

## **Online Appendix for "Shareholder Litigation and Corporate Social Responsibility"**

### **I. CSR Scores Calculation**

Our measure of CSR scores relies on the MSCI (formerly KLD) Environmental, Social, and Governance (ESG) Stats Database, one of the most widely used data on measuring CSR for academic papers in accounting, finance, management as well as institutional investors. Each of the CSR components (community, corporate governance, diversity, employee relations, environment, human rights, and product) has several strength and concern indicators, each of which takes on a zero or one value. For example, under community, a strength indicator is giving 1.5% of net earnings before taxes to charity. The database does not provide an overall aggregate CSR measure. We followed the method adopted by previous studies (e.g. Deng et al. (2013); Cronqvist and Yu (2017), Lin et al. (2020); Albuquerque et al. (2019); Cao et al. (2019), and Chen et al. (2020)) by adding all the strength indicators in a major issue area, scaling by the number of indicators for the area to obtain a score between zero and one, doing the same for the concerns in the same area, and combining the two by subtracting the concern standardized rating from the strengths. The data collection is proprietary using independent information where possible, but with some reliance on self-disclosure (Eccles et al. (2020)).

### **II. Delaware and Derivative Lawsuits**

Delaware is certainly an outlier in having the greatest share of large companies incorporated, and the greatest share of large companies that incorporate outside their home state (Thompson and Thomas (2004)). One possible explanation for the imbalance is the state's strong antitakeover protection (Bebchuk and Cohen (2003)). Thompson and Thomas (2004) examine derivative law complaints filed in Delaware for 1999 and 2000 and find that the number of

derivative lawsuits is significantly below the number of class-action lawsuits. DeMott (1986) points out the variation of demand requirements across states while Thompson and Thomas (2004 - footnote 62 and 117) and Erickson (2020) claim that Delaware courts were tougher on demand even prior to any state adopting UD laws. In addition, the board's special independent litigation committee that can further petition the court for dismissal, and a statutory provision that allows firms to exculpate their officers and directors for monetary liability for violations of duty of care (Thompson and Thomas (2004)) could be sufficient hurdles for plaintiffs in Delaware courts even without UD laws.

Yet the lawsuits that do succeed in the Thompson and Thomas (2004) study produce a significant monetary award that ultimately benefits shareholders beyond attorney fees, and have the potential to change firm policy, giving some credence that derivative lawsuits still need to be taken seriously by the board and are not just nuisance (strike) litigation.<sup>1</sup>

### **III. Do Changes in CSR Scores Reflect Reversion to Industry Mean?**

It is possible that our documented changes in CSR scores following the UD laws adoption simply reflect the desire of firms with high CSR scores to reduce them to match their competitors' or put it in a different way, the reversion to the industry mean. We examine this possibility by rerunning the CSR baseline regressions augmented with one-period lagged industry-adjusted CSR score and its interaction with *UD Law*. If reversion-to-industry mean explains our results, we should find a negative and significant coefficient on the interaction variable. The results reported

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<sup>1</sup> In an unreported analysis, we exclude firms incorporated in Delaware from our sample and rerun the CSR regressions, but our results continue to hold.

in Table A13 indicate that although the coefficient on the interaction variable is negative, it is not statistically significant, implying that our finding is not driven by revision to the industry mean.

#### **IV. Some Examples of Firms Reducing CSR Scores following UD Laws Adoption**

Below are some examples below that illustrate the decrease in CSR scores for some high litigation risk firms following the UD laws adoption by their states of incorporation.

##### **Example 1:**

Millipore Corporation is a firm incorporated in the state of Massachusetts, which adopted UD Laws in 2004.

In 2003 it had a CSR score of 0.92857, based on strengths in Diversity and Environment. It supported the promotion of women and minorities, had outstanding employee benefits or other programs addressing work/life constraints, and derived revenues from business that promoted efficient use of energy, or positive environmental benefits.

In 2004, its CSR score fell to 0.511905 after it received a concern in Employee Relations by substantially underfunding its pension plan. In 2005, it lost its strengths in Environment bringing the score CSR score down to 0.17857. In 2007, it lost two out of three strengths indicators in Diversity, and its CSR score went down again to -0.10714.

While the exact savings on these changes in CSR is unavailable, it is conceivable that underfunding pensions, reducing benefits, and pulling unprofitable albeit environmental or energy efficient products off the market could result in cost savings to the company.

##### **Example 2:**

HNI Corporation is a company incorporated in Iowa, which adopted UD Laws in 2003.

In 2002, it had a CSR score of 0.7262, based on strengths in Diversity, Employment, and Product. It supported the promotion of women and minorities, it had a cash profit-sharing program in which it made a distribution to most workers, and was a leader in R&D, bringing innovative products to market.

In 2003, it lost its strength in Diversity, it received a concern in Employee Relations as it made significant reductions in its workforce, and a concern in Human Rights as it initiated operations or investments in Burma. This caused their CSR score to fall to 0.1667.

By 2005, it lost its prior strength in Employment, when it stopped profit sharing, although it also stopped workforce reductions. It also stopped Burma operation, but overall CSR score was down to 0.0 after being -0.05 in 2004. Some of the CSR magnitudes are due to a normalization depending on the number of possible indicators assigned to the issue for the year.

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**Table A1: Distribution of Derivative Lawsuits by State of Incorporation, Type of Allegations, Type of Incorporation, and Success Rate**

This table presents the distribution of allegations and success rate for derivative lawsuits by the state of incorporation.

State of Incorporation	Adoption Year	Number of Incorporated firms	Number of Derivative Lawsuits	Percentage of Firms Faced Lawsuit	Type of Derivative Lawsuits					Number of Successful Lawsuits	Success Rate
					Self-Dealing	Duty of Care	Unknown	Success Rate	Success Rate		
AZ	1996	11	3	27.27%	0	1	2	1	33.33%		
CA		452	17	3.76%	7	2	8	9	52.94%		
CO		173	2	1.16%	1	0	1	2	100.00%		
CT	1997	10	2	20.00%	0	2	0	0	0.00%		
DC		11	3	27.27%	0	3	0	0	0.00%		
DE		5,178	449	8.67%	97	140	212	91	20.27%		
FL	1990	192	5	2.60%	0	2	3	1	20.00%		
GA	1989	76	4	5.26%	0	3	1	1	25.00%		
IL		132	5	3.79%	0	4	1	2	40.00%		
IN		117	6	5.13%	0	5	1	1	16.67%		
LA		47	1	2.13%	0	0	1	1	100.00%		
MA	2004	395	13	3.29%	4	3	6	1	7.69%		
MD		787	14	1.78%	0	8	6	2	14.29%		
MI	1989	42	3	7.14%	1	1	1	0	0.00%		
MN		289	9	3.11%	1	5	3	2	22.22%		
MO		82	2	2.44%	2	0	0	0	0.00%		
NC	1995	55	3	5.45%	0	2	1	2	66.67%		
NJ		247	15	6.07%	1	8	6	3	20.00%		
NV		918	26	2.83%	2	9	15	7	26.92%		
NY		466	15	3.22%	5	6	4	4	26.67%		
OH		216	10	4.63%	8	1	1	3	30.00%		
OK		53	1	1.89%	0	0	1	0	0.00%		
OR		81	6	7.41%	2	1	3	1	16.67%		

PA	1997	112	5	4.46%	2	2	1	0	0.00%
PR		13	3	23.08%	0	2	1	0	0.00%
SC		34	2	5.88%	0	1	1	0	0.00%
TN		81	4	4.94%	0	2	2	1	25.00%
TX	1997	90	6	6.67%	1	3	2	0	0.00%
V/A	1992	82	3	3.66%	0	1	2	0	0.00%
W/A		113	5	4.42%	1	1	3	2	40.00%
WI	1991	27	2	7.41%	0	1	1	0	0.00%
Total		10,582	644	6.09%	135	219	290	137	21.27%



## Table A2: Derivative Lawsuits and UD Laws Adoption

This table reports the results of the UD laws adoption probit model. The dependent variable is *UD law* which is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm's state of incorporation and 0 otherwise. *Derivative lawsuit* is the natural logarithm of the number of derivative lawsuits for each state. Other variables are defined in Appendix. Z-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)
Derivative lawsuits	0.003* (1.87)
State GDP growth	0.219 (0.26)
State GDP per capita	-0.021 (0.10)
BC laws	0.332 (1.32)
PP laws	0.329*** (3.25)
Political balance	1.827 (0.45)
Intercept	0.841 (0.42)
Industry fixed effects	Yes
Year fixed effects	Yes
Number of observations	1,008
Pseudo R <sup>2</sup>	0.36

**Table A3: UD Laws and CSR – Entropy Balancing Approach**

This table reports the results of the CSR regressions using entropy-balancing approach. The dependent variable is *CSR score* constructed from the MSCI ESG Stats data. *UD law* is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm’s state of incorporation and 0 otherwise. Other variables are defined in Appendix. *t*-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

*Panel A: First-stage Balancing Results*

	UD laws adopted firms			Non-adopted firms		
	N	Mean	Variance	N	Mean	Variance
Size	1,694	6.986	2.314	10,275	6.984	2.314
Market-to-book	1,694	2.090	1.341	10,275	2.090	1.344
Book leverage	1,694	0.188	0.025	10,275	0.188	0.025
Firm age	1,694	3.146	0.405	10,275	3.146	0.405
Profitability	1,694	0.127	0.009	10,275	0.127	0.009
Dividend dummy	1,694	0.459	0.229	10,275	0.459	0.229
Stock return	1,694	0.029	0.021	10,275	0.029	0.021
Return volatility	1,694	0.028	0.001	10,275	0.028	0.001

*Panel B: Second-stage Regression Results*

Variable	(1)	(2)	(3)
UD Law	-0.029** (2.08)	-0.029** (2.12)	-0.029** (2.11)
Size	0.035*** (6.05)	0.032*** (5.69)	0.032*** (5.57)
Market-to-book	0.052*** (7.64)	0.051*** (7.50)	0.051*** (7.58)
Book leverage	0.015 (0.33)	0.024 (0.54)	0.025 (0.56)
Firm age	0.033*** (2.61)	0.033*** (2.60)	0.033*** (2.63)
Profitability	0.027 (0.37)	0.001 (0.07)	0.001 (0.01)
Dividend dummy	0.021 (1.30)	0.015 (0.94)	0.020 (1.19)
Stock return		-0.059 (1.08)	-0.055 (1.18)
Return volatility		-1.095** (2.05)	-1.275** (2.09)
State GDP growth			-0.213

			(0.94)
State GDP per capita			0.012
			(0.23)
Intercept	-0.629***	-0.573***	(0.68)
	(12.99)	(10.77)	(1.22)
Industry fixed effects	Yes	Yes	Yes
Number of observations	11,969	11,969	11,969
Adjusted $R^2$	0.08	0.09	0.09

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**Table A4: Does Neighboring States' Adoption of UD Laws Affect the Likelihood of UD Law Adoption by the Focus State?**

This table reports the results of the UD laws adoption probit model. The dependent variable is *UD law* which is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm's state of incorporation and 0 otherwise. *Neighboring states UD adoption* is a ratio of number of neighboring states that have adopted UD laws. Other variables are defined in Appendix. Z-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)
Neighboring states UD adoption	0.153* (1.76)
State GDP growth	0.607* (1.65)
State GDP per capita	-0.095** (2.23)
BC laws	0.172*** (4.87)
PP laws	0.115*** (3.36)
Political balance	-1.011 (0.84)
Intercept	0.892 (1.49)
Industry fixed effects	Yes
Year fixed effects	Yes
Number of observations	1,008
Pseudo R <sup>2</sup>	0.16

### Table A5: Derivative Lawsuit Probability Probit Model

Panel A of this table reports the results of the derivative lawsuit probit model. The dependent variable is *Derivative lawsuit dummy* that equals to 1 for firms with derivative lawsuits for the year and 0 otherwise. Other variables are defined in the Appendix. Z-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively. Panel B reports the confusion matrix of the derivative lawsuit probit model.

#### *Panel A: Derivative Lawsuit Probit Model*

Variable	(1)
Size	0.513*** (27.65)
Tobin's Q	0.030*** (6.68)
Book leverage	-0.232*** (4.35)
Cash holding	-0.001 (0.70)
R&D	0.817** (2.47)
Capital expenditure	-0.814*** (3.18)
Sale growth	-0.001 (0.56)
High tech	0.763*** (7.22)
Stock volatility	0.712*** (15.21)
Stock return	0.128 (1.32)
Intercept	-1.224*** (52.79)
Number of observations	49,768
Pseudo R <sup>2</sup>	0.11

#### *Panel B: Confusion Matrix*

Predicted Lawsuits	Actual Derivative Lawsuits	
	1	0
1	451	2,023
0	132	47,142

**Table A6: Distribution of Litigation Risks by Headquarter States**

This table reports the derivative lawsuits probability and the number of firms with high litigation risk for each state.

State of Headquarter	Adoption Year	Derivative Lawsuits Probability	Number of high litigation risk firms
AZ	1996	0.32%	55
CA		0.79%	498
CO		0.37%	100
CT	1997	0.59%	104
DC		6.50%	13
DE		0.78%	311
FL	1990	0.26%	116
GA	1989	0.42%	113
IL		0.62%	183
IN		0.33%	30
LA		0.35%	14
MA	2004	0.72%	324
MD		0.48%	72
MI	1989	0.36%	49
MN		0.33%	102
MO		0.37%	52
NC	1995	0.36%	66
NJ		0.58%	176
NV		0.29%	30
NY		0.69%	296
OH		0.36%	97
OK		0.16%	11
OR		0.35%	35
PA	1997	0.39%	146
SC		0.23%	14
TN		0.31%	45
TX	1997	0.45%	345
VA	1992	0.56%	123
WA		0.79%	98
WI	1991	0.29%	48

**Table A7: UD Laws and CSR – Financial Constraints**

This table reports the results of the CSR regressions for financially constrained (FC) and unconstrained (Non-FC) subgroups. The dependent variable is *CSR score* constructed from the MSCI ESG Stats data. *UD law* is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm's state of incorporation and 0 otherwise. Financially constrained (unconstrained) firms include those that do not have credit ratings (have credit ratings), do not pay dividend (pay dividend), are in the top (bottom) tercile of the WW index or the SA index. *Size* is measured as the natural logarithm of the book value of annual sales. *Market-to-book* is defined as the market value of assets divided by the book value of assets. *Book leverage* is the ratio of the book value of debt to the book value of assets. *Firm age* is the natural logarithm of number of years that a firm has appeared in Compustat. *Profitability* is the ratio of income before extraordinary items including depreciation and amortization to the book value of assets. *Dividend* is an indicator variable that takes the value of 1 if a firm pays a common dividend in the year and 0 otherwise. *State GDP growth* is the state-level GDP growth rate over the fiscal year. *State GDP per capita* is the natural logarithm of a state GDP per capita. Other variables are defined in Appendix. *t*-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	S&P Credit Ratings		Dividend Payout		WW Index		SA Index	
	FC	Non-FC	FC	Non-FC	FC	Non-FC	FC	Non-FC
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
UD Law	-0.038** (2.31)	-0.043** (2.15)	-0.036** (1.96)	-0.038** (2.37)	-0.008 (0.37)	-0.090*** (3.27)	0.011 (0.53)	-0.090*** (2.81)
Size	0.036*** (6.31)	0.017** (2.19)	0.054*** (10.67)	0.038*** (4.92)	0.022*** (2.97)	0.022*** (2.12)	-0.001 (0.08)	-0.014 (1.17)
Market-to-book	0.021*** (6.22)	0.093*** (8.98)	0.025*** (7.13)	0.071*** (6.81)	0.005 (1.20)	0.071*** (6.14)	-0.001 (0.32)	0.076*** (7.12)
Book leverage	-0.036 (1.05)	-0.240*** (4.48)	-0.126*** (4.17)	0.06 (1.07)	-0.007 (0.17)	-0.247*** (3.25)	0.064 (1.48)	-0.354*** (5.18)
Firm age	0.058*** (5.77)	0.042*** (3.50)	0.024** (2.47)	0.075*** (5.62)	0.01 (0.84)	0.060*** (3.36)	0.015 (1.36)	0.056*** (3.24)
Profitability	-0.02	0.328**	-0.113***	0.501***	-0.063	0.684***	0.038	0.683***

Dividend	(0.49)	(2.56)	(2.61)	(3.74)	(1.33)	(4.32)	(0.85)	(4.11)
	-0.036**	0.061***			0.056*	-0.01	0.005	0.044*
	(2.26)	(3.27)			(1.92)	(0.33)	(0.25)	(1.78)
Stock return	0.01	-0.074	-0.005	-0.091	-0.015	-0.046	-0.025	-0.006
	(0.24)	(1.19)	(0.15)	(1.15)	(0.39)	(0.44)	(0.58)	(0.06)
Return volatility	-0.814*	-0.925	-0.722*	-1.701**	0.002	-1.206	-0.268	-1.984**
	(1.78)	(1.38)	(1.66)	(2.18)	(0.09)	(1.27)	(0.51)	(2.16)
State GDP growth	0.143	-0.398	0.022	-0.089	0.505**	-0.19	0.143	-0.403
	(0.83)	(1.53)	(0.13)	(0.32)	(2.54)	(0.56)	(0.68)	(1.24)
State GDP per capita	-0.092**	0.036	-0.062	0.025	-0.199***	0.182***	-0.200***	0.201***
	(2.20)	(0.68)	(1.49)	(0.47)	(4.07)	(2.63)	(4.26)	(2.74)
Intercept	0.4	-0.899	0.05	-1.108*	1.731***	-2.535***	1.867***	-2.365***
	(0.87)	(1.55)	(0.11)	(1.94)	(3.22)	(3.37)	(3.60)	(2.96)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	6,585	5,384	6,110	5,859	3,786	3,786	3,793	3,832
Adjusted R <sup>2</sup>	0.06	0.17	0.09	0.14	0.06	0.18	0.07	0.21



**Table A8: Derivative Lawsuits, UD Laws, and Forced CEO Turnover**

This table reports the results of the forced CEO turnover probit model. The dependent variable is *Forced CEO turnover* in the 3-year period following a derivative lawsuit. *UD law* is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm's state of incorporation and 0 otherwise. *Derivative lawsuit* is an indicator variable that equals to 1 for firms with derivative lawsuits in the year and 0 otherwise. *Successful lawsuit* is a dummy variable that equals to 1 for firms with a successful derivative lawsuit in the year and 0 otherwise. Other variables are defined in Appendix. *t*-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Derivative lawsuits	0.078** (1.97)	0.089** (2.18)			0.057* (1.83)	0.082* (1.91)		
Successful lawsuits			0.110*** (3.16)	0.124*** (3.46)	0.114*** (2.90)	0.135*** (3.55)		
UD laws							-0.028** (1.97)	-0.030** (1.99)
Size	0.039*** (10.59)	0.039*** (10.19)	0.039*** (10.54)	0.039*** (10.14)	0.114*** (2.90)	0.135*** (3.55)	0.039*** (10.53)	0.039*** (10.12)
Market-to-book	0.009** (2.20)	0.007* (1.75)	0.009** (2.23)	0.007* (1.73)	0.057* (1.83)	0.082* (1.91)	0.009** (2.13)	0.007* (1.67)
Book leverage	-0.088*** (2.75)	-0.083** (2.53)	-0.084*** (2.63)	-0.079** (2.41)	0.039*** (10.52)	0.039*** (10.10)	-0.094*** (2.91)	-0.089*** (2.69)
Firm age	0.041*** (5.16)	0.031*** (3.63)	0.041*** (5.20)	0.032*** (3.67)	0.009** (2.20)	0.007* (1.71)	0.042*** (5.22)	0.032*** (3.72)
Profitability	-0.133** (2.33)	-0.206*** (3.37)	-0.138** (2.42)	-0.206*** (3.38)	-0.083*** (2.59)	-0.078** (2.38)	-0.133** (2.33)	-0.205*** (3.35)
Dividend dummy		0.045*** (3.67)		0.045*** (3.63)	0.042*** (5.29)	0.032*** (3.71)		0.045*** (3.67)
Stock return		-0.032		-0.039	-0.136**	-0.206***		-0.036

Return volatility	(0.79)	(0.97)	(2.40)	(3.38)	(0.89)
	1.376***	1.358***		0.046***	1.373***
	(3.00)	(2.96)		(3.75)	(2.99)
State GDP growth	0.721***	0.730***		-0.035	0.726***
	(4.82)	(4.88)		(0.87)	(4.85)
State GDP per capita	-0.067***	-0.060**		1.369***	-0.061***
	(2.80)	(2.50)		(2.99)	(2.58)
Intercept	0.018	0.607**	0.645**	0.718***	0.632**
	(0.61)	(0.65)	(2.47)	(4.80)	(2.42)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Number of observations	10,908	10,908	10,908	10,908	10,908
Adjusted R <sup>2</sup>	0.03	0.03	0.03	0.04	0.03

**Table A9: Derivative Lawsuits, UD Laws, and CEO Compensation**

This table reports the results of the CEO Compensation regressions. The dependent variable is the growth rate of CEO compensation. *UD law* is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm's state of incorporation and 0 otherwise. *Derivative lawsuit* is an indicator variable that equals to 1 for firms with derivative lawsuits in the year and 0 otherwise. *Successful lawsuit* is a dummy variable that equals to 1 for firms with a successful derivative lawsuit in the year and 0 otherwise. Other variables are defined in Appendix. *t*-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Derivative lawsuits	-0.099** (2.35)	-0.067* (1.87)			-0.159** (2.39)	-0.119** (2.01)		
Successful lawsuits			-0.161*** (2.81)	-0.113* (1.90)	-0.261*** (2.93)	-0.188** (2.08)		
UD laws							0.008* (1.79)	0.011* (1.84)
Size	-0.015** (2.51)	-0.016*** (2.61)	-0.015** (2.57)	-0.016*** (2.66)	-0.015** (2.55)	-0.016*** (2.64)	-0.016*** (2.68)	-0.017*** (2.75)
Market-to-book	-0.013* (1.93)	-0.013* (1.82)	-0.014** (1.97)	-0.013* (1.84)	-0.013* (1.93)	-0.013* (1.82)	-0.014** (2.02)	-0.013* (1.87)
Book leverage	0.048 (0.87)	0.052 (0.90)	0.051 (0.92)	0.053 (0.93)	0.049 (0.88)	0.052 (0.91)	0.053 (0.96)	0.054 (0.94)
Firm age	0.019 (1.48)	0.012 (0.84)	0.02 (1.56)	0.012 (0.85)	0.019 (1.47)	0.012 (0.83)	0.021 (1.62)	0.012 (0.89)
Profitability	0.718*** (7.38)	0.569*** (5.50)	0.721*** (7.41)	0.570*** (5.51)	0.720*** (7.39)	0.570*** (5.51)	0.727*** (7.47)	0.573*** (5.54)
Dividend dummy		-0.022 (1.11)		-0.020 (1.03)		-0.022 (1.11)		-0.019 (0.95)
Stock return		0.221*** (3.25)		0.224*** (3.30)		0.221*** (3.25)		0.226*** (3.33)

Return volatility	-2.066***	-2.038***	-2.055***	-2.001**
	(2.63)	(2.59)	(2.61)	(2.54)
State GDP growth	1.124***	1.120***	1.130***	1.123***
	(4.81)	(4.79)	(4.84)	(4.81)
State GDP per capita	-0.104**	-0.108***	-0.105**	-0.111***
	(2.54)	(2.64)	(2.54)	(2.71)
Intercept	0.025	0.022	0.027	0.023
	(0.52)	(0.45)	(0.56)	(0.48)
Industry fixed effects	Yes	Yes	Yes	Yes
Number of observations	10,908	10,908	10,908	10,908
Adjusted R <sup>2</sup>	0.01	0.01	0.01	0.01

**Table A10: UD Laws and CSR – Placebo Tests**

This table reports the results of the CSR placebo regressions. The dependent variable is *CSR score* constructed from the MSCI ESG Stats data. *UD laws placebo dummy* is an indicator variable that takes the value of 1 for the firms incorporated in a state that has been randomly assigned to a year in which the UD law was adopted and 0 otherwise. Other variables are defined in Appendix. *t*-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
UD law placebo dummy	-0.003 (0.35)	-0.001 (0.08)	0.005 (0.52)	0.005 (0.52)	0.024* (1.92)	0.003 (0.26)	0.021 (1.57)
Size	0.050*** (13.06)	0.045*** (10.87)	0.044*** (10.22)	0.044*** (10.18)	0.030*** (6.82)	0.043*** (10.01)	0.019*** (4.49)
Market-to-book	0.040*** (11.20)	0.039*** (10.81)	0.038*** (10.47)	0.038*** (10.39)	0.030*** (8.48)	0.036*** (9.99)	0.037*** (10.13)
Book leverage	-0.099*** (3.69)	-0.093*** (3.47)	-0.075*** (2.75)	-0.071** (2.58)	-0.092*** (3.42)	-0.053* (1.90)	-0.03 (1.09)
Firm age	0.042*** (6.02)	0.037*** (4.89)	0.039*** (5.03)	0.039*** (5.04)	0.028*** (3.73)	0.041*** (5.14)	0.041*** (5.40)
Profitability		0.094*** (2.59)	0.081** (2.09)	0.081** (2.07)	0.103*** (2.71)	0.081** (2.09)	0.021 (0.57)
Dividend dummy		0.023** (2.01)	0.018 (1.55)	0.018 (1.49)	-0.001 (0.12)	0.017 (1.46)	-0.009 (0.75)
Stock return			-0.038 (1.11)	-0.036 (1.04)	-0.018 (0.53)	-0.03 (0.86)	0.006 (0.18)
Return volatility			-0.929*** (2.58)	-0.906** (2.30)	-2.081*** (4.65)	-0.899** (2.27)	-4.090*** (8.69)
State GDP growth				0.021 (0.14)	-0.33 (1.46)	0.063 (0.40)	-0.570** (2.38)
State GDP per capita				0.002	0.203***	-0.077*	0.397***



**Table A11: UD Laws and CSR Components**

This table reports the results of the CSR components regressions. The dependent variable is individual components of CSR: Community, diversity, employee relations, environment, and product, human rights, constructed from the MSCI ESG Stats data. *UD law* is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm's state of incorporation and 0 otherwise. *Size* is measured as the natural logarithm of the book value of annual sales. *Market-to-book* is defined as the market value of assets divided by the book value of assets. *Book leverage* is the ratio of the book value of debt to the book value of assets. *Firm age* is the natural logarithm of number of years that a firm has appeared in Compustat. *Profitability* is the ratio of income before extraordinary items including depreciation and amortization to the book value of assets. *Dividend* is an indicator variable that takes the value of 1 if a firm pays a common dividend in the year and 0 otherwise. Other variables are defined in Appendix. *t*-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	Community (1)	Diversity (2)	Employment (3)	Environment (4)	Product (5)	Human Rights (6)
UD Law	-0.023*** (6.09)	-0.014* (1.71)	-0.003 (0.46)	-0.007* (1.73)	0.008* (1.68)	0.003 (1.12)
Size	0.001 (0.99)	0.055*** (25.21)	0.004** (2.35)	-0.009*** (6.41)	-0.023*** (14.94)	-0.015*** (13.50)
Market-to-book	0.006*** (5.94)	0.019*** (8.69)	0.015*** (9.65)	0.004*** (4.35)	0.005*** (3.59)	0.001** (2.30)
Book leverage	-0.009 (1.29)	-0.027 (1.53)	-0.061*** (5.11)	-0.007 (0.93)	-0.014 (1.50)	0.020*** (3.49)
Firm age	0.002 (0.99)	0.029*** (6.25)	0.013*** (4.01)	0.008*** (3.19)	0.006** (2.07)	0.003* (1.68)
Profitability	0.046*** (4.76)	-0.157*** (6.05)	0.120*** (6.81)	0.035*** (3.11)	0.063*** (4.41)	0.065*** (8.30)
Dividend dummy	-0.003 (1.07)	0.015** (2.09)	-0.006 (1.14)	-0.009*** (2.72)	0.008** (2.00)	-0.002 (0.78)
Stock return	-0.009 (1.06)	-0.018 (0.82)	-0.012 (0.79)	0.009 (0.77)	-0.001 (0.26)	-0.009 (1.32)
Return volatility	-0.011 (0.14)	-1.018*** (4.51)	-0.078 (0.49)	-0.346*** (3.36)	0.392*** (3.56)	0.007 (0.09)
Intercept	-0.020** (2.05)	-0.565*** (29.01)	-0.159*** (11.16)	0.052*** (4.67)	0.104*** (8.24)	0.064 (0.75)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	11,969	11,969	11,969	11,969	11,969	11,969
Adjusted R <sup>2</sup>	0.03	0.15	0.03	0.05	0.10	0.08

**Table A12: U.S. Ninth Circuit Court of Appeals' Ruling, CSR, and Firm Value**

This table reports the results of the market-to-book regressions. The dependent variable is *Market-to-book ratio*. *U.S. Ninth Circuit Court ruling* is an indicator variable that takes the value of 1 for the years in which the Ninth Circuit Court of Appeals' ruling is effective in a firm's state of headquarter and 0 otherwise.  $CSR_{i,t}$  indicates a change in the level of CSR scores from time  $t-1$  to  $t$ . The models are estimated with other controls and industry and/or year fixed effects, but their estimates are suppressed for brevity.  $t$ -statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

Variable	(1)	(2)	(3)	(4)
U.S. Ninth Circuit Court ruling	1.113*** (3.06)	1.108*** (3.02)	1.191*** (2.69)	1.190*** (2.68)
U.S. Ninth Circuit Court ruling $\times$ CSR	-0.830** (2.44)	-0.883*** (2.89)	-0.611** (2.05)	-0.663** (2.48)
CSR	1.034*** (2.60)	1.107*** (2.90)	0.845** (2.35)	0.912** (2.60)
Other controls	Yes	Yes	Yes	Yes
Industry fixed effects	No	No	Yes	Yes
Year fixed effects	No	Yes	No	Yes
Number of observations	2,250	2,250	2,250	2,250
Adjusted $R^2$	0.28	0.29	0.32	0.33



**Table A13: Are Changes in CSR Scores due to Reversion to Industry Mean?**

This table reports the results of the baseline CSR regressions augmented with one-period lagged industry-adjusted CSR and its interaction with UD law while controlling for other firm characteristics. The dependent variable is *CSR score* based on six different environmental, social and governance factors constructed from the MSCI ESG Stats data. *UD law* is an indicator variable that takes the value of 1 for the years in which UD law is effective in a firm's state of incorporation and 0 otherwise. Other variables are defined in Appendix. *t*-statistics based on heteroscedasticity-robust standard errors clustered by firms are reported in parentheses. The symbols \*\*\*, \*\*, and \* denote significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
UD Law	-0.023** (2.49)	-0.026*** (2.96)	-0.028*** (3.26)	-0.031*** (3.94)
UD Law × Industry-adjusted CSR	-0.021 (1.57)	-0.019 (1.49)	-0.018 (1.48)	-0.019 (1.39)
Industry-adjusted CSR	0.891*** (5.79)	0.878*** (6.53)	0.889*** (4.86)	0.897*** (7.62)
Size	0.002 (1.35)	-0.001 (0.22)	-0.001 (0.61)	-0.001 (0.33)
Market-to-book	0.020*** (14.76)	0.019*** (14.35)	0.020*** (14.14)	0.020*** (14.27)
Book leverage	-0.044*** (3.86)	-0.043*** (3.75)	-0.031*** (2.63)	-0.040*** (3.41)
Firm age	0.029*** (9.10)	0.026*** (7.42)	0.025*** (7.30)	0.026*** (7.45)
Profitability		0.032** (2.20)	-0.004 (0.28)	-0.026* (1.71)
Dividend dummy		0.014*** (2.88)	0.008 (1.57)	0.004 (0.83)
Stock return			-0.003 (0.20)	0.015 (0.94)
Return volatility			-1.241*** (7.80)	-0.774*** (4.35)
State GDP growth				0.501*** (8.16)
State GDP per capita				-0.134*** (8.87)
Intercept	-0.365*** (35.55)	-0.350*** (30.94)	-0.306*** (22.73)	1.100*** (6.67)
Number of observations	11,969	11,969	11,969	11,969
Adjusted $R^2$	0.87	0.87	0.88	0.88