and outcomes. But any results using such connections wouldn't allow us to draw conclusions about biased litigation outcomes resulting from factors exogenous to the lawsuit itself. To circumvent this issue, we focus on connections between judges and executives of defendant firms developed while attending the same institution of higher education.[6] Overlapping at the same undergraduate or post-graduate institution offers opportunities for personal and professional interactions which are often reinforced over subsequent years via participation in alumni networks, donation programs and sport events.

To examine whether judges display favorable biases towards socially connected defendants, we analyze the outcomes of the Securities and Exchange Act of 1934 Rule 10b-5 class action lawsuits, which typically allege misleading disclosure or fraudulent financial reporting. This setting presents us with a few key advantages. First, district court judges are randomly assigned to cases, implying no systematic significant differences in case type or

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[4] See Chang and Schoar (2013), Donelson and Hopkins (2016), Huang, Hui and Li（2019）, Chow, Huang, Hui and Shevlin (2021), Franke, Huang and Li (2020), Iverson, Madson, Wang and Xu (2023), Harit, Parupati, Pinto and Sadka (2022).

[5] Cohen, Frazzini, Malloy (2008 and 2010), Hwang and Kim (2009), Engelberg, Gao and Parsons (2012), Duchin and Sosyura (2013), Ishii and Xuan (2014), Cooney, Madureira, Singh and Yang (2015), Guan, Su, Wu, and Yang (2016), and He, Pittman, Rui and Wu (2017), among others, study the role of social connections.

[6] Our tests nevertheless control for social connections between judges and both plaintiff and defendant lawyers.

severity across judges. Second, there is a well-developed literature examining SCAL, because such lawsuits focus on financial reporting and disclosure issues. Third, we can rely on this literature to control for known determinants of litigation outcomes. Finally, outcomes are largely binary (settlement or dismissal), and whether a securities class action is dismissed is a matter of considerable subjectivity and hence dependent on judicial discretion.

Our tests rely on a sample of SCAL lawsuits filed between 1996 and 2017. We classify a judge and a defendant firm as socially connected when the judge overlapped at the same school at either an undergraduate or a post-graduate institution with at least one senior officer or director from that firm.[7] In the first set of analyses, we document that educational ties between the judge and the defendant firm's executives or directors lead to (1) higher dismissal likelihood (2) faster resolution, and/or (3) lower lawsuit payout. We find that cases with socially connected judges and executives are 24% more likely to be dismissed. In addition, connected cases are resolved approximately 21% faster, and result in lawsuit payouts that are 49% lower for connected firms. These univariate differences are highly economically and statistically significant.[8]

Our findings hold in multivariate tests after controlling for various measures of case severity, firm characteristics, as well as characteristics of judges, executives and directors. Our results on case durations and lawsuit payouts are also robust to controlling for whether the respective cases were dismissed, suggesting that benefits of connections accrue even among settled cases. All tests include fixed effects for the filing circuit court, state of the company's headquarters, industry and year. In our most rigorous tests, we estimate the effect of connections on litigation outcomes in models with judge fixed effects and identify the effect

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[7] In defining school ties, we follow Cohen et al. (2008) and many subsequent papers that used this classification. In our additional analyses examining closes of educational linkages, we modify this classification to range from overlapping at the same school to having attended the same university without overlapping.

[8] While these economic magnitudes are large, they are consistent with the substantial inter-judge ruling disparities documented in criminal and civil tort cases (Austin and Williams 1977; Tabarrok and Helland 1999; Yang 2014).

using within-judge variation in connectedness. While these fixed effect structures severely reduce the power of our tests, we continue to observe significant results. Importantly, the economic significances of our results in multivariate analyses are comparable to or exceed those reported above for univariate tests.[9]

Judges are more likely to become aware of the connection when a socially connected executive or director is named as a defendant in the lawsuit complaint. Consistent with this notion, we find that connections between judges and firm executives have a more favorable effect on lawsuit outcomes in such cases. Further, cross-sectional variation in lawsuit outcomes is consistent with judges' perceived costs and benefits of issuing favorable rulings.[10] Judges are likely to perceive greater potential costs to biased rulings when the visibility of the case and of the defendant firm is high, because of more intense scrutiny by public media. Consistent with this notion, our results are highly pronounced among firms and lawsuits with low visibility, but they are statistically insignificant when the lawsuits involve highly visible firms or cases.[11] We next examine variation in the strength of the social connections, since judges' perceived social benefits from issuing favorable rulings in SCAL are likely higher when their social connections to the firm's executives are more direct. We first test whether the impact of social connections on lawsuit outcomes depends on the size of the program that the judges and executives attended. We find that our results are stronger when those connections are formed at smaller programs, where the likelihood of a closer connection emerging is higher.

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[9] For example, our univariate tests indicate that dismissal likelihood is 64.1% versus 51.5% for connected versus non-connected cases, a difference of 12.6 percentage points. After imposing all control variables plus fixed effects for state of HQ, filing circuit, industry and year, the difference in the frequency of cases dismissed by connected versus non-connected judges is 11 percentage points (column 4 of Table 5). After additionally imposing judge fixed effects, the difference in the frequency of cases dismissed by connected versus non-connected judges *increases* to 16.8 basis points (column 5 of Table 5). Moreover, we perform the Oster (2019) test discussed in Section 5.3, which indicates that our results are unlikely to be sensitive to omitted variables.

[10] The spirit of this analysis is analogous to Becker's (1968) suggested framing of criminal action as resulting from a potential criminal's assessment of the costs and benefits of committing a crime.

[11] These results also make it unlikely that socially connected executives enjoy better litigation outcomes solely because they can implement more successful defense cases based on their prior knowledge about the judges. There is no reason to expect that connected managers are systematically *poorer* at taking advantage of their familiarity with the judge when they are involved in a more high-profile lawsuit.

Next, we vary the definition of shared educational history as a proxy for social connections. Our results are stronger when the measure focuses on judges and executives overlapping at the same schools within the same institution rather than more broadly at the university. Economic magnitudes are strongest when we focus on overlapping histories at the law school.[12] In contrast, non-overlapping educational history at the same school (or at the same university) does not appear to influence any litigation outcome significantly. The overall pattern that emerges from these tests is that our results become progressively weaker as our empirical measure becomes *decreasingly* likely to capture a direct social connection. Thus, the favorable influence of social connections on litigation outcomes cannot just be attributed to homophily between judges and executives sharing similar values with, or having a more favorable view of, graduates from a common alma mater.

In additional analyses, we find that within the team of executives and directors, connections of executive General Counsels to judges are strongly linked to more favorable litigation outcomes, but connections of other executives matter as well. Further, judicial connections of insiders are significantly associated with favorable litigation outcomes, while those of outside directors (who are more likely to be aligned with shareholders) do not increase the odds of dismissals or decrease lawsuit payouts. We also conduct an instrumental-variables analysis in which we observe that our results are robust to using new judicial appointments as an instrument for changes in social connectedness. Our inferences remain unchanged when we rely on bootstrapped test statistics to assess the significance of our results. A falsification test in which we randomly assign judges to the connected versus non-connected pools does not yield any significant effect of connections on lawsuit outcomes.

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[12] Law school is the single-most important source of connections between judges and executives since judges necessarily attend law schools. It is also typically a smaller school than the other important source of overlap, the undergraduate program.

Our evidence is relevant to the streams of literature studying judicial impartiality, as well as social and political connections. Potential conflicts of interest among federal judges have gained recent attention from media and academia, particularly with respect to judges' financial holdings (Wall Street Journal, September 2021; Harit et al. 2022). Recently, the U.S. Congress passed the Courthouse Ethics and Transparency Act with the intention of improving the transparency and timeliness of judges' financial disclosures. Our findings reveal that financial holdings are not the only sources of biased lawsuit outcomes, and that social connections between judges and defendants can also play a significant role. Judges are already required to provide regular disclosures on their financial holdings, but no such explicit requirement exists for social connections. Thus, the impact of social connections may be even less transparent than those of financial connections. Biases arising from social connections are driven by the identity of the individuals at sued firms and the relations of those individuals with judges, and in this respect are distinct from factors such as judges' financial holdings in sued firms (Harit et al. 2022) and judges' political ideology (Huang et al. 2019).

The evidence in this paper is salient in the context of recent literature on the effects of social networks in a variety of corporate contexts. These studies typically explore whether social connections facilitate informal information transfers, and/or encourage an "exchange of favors" either internally within the firm or in a contractual relationship.[13] Our paper contributes to this literature by demonstrating the impact of social connections in a setting where there is no overt or direct information transfer between the connected parties (firm managers and judges), nor is there a contractual relationship.

We also contribute to a sizeable political economy literature that examines the favorable outcomes firms enjoy because of their connections with politicians and congressional

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[13] Please see Cohen et al. (2008, 2010); Engelberg et al. (2012); Fisman, Paravisini, and Vig (2017); Hwang and Kim (2009); Guan et al. (2016); and He et al. (2017).

committees (Fisman 2001; Tahoun 2014; Akey 2015; Mehta, Srinivasan and Zhao 2020; Bourveau, Coulomb, and Sangnier 2021). Our paper demonstrates that firms are able to extract certain benefits when their executives have personal connections outside of both business and political circles, specifically, to the judiciary.

Finally, papers such as Barrios, Bianchi, Isidro, and Nanda (2022), and Berger, Cai and Qiu (2023) study biases arising from homophily in the context of board of director appointments, while Tabarrok and Helland (1999) do so in the context of civil tort case outcomes. In this context, our paper's findings are significant because they demonstrate the ability of more personal social connections, rather than just common values and shared identities, to generate favorable outcomes for sued firms.

2. Related Literature and Hypotheses

2.1 Judges and their Biases

Abundant law literature discusses the desirability, potential safeguards and challenges to judge impartiality.[14] Legal scholars acknowledge that most judges claim to set aside personal biases when making decisions and assert their impartiality, but judicial biases can be sub-conscious, and judges have incentives to ex post rationalize biased courses of action (Nugent 1994; Robertson 2018).[15] Indeed judges have typically been extremely resistant to attempts at restraining their independence and discretion (Wall Street Journal, December 2021).

Empirical evidence exists that political ideology (i.e., partisanship) is an important determinant of how judges rule.[16] Research in finance and accounting explores the effect of

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[14] For reviews of this literature, please see Nugent (1994), Harris and Sen (2019), Rachlinski and Wistrich (2018), and Robertson (2018).

[15] Bias is commonly defined in law as "mental attitude or disposition of the judge toward a party to the litigation, and not to any views that he may entertain regarding the subject matter involved" (Black's Law Dictionary 147, 5th ed. 1979).

[16] See, for example, Nugent (1994), Giles, Hettinger and Peppers (2001), Segal and Spaeth (2002), Ruger, Kim, Martin and Quinn (2004), Martin, Quinn, Ruger and Kim (2004), Epstein, Landes and Posner (2013), Rachlinski and Wistrich (2018), Harris and Sen (2019), and Huang et al. (2019).

judge experience and ideology on corporate activities such as bankruptcy and tax planning (Chow et al. 2021; Iverson et al. 2023). Some judges also appear to rule consistently more in favor of debtors in bankruptcy proceedings, while others favor creditors, a bias arising from policy preferences (Chang and Schoar 2013). Our interest lies in judges' differential rulings based on defendants' personal characteristics or judges' relationships with these defendants, a source of bias distinct from political ideology. Rulings in criminal and civil cases vary predictably based on certain personal characteristics of plaintiffs or defendants including race, gender, socio-economic status and even physical attractiveness (Stewart 1985; Zebrowitz and McDonald 1991; Abrams, Bertrand and Mullainathan 2012; Rachlinski and Wistrich 2018). A critical issue in this respect is that of judicial discretion, which can manifest in judicial inconsistency (Frankel 1972, and 1973). For example, judges not only exhibit local bias, they grant significantly higher monetary awards for an in-state plaintiff if the defendant is out of state (Nugent 1994; Tabarrok and Helland 1999; Rachlinski, Wistrich and Guthrie 2015).

In a recent paper, Harit et al. (2022) examine the influence of judges' financial holdings in firms subject to civil litigation. They find that judges do not recuse themselves from civil cases when they hold common stock in a defending firm and appear to issue favorable rulings for these defendants. In the context of SCAL, the evidence on judges' influence on firm-level outcomes mostly concentrates on judges' ideology and their level of experience. For example, Huang et al. (2019) find that liberal (conservative) judge ideology is a strong predictor of more plaintiff-friendly (defendant-friendly) outcomes. Donelson and Hopkins (2016) conclude that judicial experience with Security Class Action lawsuits helps them identify and dismiss frivolous lawsuits. We are not aware of any evidence of biases arising from the individual identities and characteristics of the parties to the lawsuit in SCAL, nor of any evidence of judicial biases in any setting emanating from social connections.

2.2 Social Connections

Social connections have been shown to affect a variety of corporate activities and governance. One stream of literature examines the role of such connections in facilitating informal information transfers. For example, social connections have been shown to enable information transfers from firm executives to mutual funds (Cohen et al. 2008) and financial analysts (Cohen et al. 2010; Fang and Huang 2017). Social connections also affect information flow between borrowers and lenders (Engelberg et al. 2012; Fisman et al. 2017), and across managers within firms in the context of internal capital markets (Duchin and Sosyura 2013).

A second stream of literature focuses on how social connections lead to *quid pro quo* between parties linked through contractual relationships. The evidence is consistent with such quid pro quos existing between (a) the board of directors and managers (Hwang and Kim 2009); (b) auditors and the CEO or audit committee members, (Guan et al. 2016 and He et al. 2017); (c) managers and board members of acquiring and target firms respectively (Ishii and Xuan 2014); and (d) IPO underwriters and directors of IPO-issuing firms (Cooney et al. 2015).

In some corporate settings, social connections have been hypothesized to function on the premise of homophily, an affinity for those who share similar or familiar backgrounds and social contexts. For example, Barrios et al. (2022) find that firms prefer to appoint directors from either the same country or countries that are institutionally and culturally similar to the firm's home country. Berger et al. (2023) explore the implications of cultural proximity between CEOs and boards of directors for firm governance. Overall, prior research shows how the influence of social connections can permeate a variety of corporate contexts.

To measure social connections empirically, studies often focus on connections that arise from common educational backgrounds.[17] Individuals sharing the same *alma mater* exhibit

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[17] While a large majority of studies on social networks referenced in this section have used educational backgrounds to determine social ties, some supplement educational connections with common prior work experience at another firm, shared military service, etc. In the context of connections between judges and

higher affinity and more positive inclinations toward one another (McPherson, Smith-Lovin and Cook 2001; Hwang and Kim 2009). Furthermore, as papers such as Cohen et al. (2008) point out, overlapping at the same undergraduate or post-graduate institution also offers opportunities for personal and professional interaction, creating stronger and longer-lasting social bonds. Relying on existing literature, we study whether social connections from overlapping educational experiences generate biased SCAL outcomes.

2.3 Rule 10b-5 Securities Class Action Litigation (SCAL)

Rule 10b-5 class action lawsuits are typically launched by class action lawyers in response to "triggering events" associated with negative equity market returns. These triggering events include but are not limited to earnings announcements, conference calls, management disclosures, and financial restatements.[18] Thereafter, the lawsuit proceeds with the identification of major plaintiffs, and where to geographically consolidate the case (most commonly in the state of the sued firm's headquarters), followed by the appointment of lead plaintiffs and legal counsels.[19] At this stage, the court is actively involved, inclusive of a judge's assignment to the consolidated lawsuit.

District court judges are typically assigned randomly to cases with an underlying goal of equalizing workload and preventing judge "shopping" (Federal Judicial Center 2014; Huang et al. 2019). Although judges are allowed to recuse themselves, recusals or disqualifications from specific cases due to self-declared conflicts of interest are relatively rare.[20] Once a judge is assigned, defendants will normally immediately file a motion to dismiss. If the judge denies

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managers/directors at sued firms, it is uncommon for federal judges to share work experience or military histories with executives.

[18] See Skinner (1994, 1997), Johnson, Nelson and Pritchard (2007) and Donelson and Hopkins (2016).

[19] 84% of SCAL lawsuits are ultimately litigated in the state of headquarters (Hopkins 2018). While lawsuits can be filed in states other than the firm's headquarters, legal panels tend to consolidate them into the state with the easiest access to documents and witnesses i.e., a firm's headquarters (Cox, Thomas and Bai 2009; Hopkins 2018; Houston, Lin, Liu and Wei 2019).

[20] See, for example, Frankel (1972) and (1973), Austin and Williams (1977), Nugent (1994), Tabarrok and Helland (1999), Frost (2005), Yang (2014), and Robertson (2018).

the motion, the plaintiffs have the right to obtain discovery, i.e., documentation from defendants and the right to depositions. Upon completion of discovery, if plaintiffs' motion for class certification is granted, the likelihood of a settlement being the ultimate outcome rises rapidly, as trial by jury is almost nonexistent (Donelson and Hopkins 2016). As the process above highlights, case dismissal is a key outcome sought by defendants (Johnson et al. 2007; Huang et al. 2019). This in turn implies that judges exercise considerable discretion on the outcome of lawsuit by granting or denying the motion to dismiss (Huang et al. 2019).

In summary, the setting of SCAL offers three key advantages. First, SCAL belongs to a large class of federal lawsuits subject to random assignment of judges (a notable exception, for example, involves patent cases). An examination of SCAL thus avoids issues of selection associated with the experience and background of the ruling judge. Second, studying SCAL allows us to observe a clearly identifiable consequence of judges' discretion, i.e., early resolution through lawsuit dismissal. Dismissal lowers case resolution times and lawsuit payouts which, in turn, saves managers time, effort and resources. If a case is not dismissed, it proceeds to settlement, yielding a relatively uniform binary outcome (dismissal/settlement). Finally, focusing on securities class actions offers a relatively homogenous set of lawsuits that have been of considerable interest to accounting academics because they involve accounting, reporting and disclosure issues. This literature yields a set of known determinants of lawsuit outcomes, which we can control for when assessing the impact of social connections.

2.4 The Effect of Social Connections on Litigation Outcomes

Few personal biases based on social connections are observable to external parties, and to the extent some biases are subconscious, they may not be apparent to judges themselves. Despite that, these biases can influence judges' decisions. If a judge does not recuse herself/himself by self-revealing a social connection, litigants can petition the court to disqualify the judge from the case. But this procedure is tedious and often ineffective as it

places a very high burden of proof on the party looking to dismiss the judge (i.e., a "bias-in-fact" standard).[21] A well-publicized example of a judge's overt refusal to recuse himself despite being obviously socially connected to a defendant involves Justice Antonin Scalia of the Supreme Court (Frost 2005).[22]

We hypothesize that social connections between judges and corporate executives at defending firms favorably influence lawsuit outcomes in securities class action litigation against U.S. corporations. Why would judges potentially favor defendants they have social connections with? As previously discussed, the literature has proposed four factors that can lead to biased judicial decisions: (a) judges' personal characteristics such as race, gender and religion (Rachlinski and Wistrich 2018), (b) judges' political ideology (Huang et al. 2019), (c) judges' direct financial holdings in defending companies (Harit et al 2022) and finally, (d) homophily (Tabarrok and Helland 1999). A fifth channel, not yet considered in the literature examining judicial biases, involves personal connections formed in educational institutions, such as friendships (Cohen et al. 2008).

In our setting, given our interest in the influence of social connections, we explicitly control for the first three channels (judges' personal characteristics, political ideology, and financial interests). The fourth channel, homophily, is potentially relevant in our setting because common values and perspectives, and shared identities from having attended the same alma mater, can lead judges to be more sympathetic to connected executives at defendant firms. While related to homophily, the fifth channel rests more on the closer connections formed when

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[21] 28 U.S.C. § 144 regulates judge disqualifications. According to section 144 judges must be removed from the case when a party to the case "files a timely and sufficient affidavit that the judge before whom the matter is pending has a personal bias or prejudice either against him or in favor of any adverse party....". The evidence of bias against the judge must be "sufficient to support a conclusion that bias actually exists." Mere appearance of a bias does not suffice.

[22] Justice Scalia sat on *Cheney v. United States District Court of Columbia*, even though he went on vacation with the defendant, Vice President Cheney, soon after the Supreme Court agreed to hear the case. The trip and the potential conflict of interest stemming from this social connection were front-page news stories and despite widespread calls for a recusal, Justice Scalia decided to sit on the case, and ruled in favor of Vice President Cheney.

a judge is personally familiar with a defending executive from having attended the same educational institution.[23]

An important feature of the fifth channel (also shared with homophily) is that it does not depend on any direct benefits arising from easier information exchanges between judges and defendants nor on any explicit exchange of favors. Judges are not allowed to have private channels of communication with executives at defending firms. Further, federal district court judges have lifetime appointments, and their careers are largely independent of those of firm executives. It is conceivable that judges receive private benefits from being generous in their decisions when lawsuits involve connected corporate defendants (such as greater social acceptability, etc.). However, such an exchange of favors would be implicit and unobservable.

Empirically, we examine the following litigation outcomes: dismissal likelihood, case duration until dismissal and/or settlement, and lawsuit payout amounts. If defendant firms whose executives are socially connected to judges obtain more favorable litigation outcomes, the lawsuit would be more likely to be dismissed, the duration of the lawsuit would likely be shorter, and the lawsuit payout amount lower.

3. Data, Key Variables and Sample

To construct our sample of securities class action lawsuits, we employ procedures similar to those in Choi and Prichard (2012) and Huang et al. (2019). Our sample starts in 1996 after the enactment of the Private Securities Litigation Reform Act (PSLRA). We start with all securities class action lawsuit filings available from the Stanford Securities Class Action Clearinghouse (SCAC) over the period of 1996 to 2017. We exclude lawsuits that are 1) unrelated to Rule 10b-5, 2) filed against non-U.S. companies, 3) filed against non-publicly

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[23] For example, Bourveau et al. (2021) find that directors who enjoyed "*direct friendships*" with the French President Sarkozy were more likely to engage in insider trading following the 2007 French Presidential election.

listed firms, and 4) filed against IPO firms.[24] We also exclude firms that are not matchable with Compustat/CRSP databases, and without data to construct control variables.

We obtain data on institutional following from Thomson Reuters, on analyst following from IBES, and on news coverage from RavenPack for years after 2000, and from Factiva for earlier years. Audit Analytics serves the source of our data on restatements. SEC investigations are sourced from both Audit Analytics and the Accounting and Auditing Enforcement Releases (AAERs) from the SEC's website. Data on state level unemployment, state's political leaning, and state GDP come from the U.S. Bureau of Economic Analysis. Data on executives and directors comes from BoardEx and that on lawyers' educational backgrounds from LinkedIn. From the U.S. District Court Civil Docket, we hand-collect information on judge recusals, reassignments and appeals, case allegations, names of defendants, lawyers representing the plaintiffs and defendants for each lawsuit, and the name of the federal judge presiding over the case at the time of final resolution. Information about the judge, including educational background and other characteristics, is from the Federal Judicial Center. We obtain data on judges' financial holdings and other types of cases handled by judges from the Free Law Project. Our final sample consists of 1,647 lawsuits, across 1,357 unique firms.

Table 1 presents descriptive statistics for all variables involved in our multivariate tests of litigation outcomes. All continuous variables are winsorized at the top and bottom percentiles. First, we provide summary statistics on our primary variables of interest that capture litigation outcomes. Conditional on litigation, we examine three litigation outcomes: (1) the likelihood of case dismissal (*Dismissal*), (2) the duration of the case between lawsuit filing and either dismissal or settlement (*Case Duration*), and (3) the payout from the lawsuit

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[24] Prior literature on SCAL removes IPO-related cases and cases against non-U.S. companies citing the underlying differences between these cases and other Rule 10b-5 cases (Kim and Skinner 2012; Huang et al. 2019; Donelson, Kartapanis, McInnis and Yust, 2021; Brogaard, Le, Nguyen, and Sila, 2023). In additional analyses, we confirm that our results are robust to including IPO-related cases. While we are only able to obtain data on the educational background of executives for 23 cases filed against non-U.S. companies, our inferences are unaffected by the inclusion of these cases.

(*Lawsuit Payout*). *Dismissal* is an indicator variable that equals one if the lawsuit ends in a dismissal, and zero otherwise. *Case Duration* is the natural logarithm of the number of days between the case filing date and the dismissal/settlement date. *Lawsuit Payout* is measured as the natural logarithm of one plus the lawsuit payout, where payout is equal to zero for dismissed cases and to the settlement amount for settled cases. The mean value of dismissal is 0.525, indicating that 52.5% of securities lawsuits in our sample were ultimately dismissed. On average, it takes 994 days to settle or dismiss a lawsuit during our sample period. Data on lawsuit payout is available for 1,560 lawsuits and the mean payout equals approximately USD 14.09 million.[25] Out of these 1,560 lawsuits, since the majority are dismissed rather than settled, the median payout is 0. In subsequent multivariate tests, we address the significant skewness in payouts and settlement amounts by using natural logarithms of these variables.

Connect is an indicator variable that equals one if the federal judge presiding over the lawsuit at the time of its resolution is connected with any executive or director of the defendant firm. Following prior studies that examine social connections (e.g. Cohen et al. 2008 and 2010), we focus on school ties between judges and corporate insiders. Specifically, we obtain educational information on judges from the Federal Judicial Center's Biographical Directory of Federal Judges, and on executives and directors from BoardEx. A case is classified as "connected" if the case-presiding judge and at least one of the executives and directors of the defendant firm attended the same university and same school during overlapping periods.[26] In our sample, the judge presiding over the case at the time of its resolution had a social connection with at least one executive or director in the firm in 8% of the cases.

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[25] There are 87 lawsuits which were settled, but we do not observe the settlement amounts from the court filings. These latter lawsuits are excluded from the lawsuit-payouts sample. Thus, the lawsuit-payouts sample includes two types of cases: (a) those that were dismissed and (b) those that are settled for known settlement amounts.

[26] Following Cohen et al. (2008), educational connection is based on attending an institution over an overlapping period and obtaining a degree in the same field from that institution. The degrees are grouped into six categories as follows: (i) business school (Master of Business Administration), (ii) medical school, (iii) general graduate (Master of Arts or Master of Science), (iv) Doctor of Philosophy, (v) law school, and (vi) general undergraduate. In our sample the connections were generated in law school (64%), general undergraduate program (39%), and general graduate program (1%).

All control variables are defined in detail in Appendix A. Our control variables include five broad categories: case characteristics, executive/director characteristics, firm characteristics, judge characteristics, and state characteristics. Summary statistics on control variables are consistent with prior studies (e.g. Karpoff, Lee and Martin 2008; Donelson and Hopkins 2016; Huang et al. 2019). The filing of lawsuits in our sample was accompanied by negative market-adjusted returns of -4.0% on average (*CAR*). The mean (median) class period spans 426 (293) days. Restatements of fiscal periods overlapping with the class period occurred in approximately 21% of cases, while approximately 40% involved GAAP violation allegations. It is common for firms to have an executive or a director with a law degree (76%), and for the General Counsel to be a part of the executive team (64%). Social connections between the lawyers of the defendants (plaintiffs) and the judge are relatively infrequent, with the mean value of *Connect Defendant Lawyer* (*Connect Plaintiff Lawyer*) indicating that 6.1% (4.8%) of cases exhibit such connections. The mean (median) firm-year observation in our sample has leverage of 23% (15.9%), ROA of -5.4% (1.9%), and market-adjusted returns of 9.8% (13%) in the prior year.

Table 2, Panel A presents summary statistics from hand-collected data on reassignments (including recusals) and appeals. Judge reassignments and recusals to either manage judicial workloads, or following class consolidations or appeals can result in the final ruling judge being a different person from the initial judge. Out of 1,647 lawsuits, 295, or 17.9%, were appealed, and of those, only a third (100 cases) witnessed a judge reassignment. Of the remaining un-appealed 1,352 cases, judge reassignments occurred 23% of the time (312 cases), with the primary reason being case consolidations or amendments of complaints.

Table 2 Panel B presents data on how recusal rates, appeal rates and appeal outcomes vary based on whether the initial judge was connected to managers at the defendant firm. Mean

recusal rate is not significantly different when judges are socially connected to managers relative to lawsuits where there are no such connections (12.04% versus 10.29%, respectively).

There is no statistically significant difference between the overall appeal rates on lawsuits with connected initial judges versus those on lawsuits with non-connected judges.[27] Out of all cases that are initially dismissed, the percentage of cases that are never appealed or retain the same outcome even after an appeal is high, and very similar for lawsuits with connected judges and those without (94.59% versus 93.41%, respectively). Overall, we see little evidence of lawsuits overseen by connected judges being challenged or overturned at a higher rate, suggesting that connected judges do not encounter any incremental disciplining mechanism, even if they issue more favorable rulings.

In all subsequent analyses, we classify lawsuits as dismissed or settled based on the final outcome (taking into account the outcomes on appeals, if any). Furthermore, when identifying a judge's social connections with managers at the defendant firm, we focus on the final judge overseeing a lawsuit's resolution. This ensures that we avoid all complications arising from any lawsuit outcome not directly attributable to a judge because of intervening recusals, reassignments upon appeal etc.[28]

Table 2, Panel C examines the assignment of Security Class Action Litigation cases to judges as a fraction of 1) all cases, 2) civil cases, and 3) all security cases handled by the judge in a given year conditional on the connection status. These statistics help to determine whether case assignment across judges in our sample indeed appears random. Judges in our sample handle approximately 377 cases annually (not tabulated). SCAL cases represent less than 2% of all cases, and about 40% of all security cases that judges preside over. More importantly,

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[27] Among lawsuits dismissed under the initial judge (i.e., the most favorable outcome for the defendant), appeal rates for connected lawsuits are 17.57%, which is significantly lower than the 29.53% rate we observe for non-connected cases. Since many appeals are made on procedural violations, one interpretation of this finding is that connected judges are more careful about following procedure when they dismiss lawsuits relative to non-connected judges.

[28] Our inferences are unchanged when social connections are based on the initially assigned judge.

the statistics confirm that SCAL cases, like other cases, are assigned randomly across connected and non-connected judges. For example, SCAL represents 1.37% of all cases for connected judges, while it 1.41% for non-connected judges. Similarly, as a percentage of security related lawsuits, SCAL represents 41% and 39% respectively for connected and non-connected judges. None of the ratios reported in Panel C differs significantly between the connected and non-connected subsamples.

Table 3 lists the top academic institutions that generate the most social connections between federal judges and defendant firms' executives and directors in our sample of lawsuits. Harvard University and University of California, Los Angeles are the most common sources of connections, generating respectively 12.2% and 9.2% of all "connected" cases.

4. Social Connections and Litigation Outcomes

4.1. Univariate Results on Litigation Outcomes

Table 4 provides some preliminary insights into the differences in litigation outcomes based on whether judges and executives are socially connected. The table reports mean levels of various litigation outcomes as well as control variables for cases where judges and executives and directors are socially connected (*Connect*=1) and for those where they are not (*Connect*=0), and p-values from t-tests of the mean differences. For variables that involve unscaled values such as *Case Duration*, *Lawsuit Payout*, *Class Period*, *Size* and analyst following (*Analyst*), the univariate tests rely on logarithmic transformations due to the substantial skewness in the variables.

We find that connected cases exhibit significantly higher dismissal rates and are resolved more quickly. The economic magnitudes of these effects are quite large. Connections to the judge increase the likelihood of dismissal by 24% (from 51.5% for *Connect*=0 to 64.1% for *Connect*=1) and reduce the (logged) number of days until resolution, i.e., *Case Duration*,

by approximately 21%. Lawsuit payouts in connected cases are about 49% lower than in cases without connections.[29] Our preliminary evidence from the univariate tests is thus consistent with the interpretation that social connections between judges and firms influence the judicial process, resulting in more favorable litigation outcomes for connected firms.

Following prior literature, we proxy for case severity with a number of different variables: *Class Period*, market reaction upon the filing of the case (*CAR*), market-based estimate of maximum damages (*Provable Loss*), news coverage of the case, security offerings (*Security Offering*), allegations of GAAP violations and insider trading, as well as restatements for fiscal periods overlapping with the class period and SEC investigations initiated before the filing date.[30] None of these variables is significantly different for cases for which *Connect* takes the value of one from those where it is equal to zero. This lack of disparity in case severity is not entirely surprising, since district court judges are usually randomly assigned to cases. The univariate evidence suggests that cases with socially connected judges experience more favorable outcomes even though the severity of connected and non-connected cases is similar.

Analyzing executive and judge characteristics next, we find that connected firms are more likely to have an executive General Counsel (*GC Exec*) as well as at least one non-General Counsel executive or director with legal expertise (*Law Degree Exec/Dir*). These findings are unsurprising in that law schools generate the majority of connections in our sample. Turning to firm characteristics, we observe that connected cases involve significantly larger firms than non-connected cases. This is as expected since, among firms experiencing a lawsuit, those that are larger are more likely to have executives and directors connected with federal judges.

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[29] The percentage difference is computed from the difference in logged amounts as follows. For lawsuit payout, the percentage difference is (EXP[0.516 - 1.195] -1)*100%, or -49% approximately. For case duration, the percentage difference is (EXP[6.377-6.612] -1)*100%, or -21% approximately.

[30] See, for example, Griffin, Grundfest, and Perino (2004), Karpoff et al. (2008), Donelson and Hopkins (2016), Donelson et al. (2021), Carrizosa and Cazier (2022), Donelson, Kartapanis, and Yust (2023). The coding of GAAP violation and insider trading allegations is based on the reading of the lawsuit complaints since keyword searches are likely to result in false negatives and/or false positives (Donelson et al. 2021, Online Appendix C). While the frequency of the insider trading allegation and GAAP violation allegations in our sample is similar, the correlation between the two variables is only 24%.

Connected firms are also less likely to report losses and have slightly larger analyst following. With respect to judge characteristics, we observe that connected judges have shorter experience (*Judge Experience*) and are more likely to be local to the firm's headquarters (*Local Judge*).

4.2. Multivariate Results on Litigation Outcomes

The following regression tests whether Securities Class Action Litigation outcomes vary with social connections of the defendant firm's executives/directors and the federal judge presiding over the case:

$$LitigationOutcomes_{it} = \beta_0 + \beta_1 Connect_{it} + \gamma' X_{it} + HQ\ State\ FE + Filing\ Circuit\ FE +$$

$$+ Industry\ FE + Year\ FE + \varepsilon_{it}$$

(1)

where i indexes firms, and t indexes time, respectively. X represents a vector of control variables, which we discuss in more detail below. Conditional on litigation, we examine the following litigation outcomes as defined before: *Dismissal*, *Case Duration*, and *Lawsuit Payout*. We estimate the model using OLS for all litigation outcomes but additionally employ a logit model when the dependent variable is the binary variable *Dismissal*.

The coefficient on the primary explanatory variable of interest (*Connect),* β_1, in regression (1) provides an estimate of the effect of the judicial connections on various litigation outcomes. We control for a set of variables that are known to affect litigation outcomes. Specifically, we control for severity of the underlying cases using a variety of measures used in prior literature and described in Section 4.1. We control for ex ante litigation risk using the Kim and Skinner (2012) measure (*LitRisk KS*), and for firm characteristics such as size (*Size*), capital structure (*Leverage*), return on assets (*ROA*), the incidence of a loss (*Loss*), and stock returns (*Returns*) (Lang and Lundholm, 1993; Kasznik and Lev, 1995; Miller, 2002; Chen, Matsumoto and Rajgopal, 2011). Analyst following (*#Analysts*) is included to account for the influence of external monitors on litigation outcomes. Legal expertise of managers and

directors may affect litigation outcomes while also increasing the likelihood of a law-school-based connection. Our tests control for such legal expertise using an indicator variable for the presence of a General Counsel on the executive team (*GC Exec*) and a law degree among other executives or directors *(Law Degree Exec/Dir)*. Further, both defendants and plaintiffs may attempt to influence lawsuit outcomes by hiring lawyers that have connections to the judge. We control for this possibility by including the indicator variables *Connect Defendant Lawyer* and *Connect Plaintiff Lawyer*, each of which is an indicator variable for whether any of the corresponding lead attorneys has an educational connection with the judge.

State economic growth (*GDP Growth*), unemployment (*Unemployment*), and political leaning (*Blue State*) control for the effect of local economic conditions and political ideology on litigation risk. Our models additionally include various judge characteristics, such as gender, race, experience, location relative to the defendant firm's headquarters and judge's political ideology (*Female Judge*, *White Judge*, *Judge Experience*, *Local Judge*, and *Democratic Judge*). In the light of reports that federal judges sometimes fail to recuse themselves despite a financial conflict (Wall Street Journal, September-November 2021), we also control for the judge's stock holdings in the defendant company (*Judge Holdings*).[31] We provide more details on all these variables in Appendix A.

In our baseline specification, we include fixed effects for the state of a firm's headquarters (*HQ State FE)* to control for time-invariant state characteristics, and also for the filing circuit court (*Filing Circuit FE*) to address the possibility that the lawsuit was not filed in the state of the firm's headquarters.[32] Industry (*Industry FE*) and year (*Year FE*) fixed effects absorb any industry and temporal variation in litigation. We cluster standard errors at firm level.

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[31] We obtain judges' stock holdings from the Free Law Project (https://free.law/), the source of data used in the articles on federal judges' stock holdings published by The Wall Street Journal (Wall Street Journal, September-November 2021). Only six judges in our sample held stock in the defendant company during the trial period.

[32] Our empirical choice is similar to prior studies that examine litigation outcomes (e.g. Huang et al. 2019). In particular, we refrain from including firm fixed effects in this regression. This is because tests of litigation outcomes are conditional on the incidence of lawsuits, and firms experience lawsuits infrequently (often only once

Table 5 presents the results of our multivariate tests on how social connections affect corporate litigation outcomes. In Panel A we focus on the most desirable outcome from the defendant's perspective: dismissal. We estimate both logit (Columns (1) and (2)) and OLS models (Columns (3), (4), and (5)) and present results first without and then with control variables. Column (5) additionally includes judge fixed effects.

All specifications consistently show that the likelihood of case dismissal is significantly higher for connected cases. The coefficient on *Connect* is positive and significant with p-values less than 0.05 in both the logit and the OLS specification. The coefficient in Column (4) suggests that after controlling for various factors affecting the likelihood of SCAL dismissal, managers' connections to judges increase the chances of dismissal by 11 percentage points, with the magnitude increasing in Column (5) to 16.8 percentage points with the inclusion of judge fixed effects.

The signs of estimated coefficients on the control variables are intuitive and consistent with findings in prior studies (e.g. Kim and Skinner, 2012; Donelson and Hopkins 2016; Huang et al. 2019). More serious cases (measured with longer *Class Period*, lower *CAR*, more *News Coverage, Insider Trading Allegation, GAAP Allegation, SEC Investigation, and Restatement*), and cases against loss firms are less likely to be dismissed. While there is some evidence that the presence of plaintiffs' lawyers connected to the judge decreases dismissal likelihood, we find no statistically significant effect of connected defendant lawyers.[33] Finally, legal expertise of the executives (*GC Exec* and *Law Degree Exec/Dir*) helps to get the case dismissed.

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within our sample period). Firm fixed effects would result in identification based only on firms that experience multiple lawsuits during our sample period, effectively eliminating most firms from the analysis.

[33] Untabulated correlations reveal that firms hire connected defendant lawyers more frequently to represent them when cases are particularly severe (i.e. cases with GAAP allegations, SEC investigations, and restatements) but less likely to be covered in the news. The numerous controls we impose in our multivariate regressions for case severity and visibility may be a reason that defendant lawyers' connections to judges do not exhibit a significant association with lawsuit outcomes. In contrast, connections among plaintiff lawyers are not significantly correlated with case severity or news coverage.

In Table 5 Panel B, we study lawsuit duration and payout. Columns (1), (2), and (3) in Panel B show that *Case Duration* is significantly lower, implying shorter deliberation periods when managers are socially connected to judges. We also find that cases presided by connected judges have significantly lower lawsuit payouts (Columns (5), (6), and (7), Panel B). The economic magnitudes continue to be large, in line with our univariate evidence. Based on Column (2), connections to judges reduce case duration by approximately 28%. Column (5) results indicate that connected defendants also benefit from lawsuit payouts that are approximately 48% lower than those for similar but non-connected defendant firms. The economic magnitudes become even larger in the specifications with judge fixed effects: connections to judges shorten case duration by 39.6% and reduce lawsuit payout by 58% (Columns (3) and (6) respectively).

While case duration and lawsuit payouts are influenced by case disposition, we continue to observe significantly lower case durations and payouts for connected cases even when we repeat this test controlling for dismissals. As Columns (4) and (8) demonstrate, these results hold after imposing judge fixed effects as well, although the economic magnitude of the effect is attenuated, as expected. Thus, connections reduce duration and lead to lower lawsuit payouts even among settled cases.

4.3. Cross-sectional Tests

We expect the favorable treatment of defendants to be particularly strong when there is a straightforward way for the judge to become aware that a socially connected individual, for example, a former classmate, is affiliated with the defendant firm. Accordingly, our first set of cross-sectional tests divides cases based on whether the connected executives/directors are named as defendants in the case and are thus highly visible to the ruling judge. Executives named as defendants are perceived by plaintiffs as being more directly involved in the alleged misconduct and thus, more likely to suffer reputational and career consequences from the

lawsuit. In those instances, the judge's favorable treatment is thus also more essential to the connected executive. We collect the information from the lawsuit filings and create an indicator variable *Connect Named Defendant* which takes the value of one if the connected executive/director is a named defendant in the lawsuit.

The results of this analysis, tabulated in Table 6, indicate that dismissal likelihood is significantly elevated only if the connected executive/director is a named defendant. Moreover, t-tests comparing coefficients imply that cases in which connected executives are named as defendants are significantly more likely to end with dismissal than those cases in which connected executives are not named. They are also significantly more likely to be resolved earlier and with a significantly lower payout amount.

Further, we examine whether the sensitivity of lawsuit outcomes to connections varies with the perceived costs and benefits of issuing biased rulings. As part of this cost-benefit framework, we first explore whether lawsuit outcomes are less favorable in connected cases when the firms involved in the lawsuits, or the lawsuits themselves, are more visible. Such evidence would suggest that judges consider anticipated scrutiny as a potential cost to conducting the case in a defendant-friendly fashion. We capture the visibility of the case itself by measuring its coverage in the news, and classifying cases with above median news coverage as highly visible (*More News*). We present the results based on news coverage of the case in Table 7, Panel A. Second, we construct a comprehensive visibility index based on firm characteristics including size, analyst following and institutional ownership. Firms that rank above industry median on these criteria are classified as more visible (*More Visible*). The results of this test are reported in Table 7, Panel B.

When the outcome of interest is *Dismissal*, we observe that connections to judges only have a statistically significant effect when either the lawsuit or the firm is less visible. Moreover, we compare the coefficients on *Connect More News* and *Connect Less News* in Panel A, and

Connect More Visible and *Connect Less Visible* in Panel B. Tests of differences of these coefficients, indicate that the impact of social connections on dismissal likelihood is significantly *weaker* when the lawsuits, or companies involved in the lawsuits are highly visible. We further observe that the influence of connections on case durations is also more pronounced when visibility of the lawsuit or the firm is lower. These results suggest judges are careful not to be perceived as biased in more high-profile lawsuits.[34] While the economic magnitudes of the effect of connections on lawsuit payouts are weaker for highly visible cases/firms in both Panels, the differences are not statistically significant.[35]

Our next set of analyses examines whether lawsuit outcomes are more favorable when connected judges are more likely to perceive social benefits to issuing biased rulings. As a source of variation in perceived social benefits, we rely on the likelihood of direct connections between judges and executives, which we measure with the size of the educational program and by varying the measurement of social connections.

With respect to the size of the program, larger programs allow for more extensive alumni networks as well as overlap between more individuals. However, *conditional* on overlapping attendance at the same program, the likelihood of a direct social connection should be higher at a *smaller* program. We modify equation (1) to allow for the coefficient on social connection to be estimated separately for connections generated by small and large educational

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[34] Our inferences are robust to various alternative cutoffs (not tabulated). For example, instead of partitioning on the median, we use the top quartile of news coverage to classify lawsuits as having more news coverage. Similarly, in an alternative specification, we classify a firm as visible if at least one of the three characteristics used to create the visibility proxy in Panel D is in the top quartile. We also create three separate proxies for visibility based on (1) above-median firm size, (2) above-median analyst following, and (3) above-median institutional following. Finally, we use membership in S&P 1500, or alternatively, membership in S&P 500, to measure visibility. Each of these proxies/specifications leads to similar conclusions: judges are more likely to grant lenient treatment to connected defendants when the firm/lawsuit is less visible.

[35] We are unable to conduct our cross-sectional tests with judge fixed effects because the identification becomes too demanding. Not only do we need judges that handled at least one connected and one non-connected case, we also need variation with respect to the cross-sectional partition (i.e. cases with a connected executive named as defendant versus not named as defendant etc.). Depending on the partition, including judge fixed effects in cross-sectional tests would reduce the number of useful observations to at best 86 and at worst 27 (corresponding to a maximum of 10 and a minimum of 5 judges).

programs. Instead of *Connect*, we include in the model two separate variables: *Connect Small Program* and *Connect Large Program*. Small (Large) programs are defined as below (above) the median size in terms of student enrollment.[36] The results from this cross-sectional test, along with the tests of differences of coefficients on *Connect Small Program* and *Connect Large Program*, are reported in Table 8, Panel A. These tests indicate that the impact of social connections on dismissal likelihood, trial days and lawsuit payout is significantly stronger when judges and executives have overlapping attendance at smaller programs. The results on program size thus suggest that the effects we observe are due to direct personal connections between judges and executives/directors. We explore this notion further in our next set of analyses by varying the measurement of social connections.

To increase the likelihood of direct interaction, we first focus on overlapping attendance at the law school. The law school is the single biggest within-university source of judge-executive connections in our sample (64% of all connections). The other primary source of connections is the undergraduate program. We reason that law programs, typically much smaller than undergraduate programs, offer a higher likelihood of direct connections. Additionally, all judges necessarily attend law school, while the majors and minors that judges and executives pursued within the undergraduate programs are unobservable to us. Table 8, Panel B presents the results based on this alternative measure of connections. All results are statistically robust to this specification, and the economic magnitudes of the results are higher than in the main specification.

Second, we relax our requirement that the judges and the executives overlap at any specific school, instead requiring overlapping attendance only at the same university. This

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[36] Historical enrollments are not readily available. Consequently, we use current enrollment as a proxy for relative size across all years the program is in our sample, based on the assumption that relative sizes of programs are fairly persistent. For 15 law schools that generated a connection, enrollment is not available, and in those cases we rely on the relative size of the undergraduate program of the university that hosts the law school instead. Using this classification, the respective frequency of *Connect Small Program* and *Connect Large Program* is around 0.04 each (note that the overall frequency of connected cases is 0.08, i.e., 8%))

provides a potentially wider set of connections, but it weakens the power of the measure to detect *direct* connections between judges and executives. In Panel C of Table 8, we observe that with this measure, the influence of connections on dismissal likelihood and case duration remains statistically significant but becomes economically smaller than in the main specification.

Finally, we relax the requirement of overlapping attendance, and measure social connections based on education at the same university and same school. Allowing non-overlapping attendance to be classified as generating social connections widens the pool of individuals connected through the shared values and perspectives of having attended the same alma mater. At the same time, this empirical choice makes it less likely that a connection involves direct acquaintance. Panel D of Table 8 shows that non-overlapping educational history at the same school (or, in untabulated robustness tests, at the same university) has no significant influence on any litigation outcome.

Our results become progressively weaker as our empirical measure becomes increasingly *less* likely to capture a direct social connection between judges and executives. Thus, the favorable influence of social connections on litigation outcomes cannot just be attributed to judges and executives sharing similar values from a common alma mater, since requiring overlapping attendance is necessary to obtain significant results. Rather, the results are more consistent with litigation outcomes being affected when judges and defendant managers share personal connections.

Importantly, our conclusions from the cross-sectional tests are not likely to be driven by weaker power due to fewer observations in the subsamples of lawsuits in which connected executives/directors are not named as defendants, the lawsuits/firms have higher visibility, or the programs are larger. In each panel of Tables 6 through 8, the frequency of connected cases

in the subsamples in which we obtain weaker or no significant results is always very similar or even higher than in the subsamples with significant or stronger results.[37]

To summarize the findings in our cross-sectional tests, a judge is more likely to extend favorable treatment when a socially connected executive is named as defendant. Further, our results suggest that judges are influenced by the perceived costs and benefits of their actions. In particular, judges are less likely to issue favorable rulings when the scrutiny/visibility of the case or the firm is high, and more so when their connections to firm executives are more direct.

5. Additional Tests

5.1. The Role of Connected General Counsels and Outside Directors

In additional tests, we look more closely within the pool of executives and directors. We first study the effects of connected executive General Counsels (*GC Exec Only*). General Counsels are increasingly likely to be part of the executive team, as evidenced by their presence in 64% of the firms in our sample. Because of their legal background General Counsels are particularly likely to have formed educational connections with judges. In these tests, tabulated and described in the Online Appendix, we find that social connections of General Counsels play an important role in obtaining more favorable litigation outcomes for the firm, although connections of other executives and directors matter as well.

Second, we distinguish outside directors from insiders. Outside directors essentially represent a placebo group. Since they typically play a monitoring role and are more aligned with outside shareholders, i.e., the plaintiffs in SCAL, we do not expect outside directors' connections to judges to play as significant a role in obtaining more defendant-friendly

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[37] The only exception is the Visibility Index in Table 7 Panel B, where the frequency of connections in the *Less Visible* subsample is higher than in the *More Visible* one (5.2% versus 2.7% respectively). However, we also test robustness after partitioning on the medians of the components of the Visibility Index, and, alternatively, based on the S&P 1500 membership. For each of these partitions, the frequency of judicial connections is either very similar or lower when the sued firm is less visible. Please see the Online Appendix for a table listing frequencies of connections in all partitions of our cross-sectional tests.

outcomes. Consistent with this, we find weaker or no significant effects of outside directors. Our Online Appendix reports these results.

5.2. Instrumental Variables (IV) Regressions – Litigation Outcome Tests

We additionally conduct an instrumental-variables (IV) analysis, in which new federal judicial appointments serve as the instrument for changes in social connectedness. The outcomes of presidential elections, rather than state or local politics, determine the selection and appointment of federal judges (Lyles, 1997). As such, these new appointments are likely exogenous with respect to the judge's pre-existing educational connections to various executives and directors, and with respect to any particular lawsuit. Moreover, judges are typically randomly assigned to Rule 10b-5 cases. Thus, the appointment of a judge connected to a firm increases that firm's possibility of being assigned a connected judge in the event of a lawsuit, therefore satisfying the relevance condition for an instrument.[38] The results of these IV regressions are tabulated and discussed in detail in the Online Appendix. They confirm our previous inferences that stronger connections to district court judges result in significantly greater likelihood of dismissal, faster lawsuit resolution, and lower payouts.

5.3. Robustness Tests

To mitigate concerns that our results in part reflect inherent differences between treated and control firms, we examine whether our results are robust to propensity score matching (PSM). For tests on litigation outcomes, the first stage of the PSM procedure models the connected status of a judge to the firm on a specific lawsuit (i.e., *Connect*) as a function of the control variables already introduced in Table 5. In the second stage we match each treatment firm to a control firm based on a caliper of 0.02 in the first-stage probability estimate. Subsequently, we re-estimate the regression in Table 5 on this PSM sample. Both first and

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[38] We do not use director or executive departures as instruments because such departures might be driven by litigation or other related firm characteristics (e.g., performance).

second stages include headquarter state, filing circuit court, industry, and year fixed effects. While the PSM procedure reduces the sample size significantly, these un-tabulated tests confirm that the results in Table 5 on higher dismissal likelihood, shorter case duration, and lower lawsuit payout are robust to using the PSM sample.

Additionally, we check the sensitivity of our results to removing cases that were (1) reassigned, or (2) appealed. Our results are fully robust to these sensitivity tests. Our main analyses focus on judges presiding over the case at the time of the resolution. The identity or educational background of the judge is missing in 24 cases. In those cases, we use the identity and the educational background of the initially assigned judge. However, we obtain the same results when we remove these 24 cases from our sample.

We also re-estimate our main tests with a count variable *Number of Connections* (constructed as natural logarithm of one plus the number of connections) in place of an indicator variable *Connect* and the results of this analysis (not tabulated) indicate that the number of connections increases the likelihood of lawsuit dismissal, lowers case duration, and reduces lawsuit payout.

A number of additional analyses assess the robustness of our conclusions with respect to the statistical and economic significance of the coefficients of interest. First, in line with similar tests in Bourveau and Law (2021) and Garel, Martin-Flores, Petit-Romec and Scott (2021), we randomly assign connections between judges and defendant firms' executives and re-estimate our main specification 10,000 times. These randomly assigned connections do not show any consistent pattern of association with lawsuit dismissals.

Second, following established methodologies (Efron and Tibshirani, 1993; Hung and Subramanyam, 2007; Chiang et al., 2010; Chen et al., 2023), we employ the bootstrapping approach in the estimations of Column (4) in Panel A, Table 5, and Column (3) and (7) in Panel B, Table 5. Specifically, we create 1,000 bootstrap samples by randomly drawing, with

replacement, N observations from the original sample, where N represents the total number of observations in the baseline sample (1,647 in our case). *Connect* is statistically significant in this estimation (p-values less than 0.05) with economic magnitudes very similar to those obtained from the above-referenced columns in Table 5.[39]

Third, we use the Oster (2019) approach to evaluate robustness of our results to potential omitted variable bias. Based on this test, for unobservable variables to overturn the results and produce a zero coefficient on *Connect*, they would need to be 9.99 (5.75) times as important as the control variables included in Table 5, Panel A, Column (4) (Column (5)). According to Oster (2019), and as applied by subsequent studies (Bernard, Kay and Wertz 2021; Bao, Kim and Su 2022), a value of 1 (i.e., observables are at least as influential as unobservable omitted variables) constitutes an appropriate threshold. Our results are thus unlikely to be driven by unobservable omitted variables.

6. Conclusion

Our research examines whether social connections influence the outcomes of Security Class Action Litigation. We find that cases assigned to judges with social connections to a defendant firm's executives are resolved on more defendant-friendly terms. First, such cases are 24% more likely to be dismissed than cases involving no social connections between presiding judges and the defendant firm's executives. Defendants connected to judges can thus expect a quicker resolution and higher probability of avoiding monetary payouts. Second, even controlling for dismissals, connected cases are resolved faster and settle for significantly lower amounts. These results are robust to a variety of specifications and econometric techniques that address potential selection concerns.

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[39] Please see the Online Appendix for these results as well as the results of the test with randomly assigned connections.

Our findings further suggest that the influence of social connections on litigation outcomes reflect the benefits of direct acquaintance developed at educational institutions during overlapping attendance, rather than those of homophily from having attended the same alma mater. Importantly, consistent with judges being conscious of their biases and weighing scrutiny over the case against more favorable treatment of their acquaintances, the effects are only present or more pronounced when the case or the defendant firm is less visible. Finally, more favorable treatment of connected cases occurs mostly when the connected executives/directors are named as defendants in the lawsuit, providing a mechanism for how judges learn about their former classmates' affiliation with the defendant firm.

While judges' financial conflicts of interest have been the subject of recent scrutiny (WSJ 2022) and Congress legislation, our evidence of conflicts of interest arising from social connections is new. Even though the Code of Conduct for United States judges explicitly forbids judges to allow social relationships to influence their conduct, we find that such connections result in significantly different outcomes for similar financial misconduct.

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Appendix A Variables Definitions

Variables	Definitions
Dismissal	An indicator variable that equals one if lawsuit ends in a dismissal, and zero otherwise.
Case Duration	The natural logarithm of the number of days between the case filing date and the dismissal/settlement date.
Lawsuit Payout	The natural logarithm of one plus the lawsuit payout, where payout is equal to zero for dismissed cases and equal to the settlement amount for settled cases.
Connect	An indicator variable equal to one if the federal judge handling the lawsuit at the time of its resolution was connected with any executive or director of the defendant firm, and zero otherwise. We classify a judge and a defendant firm as socially connected when the judge overlapped at the same school at either undergraduate or post-graduate institution with at least one senior officer or director from that firm.
Cross-Sectional Factors	
Connect Named Defendant	An indicator variable that equals one if any executives or directors of the defendant firm were listed in the defendant list and at least one of the named defendants was connected with the federal judge and zero otherwise.
Connect Not Named	An indicator variable that equals one if connection is not from the named defendants and zero otherwise.
Connect More News	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any executive or director of the defendant firm and the number of news covering the class action lawsuits during the windows of (0,+30) around the filing date was above the median and zero otherwise.
Connect Less News	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any executive or director of the defendant firm and the number of news covering the class action lawsuits during the windows of (0,+30) around the filing date was below the median and zero otherwise.
Connect More Visible	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any executive or director of the defendant firm and defendant firm was above the industry median in firm size, analyst following and institutional ownership, and zero otherwise.
Connect Less Visible	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any executive or director of the defendant firm and defendant firm was below the industry median in firm size, analyst following and institutional ownership, and zero otherwise.
Connect Small Program	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any executive or director of the defendant firm and they were connected via a small program with student enrollment below the median, and zero otherwise.
Connect Large Program	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any executive or director of the defendant firm and they were connected via a large program with student enrollment above the median, and zero otherwise.
Case Characteristics	
Class Period	The natural logarithm of one plus the period covered by the lawsuits.
CAR	The three-day cumulative abnormal returns surrounding the filing date of securities class action lawsuits. We estimate benchmark model parameters over the 200-day window (event days -210 to -11) using the CRSP value-weighted market index as the benchmark.
Provable Loss	The percentage change in the firms' market capitalization from its highest point during the class period to the day the class action lawsuit is filed, times -1.
News Coverage	The natural logarithm of one plus the number of news articles covering the class action lawsuit during the windows of (0,+30) where day 0 is the filing date. The data is from Factiva before 2000 and from RavenPack after 2000.
Insider Trading Allegation	An indicator variable that equals one if insider trading charges were included in complaint filings and zero otherwise.

GAAP Allegation	An indicator variable that equals one if GAAP violation allegations were included in complaint filings and zero otherwise.
SEC Investigation	An indicator variable that equals one if there is any SEC investigation between the start of the class period and the lawsuit filing date, and zero otherwise.
Restatement	An indicator variable that equals one if the misstatement period overlapped with class period and restatement is announced before the filing date of the class action lawsuit.
Security Offering	An indicator variable that equals one if there is new securities offering during the class period and zero otherwise.
Connect Defendant Lawyer	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any lead attorneys of the defendants, and zero otherwise. We classify a judge and a lead attorney as socially connected when the judge overlapped at the same school at either undergraduate or post-graduate institution with the lead attorney.
Connect Plaintiff Lawyer	An indicator variable that equals one if the federal judge handling the lawsuit at the time of its resolution was connected with any lead attorneys of plaintiffs, and zero otherwise. We classify a judge and a lead attorney as socially connected when the judge overlapped at the same school at either undergraduate or post-graduate institution with the lead attorney.
Executive/Director Characteristics	
GC Exec	An indicator variable equal to one if the firm has a General Counsel on the executive team and zero otherwise.
Law Degree Exec/Dir	An indicator variable equal to one if any of the firm's executives or directors (other than General Counsels) holds a law degree and zero otherwise.
Firm Characteristics	
LitRisk KS	*Ex ante* class action litigation risk at the beginning of year t, calculated using the coefficient estimates from Model (3) in Kim and Skinner (2012).
Size	The natural logarithm of market value of equity at the beginning of year t.
Leverage	The ratio of total debt over total assets at the beginning of year t.
ROA	The operating income before depreciation scaled by total assets at the beginning of year t.
Loss	An indicator variable that equals one if the operating income before depreciation at the beginning of year t is negative and zero otherwise.
InstOwn	The percentage of firm's institutional ownership at the at the beginning of year t.
#Analysts	The natural logarithm of one plus the number of unique analysts following a firm in a fiscal year.
Returns	The cumulative monthly value-weighted market returns in year t-1.
Judge Characteristics	
Judge Holdings	An indicator variable equal to one if the judge holds shares of the defendant firm during the class action lawsuit and zero otherwise.
Female Judge	An indicator variable equal to one if the judge is female and zero otherwise.
Judge Experience	The age of the judge in the filing year.
White Judge	An indicator variable equal to one if the judge's race is White and zero otherwise.
Democratic Judge	An indicator variable equal to one if the judge's political party is Democratic and zero otherwise.
Local Judge	An indicator variable equal to one if the judge's birth state is the headquarter state of the listed firm and zero otherwise.
State Characteristics	
Unemployment	The unemployment rate of the firm's headquarter state at the beginning of year t
GDP Growth	The percentage change in GDP of the firm's headquarter state from year t-1 to year t.
Blue State	An indicator variable equal to one if the firm's headquarter state favors a Democratic candidate in the most recent presidential election and zero otherwise.

Table 1 Summary Statistics

Table 1 provides summary statistics for the variables used in litigation outcome tests. The sample period is from 1996 to 2017. All variables are defined in Appendix A.

	N	Mean	Std	P25	Median	P75
Dismissal	1,647	0.525	0.500	0.000	1.000	1.000
Case Duration (Raw)	1,647	994.400	711.100	492.000	841.000	1311.000
Lawsuit Payout (Raw)	1,560	14.090	41.570	0.000	0.000	7.775
Connect	1,647	0.080	0.271	0.000	0.000	0.000
Case Characteristics						
Class Period (Raw)	1,647	426.400	399.800	155.000	293.000	556.000
CAR	1,647	-0.040	0.144	-0.061	-0.011	0.020
Provable Loss (Raw)	1,647	4384.000	11346.000	277.000	744.600	2498.000
News Coverage	1,647	2.268	1.664	0.693	2.197	3.784
Insider Trading Allegation	1,647	0.392	0.488	0.000	0.000	1.000
GAAP Allegation	1,647	0.397	0.489	0.000	0.000	1.000
SEC Investigation	1,647	0.123	0.328	0.000	0.000	0.000
Restatement	1,647	0.213	0.409	0.000	0.000	0.000
Security Offering	1,647	0.158	0.365	0.000	0.000	0.000
Connect Defendant Lawyer	1,647	0.061	0.239	0.000	0.000	0.000
Connect Plaintiff Lawyer	1,647	0.048	0.214	0.000	0.000	0.000
Executive/Director Characteristics						
GC Exec	1,647	0.643	0.479	0.000	1.000	1.000
Law Degree Exec/Dir	1,647	0.761	0.426	1.000	1.000	1.000
Firm Characteristics						
LitRisk KS	1,647	0.339	2.916	-1.260	-0.212	1.207
Size (Raw)	1,647	8934.000	24413.000	352.400	1131.000	4164.000
Leverage	1,647	0.230	0.235	0.009	0.181	0.366
ROA	1,647	-0.054	0.276	-0.048	0.019	0.070
Loss	1,647	0.492	0.500	0.000	0.000	1.000
InstOwn	1,647	0.461	0.375	0.000	0.519	0.801
#Analysts (Raw)	1,647	10.340	11.230	0.000	7.000	16.000
Returns	1,647	0.098	0.175	-0.016	0.130	0.223
Judge Characteristics						
Judge Holdings	1,647	0.004	0.060	0.000	0.000	0.000
Female Judge	1,647	0.271	0.445	0.000	0.000	1.000
Judge Experience	1,647	60.020	9.883	53.000	59.000	66.000
White Judge	1,647	0.778	0.416	1.000	1.000	1.000
Democratic Judge	1,647	0.536	0.499	0.000	1.000	1.000
Local Judge	1,647	0.440	0.496	0.000	0.000	1.000
State Characteristics						
Unemployment	1,647	0.058	0.018	0.046	0.054	0.064
GDP Growth	1,647	0.047	0.028	0.030	0.045	0.064
Blue State	1,647	0.749	0.434	0.000	1.000	1.000

Table 2 Descriptive Statistics on Appeals and Judge Reassignments

Table 2 provides descriptive statistics on case appeals and judge reassignments (including recusals) in the sample of Rule 10b-5 lawsuits spanning 1996-2017 in Panel A and Panel B. Panel C provides summary statistics on judges' workload. The analysis in Panel B is based on social connections between the initial judge assigned to the case (before any appeal or reassignment) and defendant company's executives and directors. The sample for which we have data to compute initial connection status includes 1,624 lawsuits, with judges being connected to executives in 6.65% of them.

Panel A Appeals and Judge Reassignments			
Total Number of Cases (Full Sample)	1,647		
Number of Appealed Cases		295	
Number of Reassigned Cases			100
Number of Not Reassigned Cases			195
Number of Not Appealed Cases		1,352	
Number of Reassigned Cases			312
Number of Not Reassigned Cases			1,040

Panel B Rates of Recusal, Appeal and Dismissal by *Initial* Connection Status			
	Cases with *Initial* Connection	Cases with No *Initial* Connection	p-value for Mean Diff
Recusal Rate	12.04%	10.29%	0.566
Appeal Rate	13.39%	18.47%	0.233
As a percentage of Initially Dismissed Cases:			
Appeal Rate	17.57%	29.53%	0.029
Initially Dismissed Cases that are Either Not Appealed or Remain Dismissed after the Appeal	94.59%	93.41%	0.693

Panel C Judges' Case Distribution			
SCAL/Total Cases	1.37%	1.41%	0.93
SCAL/Total Civil Cases	1.38%	1.42%	0.93
SCAL/Security Cases	41.04%	39.09%	0.55

Table 3 Academic Institutions Yielding the Most Connections in 10b-5 Lawsuits

Table 3 provides a list of academic institutions yielding the most connections between federal judges and defendant company's executives or directors in 10b-5 lawsuits. The sample period is from 1996 to 2017. The total number of connections in our sample is 131. Table 3 and subsequent tables are based on social connections between the final judge presiding over the case (after appeals and reassignments) and the defendant company's executives and directors.

Academic Institutions Yielding the Most Connections in 10b-5 Lawsuits		
Academic Institution	Number of Cases with Connections	As Percentage of All Cases with Connections
Harvard University	16	12.21%
University of California, Los Angeles	12	9.16%
Stanford University	7	5.34%
University of Texas at Austin	6	4.58%
University of Minnesota	6	4.58%
University of California, Berkeley	5	3.82%
University of Southern California	3	2.29%
University of Pennsylvania	3	2.29%
Princeton University	3	2.29%
Ohio State University	3	2.29%
Georgetown University	3	2.29%
Duke University	3	2.29%

Table 4 Univariate Analyses

Table 4 presents two-sample T-tests of differences in means for the subsamples of lawsuits where *Connect*=1 versus *Connect*=0. The sample period is from 1996 to 2017. The sample includes 1,647 lawsuits, with judges being connected to executives in 7.95% of them. All variables are defined in Appendix A. ***, **, and * denote statistical significance (two-sided) at the 1%, 5%, and 10% levels, respectively.

	Means			
	Connect=1	*Connect=0*	**p-value (diff.=0)**	
Dismissal	0.641	0.515	0.00	***
Case Duration	6.377	6.612	0.00	***
Lawsuit Payout	0.516	1.195	0.00	***
Case Characteristics				
Class Period	5.618	5.594	0.81	
CAR	-0.038	-0.040	0.83	
Provable Loss	0.487	0.497	0.67	
News Coverage	2.217	2.273	0.71	
Insider Trading Allegation	0.366	0.394	0.54	
GAAP Allegation	0.366	0.399	0.45	
SEC Investigation	0.122	0.123	0.99	
Restatement	0.198	0.214	0.68	
Security Offering	0.145	0.160	0.66	
Connect Defendant Lawyer	0.084	0.059	0.25	
Connect Plaintiff Lawyer	0.076	0.046	0.11	
Executive/Director Characteristics				
GC Exec	0.855	0.625	0.00	***
Law Degree Exec/Dir	0.901	0.749	0.00	***
Firm Characteristics				
LitRisk KS	0.905	0.290	0.02	**
Size	7.801	7.129	0.00	***
Leverage	0.254	0.228	0.22	
ROA	-0.032	-0.056	0.34	
Loss	0.397	0.500	0.02	**
InstOwn	0.459	0.461	0.96	
#Analysts	1.940	1.739	0.09	*
Returns	0.085	0.099	0.38	
Judge Characteristics				
Judge Holdings	0.008	0.003	0.43	
Female Judge	0.259	0.272	0.76	
Judge Experience	57.832	60.209	0.01	**
White Judge	0.771	0.778	0.85	
Democratic Judge	0.542	0.536	0.89	
Local Judge	0.565	0.429	0.00	***
Holdings	0.008	0.003	0.43	
State Characteristics				
Unemployment	0.058	0.058	0.81	
GDP Growth	0.046	0.047	0.84	
Blue State	0.733	0.751	0.65	

Table 5 Judge–Manager Social Connections and Litigation Outcomes

Table 5 examines the association between social connections and litigation outcomes. Social connections are defined as the federal judge presiding over the case at the time of its resolution and the defendant company's executives sharing educational experience at the same school of the same higher education institution in an overlapping period. The sample period is from 1996 to 2017. All variables are defined in Appendix A. Intercepts are included but unreported. *t*-statistics are presented below the coefficients in parentheses. ***, **, and * denote statistical significance (two-sided) at the 1%, 5%, and 10% levels, respectively. Standard errors are corrected for heteroscedasticity and are clustered at the firm level.

	Panel A Lawsuit Dismissal				
	(1)	(2)	(3)	(4)	(5)
	Logit	Logit	OLS	OLS	OLS
	Dismissal	*Dismissal*	*Dismissal*	*Dismissal*	*Dismissal*
Connect	**0.657**	**0.592**	**0.139**	**0.110**	**0.168**
	(2.88)* **	**(2.44)** **	**(2.84)*** **	**(2.37)** **	**(2.47)** **
Class Period		-0.112		-0.021	-0.037
		(-1.67)*		(-1.53)	(-1.93)*
CAR		1.503		0.266	0.317
		(3.35)***		(3.37)***	(2.64)***
Provable Loss		-0.475		-0.093	0.016
		(-1.45)		(-1.42)	(0.17)
News Coverage		-0.172		-0.028	-0.050
		(-2.70)***		(-2.45)**	(-2.98)***
Insider Trading Allegation		-0.359		-0.070	-0.079
		(-2.69)***		(-2.54)**	(-1.89)*
GAAP Allegation		-0.601		-0.129	-0.095
		(-4.42)***		(-4.53)***	(-2.18)**
SEC Investigation		-0.669		-0.125	-0.157
		(-3.22)***		(-3.20)***	(-2.57)**
Restatement		-0.544		-0.100	-0.122
		(-3.22)***		(-2.92)***	(-2.51)**
Security Offering		0.011		0.005	0.039
		(0.07)		(0.15)	(0.75)
Connect Defendant Lawyer		0.278		0.053	-0.036
		(0.99)		(1.02)	(-0.47)
Connect Plaintiff Lawyer		-0.770		-0.148	-0.118
		(-2.49)**		(-2.42)**	(-1.06)
GC Exec		0.361		0.074	0.067
		(2.53)**		(2.52)**	(1.52)
Law Degree Exec/Dir		0.369		0.071	0.092
		(2.51)**		(2.42)**	(1.93)*
LitRisk KS		0.013		0.003	0.000
		(0.57)		(0.63)	(0.03)
Size		-0.106		-0.020	-0.026
		(-2.61)***		(-2.47)**	(-2.08)**
Leverage		0.391		0.073	0.131
		(1.24)		(1.20)	(1.45)
ROA		-0.129		-0.027	-0.066
		(-0.47)		(-0.49)	(-0.82)
Loss		-0.421		-0.079	-0.080
		(-2.97)***		(-2.73)***	(-1.84)*
InstOwn		0.058		0.010	0.029
		(0.19)		(0.17)	(0.33)
#Analysts		0.099		0.020	0.012
		(1.18)		(1.18)	(0.50)
Returns		-0.437		-0.079	0.151
		(-0.44)		(-0.39)	(0.50)

	(1)	(2)	(3)	(4)	(5)
Judge Holdings		-0.957		-0.187	-0.249
		(-1.10)		(-0.94)	(-0.80)
Female Judge		0.151		0.035	
		(1.03)		(1.19)	
Judge Experience		-0.005		-0.001	
		(-0.77)		(-0.56)	
White Judge		0.182		0.037	
		(1.20)		(1.22)	
Democratic Judge		0.207		0.037	
		(1.64)		(1.45)	
Local Judge		-0.016		-0.011	-0.085
		(-0.13)		(-0.41)	(-0.90)
Unemployment		-5.297		-0.801	-1.901
		(-0.51)		(-0.38)	(-0.58)
GDP Growth		-5.753		-1.018	-1.266
		(-1.64)		(-1.45)	(-1.13)
Blue State		0.142		0.028	-0.080
		(0.52)		(0.55)	(-0.83)
HQ State FE	Yes	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Judge FE	No	No	No	No	Yes
Observations	1,647	1,647	1,647	1,647	1,647
R-squared	0.086	0.176	0.123	0.225	0.568

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel B Case Duration and Lawsuit Payout								
	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS
	Case Duration	Case Duration	Case Duration	Case Duration	Lawsuit Payout	Lawsuit Payout	Lawsuit Payout	Lawsuit Payout
Connect	**-0.280**	**-0.331**	**-0.396**	**-0.261**	**-0.747**	**-0.657**	**-0.861**	**-0.276**
	(-3.24)* **	**(-4.12)*** **	**(-3.16)*** **	**(-2.43)** **	**(-5.77)*** **	**(-5.08)*** **	**(-4.04)*** **	**(-2.29)** **
Dismissal				-0.808 (-14.92)***				-2.547 (-35.89)***
Judge Characteristics Controls	No	Yes	No	No	No	Yes	No	No
Other Controls	No	Yes	Yes	Yes	No	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Judge FE	No	No	Yes	Yes	No	No	Yes	Yes
Observations	1,647	1,647	1,647	1,647	1,560	1,560	1,560	1,560
R-squared	0.207	0.336	0.629	0.715	0.139	0.300	0.607	0.890

Table 6 Cross-sectional Analyses: Is Connected Executive/Director Named as Defendant?

Table 6 estimates the effect of connections on litigation outcomes conditional on named defendant's connection. The sample period is from 1996 to 2017. All variables are defined in Appendix A. We include the same set of control variables as in Table 5. Intercepts are included but unreported. *t*-statistics are presented below the coefficients in parentheses. ***, **, and * denote statistical significance (two-sided) at the 1%, 5%, and 10% levels, respectively. Standard errors are corrected for heteroscedasticity and are clustered at the firm level.

	(1) Logit *Dismissal*	(2) OLS *Dismissal*	(3) OLS *Case Duration*	(4) OLS *Lawsuit Payout*
Connect Named Defendant	**1.553**	**0.275**	**-0.648**	**-1.029**
	(2.62)* **	**(3.11)*** **	**(-3.93)*** **	**(-5.16)*** **
Connect Not Named	**0.276**	**0.049**	**-0.196**	**-0.496**
	(1.02)	**(0.94)**	**(-2.17)** **	**(-3.26)*** **
Controls	Yes	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	1,647	1,647	1,647	1,560
R-squared	0.181	0.230	0.363	0.305
Test for ***Connect Named Defendant*** =***Connect Not Named***				
p-value	0.048	0.027	0.015	0.027

Table 7 Cross-sectional Analyses: Case/Firm Visibility

Table 7 estimates the effect of connections on litigation outcomes conditional on lawsuit's news coverage (Panel A), and visibility of the defendant company (Panel B). The sample period is from 1996 to 2017. All variables are defined in Appendix A. Both panels include the same set of control variables as in Table 5. Intercepts are included but unreported. *t*-statistics are presented below the coefficients in parentheses. ***, **, and * denote statistical significance (two-sided) at the 1%, 5%, and 10% levels, respectively. Standard errors are corrected for heteroscedasticity and are clustered at the firm level.

	(1) Logit *Dismissal*	(2) OLS *Dismissal*	(3) OLS *Case Duration*	(4) OLS *Lawsuit Payout*
Panel A Partition on Lawsuit's News Coverage				
Connect More News	-0.122	-0.026	-0.081	-0.476
	(-0.38)	(-0.42)	(-0.74)	(-2.60)***
Connect Less News	1.360	0.263	-0.615	-0.850
	(3.99)***	(4.24)***	(-5.50)***	(-4.87)***
Controls	Yes	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	1,647	1,647	1,647	1,560
R-squared	0.181	0.231	0.342	0.300
Test for ***Connect More News=Connect Less News***				
p-value	0.001	0.001	0.001	0.133

	(1) Logit *Dismissal*	(2) OLS *Dismissal*	(3) OLS *Case Duration*	(4) OLS *Lawsuit Payout*
Panel B Partition on Defendant Company's Visibility				
Connect More Visible	-0.357	-0.067	-0.024	-0.442
	(-0.87)	(-0.88)	(-0.21)	(-1.80)*
Connect Less Visible	1.099	0.205	-0.496	-0.756
	(3.63)***	(3.82)***	(-4.89)***	(-5.25)***
Controls	Yes	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	1,647	1,647	1,647	1,560
R-squared	0.180	0.230	0.340	0.300
Test for ***Connect More Visible=Connect Less Visible***				
p-value	0.004	0.003	0.002	0.260

Table 8 Likelihood of Direct Social Connections

Table 8 examines the association between social connections and litigation outcomes conditional on likelihood of direct social connections. Panel A examines the association between social connections and litigation outcomes conditional on program enrolment size. Panel B, C and D examine the association between social connections and litigation outcomes using alternative connection measures. All social connection measures are based on federal judge presiding over the case at the time of its resolution and defendant company's executives sharing educational experience where shared educational experience is defined differently in each panel. Panel B requires that a judge and defendant company's executives attended the same law school in an overlapping period. Panel C defines shared educational experience as attending the same university (but not necessarily the same school/program within that university) in an overlapping period. Panel D defines shared educational experience as attending the same university and the same school/program within that university but without requiring an overlapping attendance. The sample period is from 1996 to 2017. All variables are defined in Appendix A. All panels include the same set of control variables as in Table 5. Intercepts are included but unreported. *t*-statistics are presented below the coefficients in parentheses. ***, **, and * denote statistical significance (two-sided) at the 1%, 5%, and 10% levels, respectively. Standard errors are corrected for heteroscedasticity and are clustered at the firm level.

Panel A Partition on Program Enrolment Size				
	(1)	(2)	(3)	(4)
	Logit	OLS	OLS	OLS
	Dismissal	*Dismissal*	*Case Duration*	*Lawsuit Payout*
Connect Small Program	**1.042**	**0.196**	**-0.498**	**-1.024**
	(3.22)*	**(3.33)***	**(-4.69)***	**(-6.35)***
Connect Large Program	**0.046**	**0.007**	**-0.133**	**-0.271**
	(0.14)	**(0.10)**	**(-1.22)**	**(-1.53)**
Controls	Yes	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	1,647	1,647	1,647	1,560
R-squared	0.178	0.228	0.339	0.303
Test for ***Connect Small Program=Connect Large Program***				
p-value	0.025	0.024	0.012	0.001
Panel B Law School and Overlapping Period				
	(1)	(2)	(3)	(4)
	Logit	OLS	OLS	OLS
	Dismissal	*Dismissal*	*Case Duration*	*Lawsuit Payout*
Connect (law school + overlapping year)	**0.901**	**0.170**	**-0.497**	**-0.913**
	(2.99)*	**(3.10)***	**(-4.99)***	**(-6.27)***
Controls	Yes	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	1,647	1,647	1,647	1,560
R-squared	0.177	0.227	0.340	0.302

	(1) Logit Dismissal	(2) OLS Dismissal	(3) OLS Case Duration	(4) OLS Lawsuit Payout
Panel C University and Overlapping Period				
Connect (university + overlapping year)	**0.286**	**0.056**	**-0.217**	**-0.111**
	(1.93)*	**(1.89)***	**(-4.00)***	**(-1.11)**
Controls	Yes	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	1,647	1,647	1,647	1,560
R-squared	0.174	0.224	0.335	0.290
Panel D School but No Overlapping Period				
Connect (university + school)	**-0.045**	**-0.008**	**0.001**	**-0.095**
	(-0.34)	**(-0.29)**	**(0.02)**	**(-1.12)**
Controls	Yes	Yes	Yes	Yes
HQ State FE	Yes	Yes	Yes	Yes
Filing Circuit FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	1,647	1,647	1,647	1,560
R-squared	0.173	0.222	0.327	0.290