Lobbying and Securities Class Actions Pre- and Post-SOX

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Abstract

This paper examines the impact lobbying has on the time it takes to detect managerial misconduct and the size of the penalties associated with securities class actions before and after the enactment of SOX. Prior to SOX we find managers of firms that lobbied were able to evade detection for longer and were marginally less likely to have to settle a class action filed against them. After SOX lobbying no longer has an impact on the time it takes to detect misconduct or the outcome of the case. The findings indicate that in the pre-SOX period lobbying caused information asymmetries which made it more difficult to detect managerial malfeasance. The enactment of SOX appears to have improved corporate transparency of lobbying firms making it relatively easier to uncover and prove corporate misconduct.

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1. Introduction

Political favours obtained through corporate lobbying negatively impact the effectiveness of a corporate governance system. Lobbying can result in information asymmetries making it more difficult to effectively monitor manager's actions (see Chen *et al.* 2010). As a result lobbying may indirectly hinder investor's ability to detect managerial misconduct. This paper examines whether lobbying helps conceal managers actions making it more difficult to detect and prove whether they were violating securities laws before and after the enactment of SOX. This is the first empirical paper to examine whether SOX has had any impact on politically connected firms that are accused of misconduct.

Prior research has found that firms with a high proportion of intangible assets and a high market to book value are more likely to have a securities class action filed against them (McTier and Wald 2011). Both of these variables can be seen as measures of information asymmetry. This would suggest that the more difficult it is to effectively monitor managers the more opportunities managers have for impropriety. Chen *et al.* (2010) report analyst forecast accuracy is worse for politically connected firms, which they attribute to information asymmetry. Their findings suggest that political connections obtained through lobbying could make it more difficult to effectively monitor managers and detect when they are violating securities laws.

Firms like Enron and WorldCom spent millions on lobbying and were able to evade detection and continue their malfeasance for a significant period of time. Recent research has analysed the impact that corporate lobbying has on fraud detection. Yu and Yu (2011) find firms that commit fraud and lobby between 1998 and 2004 evade detection for 117 days longer and are 38% less likely to be detected by regulators.

The Sarbanes-Oxley Act (SOX) of 2002 was enacted in response to the high profile cases of fraud and misconduct that came to light during 2001 and 2002. The bill was produced to combat fraud by improving accountability and overall accounting quality. Unsurprisingly prior research has found SOX has resulted in an improvement in firm opacity (see Andrade *et al.* 2014). It would therefore be expected that SOX will have reduced information asymmetry in firms with political connections making it relatively easier to monitor managers and detect managerial misconduct.

In this paper we analyse whether lobbying makes it more difficult to detect managerial misconduct before and after the implementation of SOX. Specifically the length of the class period is analysed, which is the period investors claim the alleged misconduct took place. An analysis of whether lobbying has any impact on the probability of a case being settled is also undertaken for pre and post-SOX periods. Finally the extent of the damages caused by the managerial malfeasance is analysed with relation to the firms lobbying activities by looking at the losses investors accrue and the size of the settlement both before and after SOX.

This paper extends the study by Yu and Yu (2011) that analyses whether lobbying affects the time it takes to detect fraud for a sample period ranging from 1998 to 2004. We make three key contributions to the existing literature. First, we examine the impact of lobbying pre- and post-SOX during 2000 to 2012. Second, we analyse the impact of political connections on the probability of a settlement and the damages that managers subject to securities class actions have caused. Third, this study provides insight into the impact of SOX on corporate transparency. Our empirical analysis demonstrates that SOX has improved investor's abilities to detect and prove managerial misconduct, in firms that lobby.

Our findings indicate that pre-SOX lobbying is related to class period length and has a marginally negative effect on the probability of a case being settled. Our findings indicate that managers of lobbying firms are able to evade detection for longer and are less likely to have to settle a class action filed against them. This result is consistent with informational asymmetries stemming from political lobbying that make it more difficult for investors to effectively monitor manager's actions. As a result detecting and obtaining proof that managers have violated securities laws is more difficult.

SOX introduced stricter disclosure requirements that improved firm transparency (see Andrade *et al.*, 2014). Post-SOX investors were expected to be able to more effectively monitor managers of lobbying firms and detect corporate misconduct. Consistent with this expectation we report no evidence to suggest lobbying has any impact on the length of the class period or the probability of the case being settled after the enactment of SOX.

Overall the results suggest that prior to SOX lobbying hindered the investor's ability to detect and prove managerial misconduct. After SOX, however, we find that managers of lobbying firms do not evade detection for longer and are more likely to settle a class action filed

against them. Our results show that post-SOX lobbying firm transparency has improved making it easier to uncover corporate malfeasance.

The remainder of this paper is organized as follows. Section 2 provides an overview of the existing literature and outlines the unique contribution this paper makes. The hypotheses are developed in section 3. Section 4 provides an overview of the methodologies used. The sample and data are described in section 5. Section 6 presents the empirical results and an interpretation and discussion of these. Section 7 contains the concluding remarks.

2. Literature Review

2.1. The Value of Lobbying

An extensive body of research has examined whether lobbying or political connections in general impacts firm value. Political connections can be developed through the use of lobbying, political donations (e.g. through Political Action Committees (PACs)) and they can also occur because executives or board members have relationships with political members. The majority of the literature indicates that political connections increase firm value. Mathur *et al.* (2013) and Hill *et al.* (2013) report a positive relationship between lobbying intensity and the value of the firm. Furthermore, Antia *et al.* (2013) report that lobbying adds value, as measured by Tobin's Q, when there is a misalignment of power. Takeover premiums have also been found to be higher for firms that make PAC contributions, which indicate that they are a valuable intangible asset (Croci *et al.* 2014).

Political connections are not only highly valued by shareholders but they can also boost performance. For example, Chen *et al.* (2015) report a positive relationship between lobbying and measures of financial performance. They also find that portfolios consisting of firms with the highest lobbying intensities significantly outperform their benchmarks. This is consistent with Jin-Hyuk (2008) and Hill *et al.* (2013) who show positive excess returns for firms that lobby. Political donations have also been found to be positively correlated with future returns (Cooper *et al.*, 2010). Overall, the literature indicates that political connections are valuable and connected firms typically perform better in the long run.

2.2. Lobbying and Securities Class Actions

Political connectedness may also cause issues within firms, primarily as a result of information asymmetry, which can compromise accountability. Politically connected firms exhibit significantly poorer earnings quality and they face a lesser need to respond to market pressures to increase the quality of information (Chaney *et al.*, 2011). Similarly, Chen *et al.* (2010) examine the accuracy of analysts' forecasts and find that it is worse for firms with political connections, which they attribute to information asymmetry stemming from political connections.

Information asymmetries caused by political connections limit investors' ability to effectively monitor managers actions. Correia (2014) finds that politically connected firms face fewer SEC enforcement actions and lower penalties suggesting that lobbying makes it more difficult to detect managerial malfeasance. Further, lobbying done through lobbyists with an employment history associated with the SEC and lobbying of the SEC directly result in lower potential enforcement costs for firms (Correia, 2014).

In a related study Yu and Yu (2011) investigate the length of the class period for firms that are accused of fraud with respect to whether the firms lobby. They find that fraudulent firms that lobby evade detection for 117 days longer than non-lobbying firms. In line with Correia (2014) they also find that fraudulent lobbying firms are 38% less likely to be detected by regulators.

The literature shows that despite lobbying being value enhancing at the firm level there are possible negative consequences associated with weaker corporate transparency and accountability. Therefore lobbying may make it more difficult to uncover illegal corporate activities and provide more opportunities to managers to cause substantial damage.

2.3. Sarbanes-Oxley Act of 2002

In late 2001 and early 2002 numerous high profile cases of fraud and misconduct came to light. These cases included firms such as Enron, Worldcom and Adelphia. These revelations of fraud spurred the need for regulatory reform of corporate accounting and governance systems. The Sarbanes-Oxley Act of 2002 was the legislative response to this and was signed into law on July 30 2002. The bill was aimed at improving overall accounting quality and accountability.

Numerous studies have analysed the impact SOX has had on the overall accounting quality after its enactment. Cohen *et al.* (2008) report that up until 2002 instances of earnings management grow and then begin to decline. Evidence also suggests that restatements have not been as large and there are less likely to be fraudulent post-SOX (Hennes *et al.* 2008, and Plumlee and Yohn 2010).

SOX requirements enhanced the overall quality of firm disclosures, improving transparency. Evidence of more favourable abnormal returns for firms with high information asymmetry during the events leading up to the adoption of SOX confirm an expectation that SOX would improve their transparency (Akhigbe *et al.*, 2010) Akhigbe *et al.* (2010) also find firms that experienced positive abnormal returns leading up to SOX report improved transparency post-SOX. Furthermore, Andrade *et al.* (2014) show that corporate opacity significantly decreases after SOX.

One of the major disclosure requirements under SOX involves extensive reviews of company policies and technologies in order to prevent fraud (Section 404 of SOX). This provision requires audit firm attestation of internal control systems, which provides market participants with a greater understanding of potential weaknesses or poor governance. Firms reporting internal control weaknesses face negative market reactions (Hammersley *et al.*, 2008, and Ashbaugh *et al.*, 2009). If firms report weak internal controls then investors and market forces should act to correct these weaknesses. Johnstone *et al.* (2011) confirm this expectation, finding that 59% of firms reporting internal control weaknesses remedy the problem within one year.

SOX was implemented to combat the occurrence of fraud. The new regulation was designed to enhance disclosure requirements. Reduced information asymmetry together with improved accounting quality post-SOX should make it more difficult to commit and conceal corporate misconduct.

This study examines the impact lobbying has on the time it takes to detect misconduct before and after the enactment of SOX. The severity of the misconduct that has taken place is also analysed by looking at whether the class action is settled as well as the size of the losses and the associated penalties. This is the first empirical paper to analyse the impact SOX has on the relationship between lobbying and the severity of the misconduct that has occurred for firms that are subject to securities class actions.

3. Hypothesis Development

Lobbying helps managers influence policy decisions and develop political relationships with influential members of government. Lobbying can help managers to conceal or facilitate illegal corporate actions in two ways. First, managers may directly influence regulatory watchdogs, such as the SEC to overlook corrupt corporate activities (Correia, 2014). Second, lobbying may indirectly result in managers being able to evade detection for longer. Prior research has found that lobbying is influential in gaining favourable contracting and regulatory rulings (see Goldman *et al.*, 2013; Blau *et al.*, 2013; Duchin and Sosyura, 2012). Poor performance is often seen as a sign of mismanagement. Poor performance associated with misconduct may be offset by better performance arising from political connections. Therefore, lobbying may indirectly hinder the ability to detect misconduct. Consistent with this information asymmetry argument Chen *et al.* (2010) find that analysts' forecast accuracy is worse for firms with political connections, which suggests these firms have greater information asymmetry.

The effectiveness of lobbying in helping managers to evade detection for longer will be influenced by the firm's mandatory disclosures and the strength of a firm's corporate governance. During the pre-SOX period when disclosure requirements were relatively weak we expect managerial misconduct detection to be difficult. Consistent with this expectation Yu and Yu (2011) find that lobbying firms are on average able to evade detection for 117 days longer between 1998 and 2004. Evading detection for longer is most likely attributable to information asymmetry's which stem from lobbying activities. Therefore in the pre-SOX period it is expected that managers of firms that lobby will be able to evade detection for longer. This leads to Hypothesis 1a.

Hypothesis 1a: Firms that lobby will be able to evade detection for longer pre-SOX.

The effectiveness of lobbying as a means of evading detection for longer is likely impacted by the implementation of SOX. Post-SOX firms were required to issue enhanced disclosures reducing the extent of information asymmetry. Research has found evidence that corporate transparency improves after the enactment of SOX (Andrade *et al.* 2014). As such information asymmetry caused by lobbying is likely to be reduced as a result of the stricter

disclosures required under SOX. Post-SOX investors are expected to be better able to monitor and uncover any managerial misconduct faster. This expectation leads to Hypothesis 1b.

Hypothesis 1b: Lobbying will have no effect on the time it takes to detect misconduct post-SOX.

There are two primary outcomes from securities class actions: (i) dismissal in favour of the firm or (ii) an out of court settlement. Very few cases ever go to trial. In a securities class action the onus is on the plaintiff to prove that any managerial wrongdoing has actually occurred. To receive a settlement pay out investors generally need to prove that managers have actually violated securities laws.

An environment of weaker corporate transparency hinders investors' ability to collect evidence proving that managers have violated securities laws. Hence greater informational asymmetry makes it more difficult for investors to win a class action. Since information asymmetry stems from lobbying (Chen *et al.*, 2010), managers of lobbying firms are less likely to settle a pre-SOX class action because investors will find it more difficult to prove manager culpability. This leads to the next hypothesis.

Hypothesis 2a: Firms that lobby are less likely to settle a securities class action filed against them pre-SOX.

Lobbying firms are more likely to evade detection because of informational asymmetries. However SOX's enhanced disclosure requirements make managerial actions more visible. Greater transparency means that investors are able to piece together information showing that managers have been committing illegal activities. Therefore we expect managers are more likely to settle a class action post-SOX.

Section 302 of SOX requires CEOs and CFOs to certify the firm's financial statements. This provision increases the culpability of CEOs and CFOs if anything untoward is uncovered. As information is revealed through the discovery process, Haslem (2005) theorised that information asymmetries decrease over the course of litigation. Consistent with this theory Haslem (2005) finds evidence that managers of firms with the most significant agency issues settle the quickest. Therefore post-SOX managers will have an incentive to settle quickly to avoid being personally liable for the potentially larger penalties that may arise due to a drawn

out class action. Due to greater transparency and the increased culpability of managers post-SOX it is we expect managers of lobbying firms will be more likely to settle a securities class action post-SOX.

Hypothesis 2b: Lobbying will not be related to the probability of a class action being settled post-SOX.

Not all securities class actions are meritorious. Numerous class actions are frivolous in nature where the plaintiffs attempt to regain losses unrelated to illegal activities. Firms may settle frivolous or nuisance class actions to avoid potential negative publicity or the costs of litigation. Since Directors' and Officers' (D&O) insurance generally covers these settlements, settling can be an attractive way of getting rid of a frivolous case. Therefore settled cases can either be meritorious or frivolous in nature.

Hypothesis 1a predicts that pre-SOX managers of lobbying firms are able to evade detection for longer. The longer detection time gives delinquent managers more opportunities to commit misconduct destroying investors' wealth. Pre-SOX lobbying firms have more time for impropriety, accrue greater losses to the firm and therefore should face harsher penalties.

Prior research has found that the size of the settlement is related to the provable loss and the length of the period the misconduct occurred over, both of which can be seen as a measure of the extent or complexity of the violation (Karpoff *et al.* 2007, and Cox and Thomas 2006). This result indicates that the greater the damage due to manager misconduct is the more severe the penalties are in terms of the settlement size. Since lobbying firms are expected to accrue greater losses as a result of being able to evade detection for longer these firms should pay larger settlements when they are sued. This leads to the next hypothesis.

Hypothesis 3a: Firms that lobby will be more likely to cause more damage and face a larger settlement in the pre-SOX.

Post-SOX it is expected that firms will not be able to evade detection for longer, nor will they have the same opportunities to destroy investor wealth as they did in the pre-SOX period. Based on these expectations the losses accrued and the size of the settlement should be similar in size for lobbying and non-lobbying firms after SOX. This leads to the final hypothesis.

Hypothesis 3b: Lobbying will not be related to the size of the damages or the size of the settlement post-SOX.

4. Method

4.1. Length of the Class Period

Hypotheses 1a and 1b predict lobbying firms will be able to evade detection for longer in the pre-SOX period but not in the post-SOX period. We measure a firm's ability to evade detection by the length of the class. The class period is defined as the time the investors who file a class action allege the misconduct occurred. While this is an imperfect measure it gives a good indication of the length of time managers were able to avoid detection.[1]

Equation (1) is estimated to determine if the class period is longer for firms that lobby.

$$DaysCP = \beta_0 + \beta_1 Lobby + \beta_2 Settled + \beta_3 ProvableLoss + \beta_4 DaystoFile + \beta_5 Size +$$
$$\beta_6 Leverage + \beta_7 ROA + \beta_8 B/M + \Sigma\beta \cdot Ind + \Sigma\beta \cdot Year + \varepsilon \qquad (1)$$

The dependent variable in this model is the natural log of the number of days in the class period.[2]

In this analysis *Lobby* represents one of two measures of the extent of lobbying a firm conducts. The first measure is a dichotomous variable taking a value of 1 if the firm has undertaken lobbying at any point in time during the 2 years prior to the filing year and 0 otherwise. The second lobbying measure is the log of the total dollar value of lobbying expenses undertaken in the 2 years prior to the filing year. These two measures of lobbying will be used throughout the analysis. There are two reasons for the use of this 2 year period. First, 2 years is selected as it should be an adequate amount of time for a political relationship to have been developed. Second, the length from the beginning of the class period, when the malfeasance is accused to have begun, to the filing date can be quite significant. The average length of the class period is 411 days and the filing delay has an average length of 125 days

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[1] The length of the class period is defined by investors so may not precisely measure the actual time period of the misconduct, if any misconduct even occurred.
[2] For a full list of variables used in this study and how they were calculated see Table 1.

(Griffin *et al.*, 2004).[3] Since we are analysing whether lobbying facilitates misconduct 2 years should be an adequate amount of time to effectively capture this effect.

Hypotheses 1a and 1b examine the impact lobbying has on the duration of the class period, based on whether the class action relates to the pre-SOX or post-SOX era. To test these hypotheses the sample is divided into two based on the implementation of SOX. The pre-SOX period is defined as any class action that was filed in or earlier than 2004 and the post-SOX period includes any class actions filed in 2005 or later.

SOX was signed into law on 30 July 2002. However the average number of days between the beginning of the class period and the filing is 536 days (Griffin *et al.*, 2004). As a result it would be expected that a large number of firms that are being sued in 2004 will have begun committing the alleged misconduct prior to the implementation of SOX, as such managers actions likely reflected the pre-SOX era. Although using class actions that were filed after 2002 may capture post-SOX behaviour it should also still capture a large number of cases of misconduct that began prior to SOX.

The pre- and post-SOX periods are also used because one of the major provisions of SOX, Section 404, was only enforced, for accelerated filers, from 15 November 2004.[4] Section 404 requires extensive reviews of a company's policies and technologies in order to prevent fraud. It was one of the new disclosure requirements implemented to aide investors in identifying firms with relatively weak governance and as such those firms that were most likely to commit misconduct. Defining the pre-SOX period up to the end of 2004 is appropriate because the Section 404 provision was only enforced from the end of 2004.

Our definition of the pre-SOX period going up to the end of 2004 is also consistent with the Yu and Yu (2011) sample period. Throughout the rest of the analysis the same definition of pre-SOX and post-SOX periods will be used.[5]

Hypothesis 1a states that the class period will be longer for firms that lobby in the period before SOX. If this hypothesis is accepted the *Lobby* coefficient in equation (1) will be a positive and significant.. On the other hand, Hypothesis 1b states that post-SOX firms that

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[3] The filing delay is the period between the end of the class period and the filing of the class action.
[4] Accelerated filers are defined as firms that have a public float of at least $75 million, have been subject to exchange act reporting for at least 12 months and have filed at least one annual report. Most firms that have a class action filed against them will meet this definition of an accelerated filer.
[5] Rerunning the analysis using 2002 or 2003 as the cut-off for the pre-SOX period does not adversely affect the results.

lobby will not be able to evade detection for longer. If this hypothesis is accepted the *Lobby* coefficient in equation (1) will be insignificant.

A series of control variables are also included in this model. Three variables, *Settled, ProvableLoss* and *DaystoFile* are used to control for the extent or the complexity of the misconduct. *Settled* is a dichotomous variable taking the value of 1 if the class action is settled in favour of the firm and 0 otherwise. *ProvableLoss* is percentage change in the firms' market capitalisation from the beginning of the class period to the end of the class period. *DaystoFile* represents the number of days between the end of the class period and the filing day.

The model also incorporates four firm characteristics. *Size* is the firm size measured as the log of the firm's market capitalisation. *Leverage* is the ratio of total debt to assets. *ROA* is the firm's net income divided by beginning of year total assets. *B/M* is the ratio of book value of equity to market value of equity. All firm financial characteristics used in the regressions throughout the analysis are calculated for the year ending prior to the year the class action was filed. Forty-eight industry dummy variables (*Ind*) as specified by Fama and French (1997) are included to control for industry effects. Yearly dummy variables are also included to control for year effects.

4.2. Probability of Settlement

Hypotheses 2a and 2b state that firms that lobby will be less likely to settle a class action filed against them in the pre-SOX period but will not be any less likely to settle after the enactment of SOX.

A logit regression is used to test this hypothesis. The model stated in equation (2) is estimated for all firms that are sued. The dependent variable, *Settled*, takes the value of 1 if the case is settled and is 0 otherwise.

$$Settled = \beta_0 + \beta_1 Lobby + \beta_2 ProvableLoss + \beta_3 DaysCP + \beta_4 DaystoFile + \beta_5 Size + \beta_6 Leverage + \beta_7 ROA + \beta_8 B/M + \Sigma\beta \cdot Ind + \Sigma\beta \cdot Year + \varepsilon \qquad (2)$$

Once again the primary variable of interest is *Lobby*. Hypothesis 2a states that firms that lobby in the pre-SOX period will be less likely to settle a class action filed against them. If

this hypothesis is accepted the *Lobby* coefficient in equation (2) will be negative and significant.

Hypothesis 2b, on the other hand, states that post-SOX lobbying will make no difference to the likelihood of a firm settling a class action. If this hypothesis is accepted the *Lobby* coefficient in equation (2) will be insignificant.

The control variables in this model are very similar to those implemented by Cheng *et al.* (2010) and Karpoff *et al.* (2007) and are very similar to those defined in equation (1).

4.3. Settlement Size

Hypothesis 3a states that lobbying in the pre-SOX period will provide managers with greater opportunities to accrue more substantial losses and will face greater penalties as a result. On the other hand, Hypothesis 3b states that in the post-SOX period there will be no difference in terms of the losses and the size of the settlement between lobbying and non-lobbying firms.

These hypotheses are tested using two different measures of the damages caused by the managerial misconduct: (i) the losses associated with the class actions; (ii) the size of the settlement.[6] The first regression will be run on all firms with a class action filed against them as given by equation (3).

$$ProvableLoss = \beta_0 + \beta_1 Lobby + \beta_2 Settled + \beta_3 DaysCP + \beta_4 DaystoFile + \beta_5 Size + \beta_6 Leverage + \beta_7 ROA + \beta_8 B/M + \Sigma\beta \cdot Ind + \Sigma\beta \cdot Year + \varepsilon \qquad (3)$$

In this model the dependent variable is the provable loss. *ProvableLoss* is measured as the percentage change in the firms' market capitalisation from the beginning of the class period to the end of the class period. This measure is similar to that used by Karpoff *et al.* (2008).[7] They find that their measure of provable loss more closely tracks regulators' estimates of damages than alternate measures.

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[6] Karpoff *et al.* 2007 show that these two measures are related and should provide consistent results.
[7] Karpoff *et al.* (2008) define their provable loss measure as: the percentage change in the firms' market capitalisation from its highest point during the violation period to the first day news of a possible violation is revealed. The violation period used in their analysis will not be the same as the class period that is used in this analysis. Similarly the first day news of a possible violation is revealed will not be the same day as the end of the class period. Despite these differences the provable loss used by Karpoff *et al.* (2008) should be quantitatively similar to the one used in this study.

If Hypothesis 3a is accepted so that lobbying allows managers to cause more significant damage then the coefficient for the *Lobby* variable should be negative and significant.

An OLS regression is estimated over all class actions that were settled using the size of the settlement as the dependent variable. The model is given in equation (4).

$$Settlement = \beta_0 + \beta_1 Lobby + \beta_2 ProvableLoss + \beta_3 DaysCP + \beta_4 DaystoFile +$$
$$\beta_5 Size + \beta_6 Leverage + \beta_7 ROA + \beta_8 B/M + \Sigma\beta \cdot Ind + \Sigma\beta \cdot Year + \varepsilon \quad (4)$$

Settlement in this model is the log of the cash settlement amount. Hypothesis 3a states that firms that lobby will pay larger settlements as a result of causing more damage. If this hypothesis is correct then the *Lobby* coefficient will be positive and significant. The results from model (4) should be consistent with model (3).

Hypothesis 3b states that post-SOX firms will not be able to cause as much damage and will therefore not face larger settlements. If this hypothesis is accepted the *Lobby* variable will be insignificant in models (3) and (4).

5. Data

5.1. Sample Selection

Data for securities class actions, in the United States, is obtained from the Stanford Securities Class Action Clearinghouse (SCAC).[8] All class actions listed between 2000 and 2012 are used for this analysis. The Stanford SCAC provides information on the filing date of the suit, the class period, ticker symbol and SIC code for all class actions filed after the institution of the Private Securities Litigation Reform Act (PSLRA). The outcome of the case has also been collected by reading through the case reports provided by the Stanford SCAC and a dataset of settlement amounts has been compiled.

Individual firm financial data, up to the end of 2012, is obtained from the CRSP/Compustat merged database. All firms with available data listed on the NYSE, NASDAQ or AMEX have been used in the primary sample. Firms incorporated outside of the US are excluded from the sample due to possible differences in reporting standards.

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[8] http://securities.stanford.edu/

The Lobbying Disclosure Act of 1995 (LDA) requires any organisation whose lobbying expenses exceed $20,000 semi-annually to file with the Senate Office of Public Records (SOPR) and the Clerk of the House of Representatives. The Centre for Responsive Politics (CRP) maintains a database of the quarterly reports filed at SOPR since 1998.[9] One of the drawbacks of this database is that there is no breakdown as to how much is spent on lobbying particular agencies, since firms are not required to disclose this information. To calculate the lobbying variables that are used in the study two prior years of data are required. Since lobbying information is only publicly available from 1998, this means that after calculating the lobbying variables there is sufficient data available to conduct the analysis from the year 2000.

5.2. Sample Statistics

Table 2 shows a comparison of characteristics between firms that lobby and those that do not.[10] The most obvious difference is lobbying firms are significantly larger in size. The significant size disparity is consistent with prior research that has examined the determinants of lobbying (see Mathur *et al.*, 2013; Hill *et al.*, 2013; and Jin-Hyuk, 2008). Almost all of the significant differences in this table can be attributed to the difference in size.

Table 3 presents summary statistics of key variables for lobbying and non-lobbying sued firms for the full sample period (2000 to 2012). Once again lobbying firms are significantly larger in size. The average size for the sued firms is also slightly larger for both lobbying and non-lobbying firms compared to the full sample. The difference in size is consistent with the deep pockets theory, which posits that sued firms are typically larger in size because they are more attractive targets to extract settlements.

Class actions filed against lobbying firms are also significantly less likely to be settled. This result can also be attributed to the deep pockets theory and indicates that lobbying firms are more likely to have frivolous cases filed against them. This indicates that it is important to control for the merits of the case throughout the analysis. It is also interesting to note that there is no significant difference in the number of days in the class period for the full sample period.

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[9] CRP maintains this database at https://www.opensecrets.org/
[10] The values presented are means winsorised at the 1st and 99th percentiles.

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Table 4 shows the sample composition of sued firms by year and industry. For non-lobbying firms there are a proportionally large number of class actions filed in 2001. This can be credited to the bursting of the tech bubble. These tech firms were generally start-up companies without resources to expend on lobbying which explains why this increase in filings is exclusively for non-lobbying firms.

Panel B of Table 4 shows a relatively consistent distribution of filings across industries for lobbying and non-lobbying firms. The most obvious differences are the proportionally higher number of sued lobbying firms in the finance industry and the proportionally lower number of sued lobbying firms in the service industry. These slight differences can be attributed to the differing need for lobbying across various industries.

Table 5 presents Spearman correlation coefficients between the variables used in the analysis. In general the correlations are relatively small and the variance inflation factors (VIFs) are also very small. One of the few exceptions is the relationship between Lobby Dummy and Lobby Amount where there is, unsurprisingly, a very high correlation. A high level of correlation is also evident between the settled and settlement size variables. Due to the high correlations between these variables they will not be used in the same regression together as independent variables.

6. Results

6.1. Length of Class Period

In the first part of the analysis the relationship between lobbying and the length of the class period pre- and post-SOX is examined. Hypothesis 1a states that lobbying firms will be able to evade detection for longer pre-SOX. Post-SOX however it is expected lobbying will have no impact on the time it takes to detect misconduct (Hypothesis 1b).

The hypotheses are tested using a univariate analysis across the pre- and post-SOX subsamples. The results of these tests can be found in Table 6. Panel A of Table 6 presents statistics for the full sample period (2000 to 2012). Panel B and C report class action statistics for the pre-SOX (2000 to 2004) and post-SOX (2005-2012) respectively. Panel B shows that the average number of days in the class period for firms that lobby is 93 days

longer than non-lobbying firms. This difference is highly significant and is consistent with the results obtained by Yu and Yu (2011). Panel C reports that the length of the class period is not significantly different between lobbying and non-lobbying firms post-SOX. These two results are consistent with Hypothesis 1a and 1b suggesting that lobbying firms were able to evade detection for longer before SOX but not after its implementation.

To more formally test whether lobbying has any impact on the length of the class period equation (1) was estimated. The results of these regressions are reported in Table 7. Models (1) and (2) in Table 7 report the results for the pre-SOX period. The primary variables of interest in these models are Lobby Dummy and Lobby Amount both of which have positive coefficients and are highly significant. Consistent with Hypothesis 1a and Yu and Yu (2011), these results confirm that the class period is significantly longer for lobbying firms in the pre-SOX period.[11]

Models (3) and (4) in Table 7 report the regressions estimated for the post-SOX period. In these two models neither Lobby Dummy nor Lobby Amount is significant. The results are consistent with Hypothesis 1b and suggest that post-SOX lobbying firms are no longer able to evade detection for longer.

The most likely reason that lobbying firms were able to evade detection for longer in the pre-SOX period is because of information asymmetry (see Chen *et al.*, 2010). Due to weak disclosure requirements in the pre-SOX period and the information asymmetry caused by lobbying it was more difficult to determine if managers were violating securities laws. As a result of being unable to adequately monitor managerial decisions it took longer to uncover any corporate misconduct that may have taken place.

After SOX, stricter and more detailed disclosures were required by firms. The improved disclosure requirements have improved transparency of firms (Andrade *et al.*, 2014). The enhanced disclosure requirements also appear to have reduced information asymmetry associated with lobbying. Therefore it is easier for investors to monitor the actions of managers of lobbying firms. As a result managers of lobbying firms are no longer able to hide their misconduct for longer.

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[11] A replication of Yu and Yu's (2011) results has been performed and are available from the authors on request.

The enactment of SOX was not the only change in regulation that occurred around the 2002 period. In 2002 the NYSE and NASDAQ also made changes to their governance listing requirements. These changes were primarily focused on improving board independence.[12] It is likely that these stricter listing requirements will have also made it more difficult for managers to evade detection for longer in the years after the enactment.

Investors may have also become more vigilant over time. Some very high profile cases of misconduct came to light during early 2000's, including Enron and Worldcom. These same companies also spent millions each year on lobbying and made significant political contributions. The resulting bankruptcies of these companies may have made investors more wary and cautious of potential political corruption associated with the large scale political strategies these companies undertook. Investor cautiousness concerning lobbying spending may have prompted more monitoring to ensure that managers were not taking advantage of the political connections they had developed.

Lobbying may also have become less effective over time as a result of an increase in the number of entities lobbying and the amount of money being spent on lobbying. The Honest Leadership and Open Government Act of 2007 placed restrictions on lobbying activities, which would also limit the effectiveness of lobbying. In recent years the US Congress has been at a near constant gridlock and has been highly ineffective, as such the benefits associated with lobbying for specific pieces of legislation could be more limited. All of these arguments would suggest that post-SOX the benefits associated with lobbying will be more limited and as such the information asymmetry caused by lobbying may not be as significant.

It is therefore possible that SOX is not the only reason for the change in the length of the class period for lobbying firms. The stricter listing requirements, increased investor vigilance and a possible reduction in the benefits associated with lobbying will have adversely affected manager's ability to evade detection for longer. Identifying the exact reason for the observed change in the class period length is beyond the scope of this study. However, SOX is most likely to have the largest effect on manager's ability to evade detection for longer as a result of the reduction in information asymmetry caused by improved disclosure requirements.

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[12] Some of the major new requirements included: a majority independent board, more stringent definition of independence, regular meetings of independent directors, shareholder approval requirements for equity compensation and mandated corporate governance outlines.

The evidence so far suggests that pre-SOX managers that lobbied were able to evade detection for longer. Post-SOX lobbying no longer impacts the length of the class period. These results indicate that changes surrounding the implementation of SOX have limited the opportunities for mangers to commit more severe misconduct.

6.2. Probability of Settlement

In this section tests for the relationship between lobbying and the probability of settlement are presented. Hypothesis 2a states that before SOX firms that lobby will be less likely to settle a class action.

To test this logit regressions were run as in equation (2). The dependent variable in these regressions takes a value of 1 if the class action is settled and is equal to 0 if it is dismissed. The results from these regressions are presented in Table 8. The regressions estimated for the pre-SOX period are presented in the first two columns. In each of these two regressions the coefficient for the lobby variable is negative and significant. This indicates that firms that lobby in the pre-SOX period are less likely to have settled a case filed against them, which is consistent with Hypothesis 2a.

This result is consistent with it being more difficult to determine whether managers were actually culpable during the pre-SOX period. The burden of proof in securities class actions is on the plaintiff. As such the investor class needs to prove that managers have violated securities laws. However information asymmetry limits the plaintiff's ability to monitor manager actions making it more difficult to observe and prove if managers have broken the. Hence lobbying firms in the pre-SOX period may have been able to conceal their illegal activities and get away with violating securities laws. This result is only marginally significant, at the 10% level, so the impact of lobbying on whether the case was settled may be minimal.

Post-SOX the information asymmetry is expected to be less due to greater disclosure requirements. Therefore lobbying will have less of an impact on corporate transparency and the ability for investors to prove managers have broken the law. Based on this expectation, Hypothesis 2b predicts that after SOX lobbying will not have any impact on the probability of a class action being settled.

Models (3) and (4) in Table 8 present the results of the regressions estimated for whether the class action was settled in the post-SOX period. Consistent with Hypothesis 2b the results indicate that neither lobby variable is significant. This result confirms that lobbying does not impact the outcome of class actions that were filed post-SOX.

These results suggest that SOX has had an impact on whether a class action is settled for lobbying firms. Pre-SOX lobbying firms were marginally less likely to settle a class action filed against them. Post-SOX, however, lobbying no longer appears to have an impact on the outcome of the case. The findings indicate that SOX has improved the culpability of managers for lobbying firms that are subject to securities class actions.

6.3. Settlement Size

The third hypotheses examine the relationship between lobbying and the damages caused by the alleged misconduct. Hypothesis 3a states that pre-SOX lobbying firms will cause more damage because they are able to evade detection for longer, giving managers more opportunities to destroy investor wealth. These outcomes also imply that lobbying firms will be more likely to face larger settlements.

Equation (3) is estimated to test this hypothesis Provable loss is defined as the percentage change in the firms' market capitalisation from the beginning of the class period to the end of the class period. It is a measure of the dollar amount of damage managers have done to the value of the firm through their misdeeds. The regression results are presented in Table 9. Models (1) and (2) in Table 9 present the results for the pre-SOX regressions. If Hypothesis 3a is correct the Lobby variables coefficients will be negative and significant. In the pre-SOX regressions the Lobby Dummy and Lobby Amount coefficients are both insignificant. As such there is no evidence that managers of lobbying firms cause more damage before SOX.

Since managers of lobbying firms were able to avoid detection for longer pre-SOX they may have been able to cause more damage. The results from the regressions run on the size of the provable loss suggest that lobbying doesn't have any impact on the amount of damage being done by managers.

There are a couple of possible explanations for this result. First, any damage being done may be offset by performance enhancements that come from lobbying. Prior research has found firms that lobby typically perform better in the long run (Jin-Hyuk, 2008; Hill *et al.*, 2013;

and Chen *et al.*, 2015). The better performance may offset any extra damage due to managers actions. Alternatively, managers of firms that lobby may evade detection for longer but they may not take advantage of this opportunity.

To further test whether lobbying is related to the severity of the misconduct regressions were estimated with settlement size as the dependent variable, as in equation (4). The results from these regressions are presented in Table 10. For the pre-SOX period (models (1) and (2)) lobbying is not significantly related to the size of the settlement. This result is consistent with the findings for the provable loss and suggests managers of firms that lobby in the pre-SOX period do not cause more damage and as a result do not face greater penalties.

So far the results have shown that post-SOX firms that lobby are not able to evade detection for longer. As a result it would be expected that managers of lobbying firms won't be able to cause more damage after SOX. We test this hypothesis by estimating the regressions during the post-SOX period to see if lobbying has any impact on the size of the provable loss or the settlement. Models (3) and (4) in Tables 9 and 10 present the results obtained from the regressions estimated for the post-SOX period. The results show that lobbying is not significantly related to the provable loss or the settlement after SOX, which is consistent with Hypothesis 3b.

Overall, SOX appears to have limited the impact lobbying has on manager's ability to commit and conceal misconduct. Pre-SOX firms that lobbied were able to evade detection for longer and were marginally less likely to have to settle a securities class action. Although managers of lobbying firms were able to evade detection for longer they do not appear to have done more damage during this time. Our results show that managers did not take advantage of the longer detection time. However it should have been cause for concern because managers had opportunities to cause more substantial damage.

Post-SOX lobbying no longer has an impact on either the length of the class period or the probability of a case being settled. These changes can be attributed to a reduction in information asymmetry due to the more rigorous disclosure requirements associated with SOX. SOX appears to have made it more difficult for managers of lobbying firms to evade detection for longer and as such has limited the ability for managers to commit more severe misconduct. There is also evidence to suggest that for lobbying firms the likelihood of culpable managers settling a class action may have also increased as a result of SOX.

The results indicate that lobbying, in general, may have helped to facilitate misconduct prior to SOX. After the enactment of SOX lobbying no longer has any impact on manager's ability to hide any illegal corporate activities. Based on this evidence SOX appears to have been beneficial in reducing the potentially harmful effects political connections can have on a manager's ability to violate securities laws.

7. Conclusion

This paper examines the relationship between lobbying and securities class actions. Specifically, the time it takes to detect misconduct, the probability of settling a class action and the penalties that are imposed, with respect to whether firms lobby, are analysed before and after the enactment of SOX.

We find that lobbying positively impacts the length of the class period pre-SOX, which indicates that managers of firms that lobby are able to evade detection for longer. The most likely reason for this result is that lobbying creates information asymmetries making it more difficult to detect whether the managers actions are violating securities laws. SOX introduced stricter disclosure requirements reducing information asymmetry. As a result of the enhanced disclosures required by SOX, firms have become more transparent, reducing the impact lobbying has on investor's ability to detect misconduct. Consistent with this hypothesis we find that lobbying has no impact on the length of the class period in the post-SOX period.

In the pre-SOX period the probability of a settlement is also found to be adversely affected by whether a firm lobbies. The results indicate that firms that lobby are less likely to settle a class action filed against them. The most likely reason for this finding is the information asymmetry caused by lobbying activities. The burden of proof in class actions is on the plaintiff. As such the investor class needs to prove that managers have actually violated securities laws, which is more difficult when there are information asymmetry problems. Although this result is only marginally significant it is indicative of an issue that was apparent with lobbying. After SOX lobbying no longer has a significant impact on the outcome of the case. The most likely reason for this result is the introduction of stricter disclosure requirements that occurred with SOX. The more rigorous disclosures will have

reduced the information asymmetry issues that were caused by lobbying, making it easier for investors to determine and therefore prove that managers have violated securities laws.

Pre-SOX managers of lobbying firms are able to evade detection for longer and are marginally less likely to pay a settlement. This implies that managers of lobbying firms will have more opportunities to cause significant damage to investors. However, the results indicate that the size of the loss to investors and the settlement are not affected by whether the firm lobbies in the pre-SOX period. It is possible that managers of lobbying firms may be able to evade detection for longer and cause more damage but these extra losses could be being offset by the enhanced performance that is associated with lobbying.

We find that pre-SOX lobbying helped conceal managers actions, making it more difficult to detect and prove whether managers were acting illegally. This would be cause for concern for investors as managers of these lobbying firms had greater opportunities to commit misconduct and as such destroy investor wealth. However, SOX appears to have had a positive effect on the transparency of these lobbying firms making it easier for investors to detect and prove whether managers of lobbying firms are violating securities laws. Overall, the evidence supports SOX causing improved transparency for lobbying firms and reducing the potentially negative effects that political connections may create.

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Table 1: Variable Definitions

Panel (A): Lobbying Variables

Variable	Definition
Lobby	Dummy variable equal to 1 if the firm has lobbied over the prior 2 years and 0 otherwise. Source: CRP.
LobbyAmount	Natural log of the total dollar value of lobbying expenses undertaken over the prior 2 years. Source: CRP.

Panel (B): Measures of the Extent of and Complexity of the Violation

Variable	Definition
Settled	Dummy variable equal to 1 if the class action was settled and 0 otherwise. Source: Stanford SCAC.
Settlement	The log of the cash settlement. Source: Stanford SCAC
ProvableLoss	The percentage change in the firm's market capitalisation from the beginning of the class period to the end of the class period. Source: CRSP.
DaysCP	The number of days in the class period. Source: Stanford SCAC.
DaystoFile	The number of days between the end of the class period and the filing date. Source: Stanford SCAC

Panel (C): Other Variables

Variable	Definition
Size	Natural log of the firm's market capitalisation. Source: Compustat.
ROA	Ratio of net income (#172) to beginning of year assets (#6). Source: Compustat.
BTM	Ratio of book value of equity (#60) to market capitalisation. Source: Compustat.
Leverage	Ratio of total book value of current and long term debt (#34 + #39) to assets (#6). Source: Compustat.
Ind	48 industry dummy variables in accordance with Fama and French (1997). Source: Compustat.
Year	Dummy variables equal to 1 for a particular year and 0 otherwise.

Table 2: Comparison Lobby and Non-Lobby

Table 2 reports descriptive statistics for lobbying and non-lobbying firm year observations between 2000 and 2012. The table includes the mean and number of observations for the selected variables. The means are winsorized at the 1st and 99th percentiles. The difference between the two samples are calculated as the mean of the lobbying firms variable less the mean of the non-lobbying firms variable and these are shown in the last column with significance calculated using a paired t-test. Variables definitions can be found in Table 1. *, **, *** Statistically different from zero at the 10, 5 and 1 percent significance levels, respectively.

	Non-Lobby		Lobby		Difference (Lobby-Non-Lobby)
Firm Values					
Assets	1,290.26	48766	20,550.62	11262	19,260.36***
Market Cap	785.91	48766	11,214.31	11262	10,428.39***
Debt	294.96	48562	5,514.52	11213	5,219.56***
Leverage	0.189	48562	0.251	11213	0.062***
PPE/Assets	0.453	40743	0.496	10769	0.043***
EBIT	66.42	48173	1,171.27	11238	1,104.85***
ROA	-0.075	48718	-0.007	11260	0.068***
B/M	0.810	48762	0.548	11261	-0.263***
CAPEX/Assets	0.044	45790	0.046	11100	0.002***
Sales	687.59	48718	8,549.99	11260	7,862.41***
Cash/Assets	0.142	48362	0.112	11084	-0.029***
Dividends/Assets	0.005	48644	0.010	11219	0.005***
Lobby Data					
Lobby Amount			895,140.88	11262	

Table 3: Comparison Sued Lobby and Sued Non-Lobby

Table 3 reports descriptive statistics for sued lobbying and sued non-lobbying firm year observations between 2000 and 2012. The table includes the mean and number of observations for the selected variables. The means are winsorized at the 1st and 99th percentiles. The difference between the two samples are calculated as the mean of the sued lobbying firms variable less the mean of the sued non-lobbying firms variable and these are shown in the last column with significance calculated using a paired t-test. Variables definitions can be found in Table 1. *, **, *** Statistically different from zero at the 10, 5 and 1 percent significance levels, respectively.

	Non-Lobby		Lobby		Difference (Lobby-Non-Lobby)
Firm Values					
Assets	4,235.23	825	57,621.31	362	53,386.08***
Market Cap	1,139.75	850	16,002.72	372	14,862.97***
Debt	2,492.79	848	20,640.59	370	18,147.80***
Leverage	0.185	823	0.268	360	0.083***
PPE/Assets	0.315	793	0.430	338	0.115***
EBIT	138.92	820	1,597.35	362	1,458.43***
ROA	-0.384	849	-0.105	372	0.278***
B/M	0.694	850	0.472	372	-0.222
CAPEX/Assets	0.053	810	0.049	356	-0.005
Sales	1,101.50	824	13,006.19	362	11,904.68***
Cash/Assets	0.204	815	0.119	358	-0.085***
Dividends/Assets	0.003	820	0.010	360	0.007***
SCA Info					
Days In CP	411.23	850	453.60	372	42.37
Settled	0.652	850	0.481	372	-0.171***
Days to File	143.23	850	134.41	372	-8.82
Settlement (millions)	22.79	330	113.30	155	90.51*
Lobby Data (Prior 2 Years)					
Lobby Amount			2,154,966.49	372	

Table 4: Comparison Sued Lobby and Sued Non-Lobby Distribution

Table 4 reports the number of securities class actions filed each year and in each industry for the sample of 1222 class actions filed during the period of 2000 to 2012 obtained from the Stanford Securities Class Action Clearinghouse. Panel A displays the number and percentage of securities class actions filed each year split by whether the firms lobby. Panel B reports the frequency of class actions by industry split by whether the firms lobby.

Panel A: Distribution of Sample across Years				
Year	Non-Lobby	Percentage	Lobby	Percentage
2000	73	8.6%	35	9.4%
2001	256	30.1%	35	9.4%
2002	58	6.8%	55	14.8%
2003	62	7.3%	27	7.3%
2004	77	9.1%	26	7.0%
2005	65	7.6%	27	7.3%
2006	37	4.4%	20	5.4%
2007	49	5.8%	23	6.2%
2008	47	5.5%	42	11.3%
2009	35	4.1%	24	6.5%
2010	36	4.2%	27	7.3%
2011	37	4.4%	15	4.0%
2012	18	2.1%	16	4.3%
Total	850		372	

Panel B: Distribution of Class Actions across Industries				
Industry	Non-Lobby	Percentage	Lobby	Percentage
Agriculture, Forestry and Fishing	0	0.0%	0	0.0%
Mining	11	1.3%	9	2.4%
Construction	9	1.1%	1	0.3%
Manufacturing	325	38.2%	138	37.1%
Transportation	50	5.9%	61	16.4%
Wholesale Trade	29	3.4%	4	1.1%
Retail Trade	49	5.8%	13	3.5%
Finance, Insurance and Real Estate	71	8.4%	63	16.9%
Services	299	35.2%	82	22.0%
Public Administration	0	0.0%	0	0.0%
Other	7	0.8%	1	0.3%
Total	850		372	

Table 5: Correlations

Table 5 shows the matrix of Spearman correlation coefficients for the dependent and independent variables that are analyzed in equation (2). Correlations are calculated based on the full sample of sued and non-sued firms analyzed in equation (2). Variance inflation factors (VIFs) are also presented for the independent variables used in equation (2). Variables definitions can be found in Table 1.

	Lobby Dummy	Lobby Amount	Settlement	Settled	Provable Loss	Days in Class Period	Days to File	Size	Leverage	ROA	B/M	VIF
Lobby Dummy	1.00											1.38
Lobby Amount	0.99	1.00										
Settlement	-0.06	-0.06	1.00									
Settled	-0.15	-0.15	0.99	1.00								1.06
Provable Loss	0.02	0.01	-0.10	-0.13	1.00							1.04
Days in Class Period	0.04	0.04	0.11	0.12	-0.03	1.00						1.03
Days to File	-0.05	-0.04	-0.13	0.01	-0.06	0.08	1.00					1.06
Size	0.50	0.55	-0.04	-0.17	0.03	-0.03	-0.18	1.00				1.59
Leverage	0.16	0.17	0.07	-0.03	-0.01	0.02	-0.06	0.11	1.00			1.04
ROA	0.11	0.12	-0.01	-0.09	0.11	0.00	-0.11	0.27	0.00	1.00		1.10
B/M	-0.06	-0.06	-0.03	0.05	-0.09	0.11	0.13	-0.27	-0.06	-0.09	1.00	1.12

Table 6: Comparison Sued Lobby and Sued Non-Lobby Over the Different Analysis Periods

Table 6 reports descriptive statistics for sued lobbying and sued non-lobbying firms. Panel A presents the mean and the number of observations for the selected variables for the full period, which ranges from 2000 to 2012. Panel B presents the mean and the number of observations for the selected variables for the pre-SOX period, which ranges from 2000 to 2004. Panel B presents the mean and the number of observations for the selected variables for the post-SOX period, which ranges from 2005 to 2012. The means are winsorized at the 1st and 99th percentiles. The difference between the two samples are calculated as the mean of the sued lobbying firms variable less the mean of the sued non-lobbying firms variable and these are shown in the last column with significance calculated using a paired t-test. Variables definitions can be found in Table 1. *, **, *** Statistically different from zero at the 10, 5 and 1 percent significance levels, respectively.

Panel A: Class Action Statistics for the Full Period (2000 to 2012)

	Non-Lobby		Lobby		Difference (Lobby-Non-Lobby)
Days In CP	411.23	850	453.60	372	42.37
Settled	0.65	850	0.48	372	-0.17***
Days to File	143.23	850	134.41	372	-8.82
Settlement (millions)	22.79	330	113.30	155	90.51*
Lobby Amount (Prior 2 Years)			2,154,966.49	372	

Panel B: Class Action Statistics for the Pre-SOX Period (2000 to 2004)

	Non-Lobby		Lobby		Difference (Lobby-Non-Lobby)
Days In CP	387.53	526	480.58	178	93.05***
Settled	0.75	526	0.60	178	-0.16***
Days to File	167.48	526	128.48	178	-38.99**
Settlement (millions)	29.36	184	159.39	85	130.03
Lobby Amount (Prior 2 Years)			1,930,544.43	178	

Panel C: Class Action Statistics for the Post-SOX Period (2005 to 2012)

	Non-Lobby		Lobby		Difference (Lobby-Non-Lobby)
Days In CP	449.64	324	428.86	194	-20.78
Settled	0.49	324	0.38	194	-0.11**
Days to File	103.94	324	139.85	194	35.92*
Settlement (millions)	14.51	146	57.34	70	42.83**
Lobby Amount (Prior 2 Years)			2,360,879.52	194	

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Table 7: Regressions with Days in Class Period as the Dependent Variable

Table 7 reports regression estimates for the effect the lobbying has on the number of days in the class period, as in equation (1). The dependent variable in these regressions is the natural log of the number of days in the class period. The first two columns present the regressions estimated for the pre-SOX period, which ranges from 2000 to 2004. The last two columns present the regressions estimated for the post-SOX period, which ranges from 2005 to 2012. Standard errors are reported in parentheses. Variables definitions can be found in Table 1. *, **, *** Statistically different from zero at the 10, 5 and 1 percent significance levels, respectively.

	Dependent Variable: Log of Days in Class Period			
	Pre-SOX - 2000 to 2004		Post-SOX - 2005 to 2012	
	(1)	(2)	(3)	(4)
Intercept	5.48***	5.51***	5.40***	5.40***
	(0.19)	(0.19)	(0.25)	(0.25)
Lobby Dummy	0.24***		-0.1	
	(0.09)		(0.11)	
Lobby Amount		0.02**		-0.01
		(0.01)		(0.01)
Settled	0.15**	0.15**	0.19**	0.19**
	(0.07)	(0.07)	(0.09)	(0.09)
Provable Loss	-0.09	-0.09	0.04	0.04
	(0.06)	(0.06)	(0.04)	(0.04)
Days to File	0.00	0.00	0.04	0.04
	(0.02)	(0.02)	(0.03)	(0.03)
Size	-0.02	-0.02	0.01	0.01
	(0.02)	(0.02)	(0.03)	(0.03)
Leverage	0.33**	0.34**	0.00	-0.01
	(0.15)	(0.15)	(0.20)	(0.20)
ROA	-0.01	-0.01	0.08	0.08
	(0.08)	(0.08)	(0.22)	(0.22)
B/M	0.10***	0.10***	0.04	0.04
	(0.03)	(0.03)	(0.04)	(0.04)
R^2	0.05	0.05	0.02	0.02
N	677	677	458	458

Table 8: Regressions with Settled Dummy as the Dependent Variable

Table 8 reports logit regression estimates for the effect the lobbying has on the whether the class action was settled, as in equation (2). The dependent variable in these regressions takes the value of 1 if the class action is settled and is equal to 0 if it is dismissed. The first two columns present the regressions estimated for the pre-SOX period, which ranges from 2000 to 2004. The last two columns present the regressions estimated for the post-SOX period, which ranges from 2005 to 2012. Standard errors are reported in parentheses. Variables definitions can be found in Table 1. *, **, *** Statistically different from zero at the 10, 5 and 1 percent significance levels, respectively.

	Dependent Variable: Settled Dummy Variable			
	Pre-SOX - 2000 to 2004		Post-SOX - 2005 to 2012	
	(1)	(2)	(3)	(4)
Intercept	0.10	0.03	0.54	0.57
	(0.73)	(0.74)	(0.74)	(0.75)
Lobby Dummy	-0.42*		-0.11	
	(0.23)		(0.23)	
Lobby Amount		-0.03*		0.00
		(0.02)		(0.02)
Provable Loss	-0.63***	-0.63***	-0.11	-0.11
	(0.17)	(0.17)	(0.09)	(0.09)
Days in CP	0.20**	0.20**	0.21**	0.21**
	(0.10)	(0.10)	(0.10)	(0.10)
Days to File	0.05	0.05	-0.13**	-0.13**
	(0.05)	(0.05)	(0.06)	(0.06)
Size	-0.09	-0.08	-0.19***	-0.20***
	(0.06)	(0.06)	(0.07)	(0.07)
Leverage	-0.26	-0.25	0.34	0.33
	(0.41)	(0.41)	(0.42)	(0.42)
ROA	-0.07	-0.07	0.70	0.71
	(0.24)	(0.24)	(0.48)	(0.48)
B/M	0.04	0.04	-0.16	-0.16
	(0.11)	(0.11)	(0.11)	(0.11)
R^2	0.07	0.07	0.05	0.05
N	677	677	428	428

Table 9: Regressions with Provable Loss as the Dependent Variable

Table 9 reports regression estimates for the effect the lobbying has on the size of the provable loss, as in equation (3). The dependent variable in these regressions is the percentage change in the firm's market capitalization from the beginning of the class period to the end of the class period. The first two columns present the regressions estimated for the pre-SOX period, which ranges from 2000 to 2004. The last two columns present the regressions estimated for the post-SOX period, which ranges from 2005 to 2012. Standard errors are reported in parentheses. Variables definitions can be found in Table 1. *, **, *** Statistically different from zero at the 10, 5 and 1 percent significance levels, respectively.

	Dependent Variable: Provable Loss			
	Pre-SOX - 2000 to 2004		Post-SOX - 2005 to 2012	
	(1)	(2)	(3)	(4)
Intercept	-0.02	-0.03	0.10	0.08
	(0.17)	(0.17)	(0.43)	(0.44)
Lobby Dummy	0.01		-0.08	
	(0.05)		(0.13)	
Lobby Amount		0.00		-0.01
		(0.00)		(0.01)
Settled	-0.18***	-0.18***	-0.14	-0.14
	(0.04)	(0.04)	(0.11)	(0.11)
Days in CP	-0.03	-0.03	0.06	0.06
	(0.02)	(0.02)	(0.06)	(0.06)
Days to File	-0.02	-0.02	-0.02	-0.02
	(0.01)	(0.01)	(0.03)	(0.03)
Size	0.01	0.01	-0.05	-0.05
	(0.01)	(0.01)	(0.04)	(0.04)
Leverage	0.02	0.02	-0.16	-0.16
	(0.09)	(0.09)	(0.24)	(0.24)
ROA	0.18***	0.18***	0.10	0.10
	(0.05)	(0.05)	(0.27)	(0.27)
B/M	-0.08***	-0.07***	-0.01	-0.01
	(0.02)	(0.02)	(0.05)	(0.05)
R^2	0.11	0.11	0.02	0.02
N	677	677	458	458

Table 10: Regressions with Settlement Size as the Dependent Variable

Table 10 reports regression estimates for the effect the lobbying has on the size of the settlement, as in equation (4). The dependent variable in these is the natural log of the cash settlement. Only those class actions that were settled and a cash settlement was able to be obtained are used in these regressions. The first two columns present the regressions estimated for the pre-SOX period, which ranges from 2000 to 2004. The last two columns present the regressions estimated for the post-SOX period, which ranges from 2005 to 2012. Standard errors are reported in parentheses. Variables definitions can be found in Table 1. *, **, *** Statistically different from zero at the 10, 5 and 1 percent significance levels, respectively.

	Dependent Variable: Log of Cash Settlement			
	Pre-SOX - 2000 to 2004		Post-SOX - 2005 to 2012	
	(1)	(2)	(3)	(4)
Intercept	11.98***	12.09***	11.13***	11.15***
	(0.61)	(0.62)	(0.56)	(0.57)
Lobby Dummy	0.18		0.06	
	(0.20)		(0.15)	
Lobby Amount		0.02		0.01
		(0.02)		(0.01)
Provable Loss	-0.36**	-0.37**	-0.01	-0.01
	(0.16)	(0.16)	(0.05)	(0.05)
Days in CP	0.12	0.12	0.28***	0.28***
	(0.08)	(0.08)	(0.07)	(0.07)
Days to File	-0.07	-0.07	-0.03	-0.03
	(0.05)	(0.05)	(0.04)	(0.04)
Size	0.46***	0.44***	0.49***	0.49***
	(0.05)	(0.05)	(0.05)	(0.05)
Leverage	0.36	0.33	0.39	0.39
	(0.37)	(0.37)	(0.29)	(0.29)
ROA	-0.73***	-0.73***	-0.78**	-0.77**
	(0.26)	(0.26)	(0.35)	(0.35)
B/M	0.27**	0.26**	0.03	0.03
	(0.12)	(0.12)	(0.06)	(0.06)
R^2	0.41	0.41	0.48	0.48
N	259	259	205	205