CEOs' Legal Expertise and Strategic Disclosures of Litigation Loss Contingencies*

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Abstract: In this study, we examine how a CEO's legal expertise impacts a firm's litigation loss contingency disclosure, a disclosure which is both fraught with uncertainty and strategically important to the underlying firms and their stakeholders. We investigate the research question by comparing CEOs with legal background (lawyer CEOs) and those without legal background. Using a large hand-collected sample of litigation loss contingency disclosures over the life cycle of lawsuits from 1993 to 2016 from U.S. companies, we find that lawyer CEOs tend to make first disclosures about a pending litigation case on a timelier basis compared to non-lawyer CEOs. The acceleration in first disclosures is more pronounced for cases in which lawyer CEOs are more likely to utilize their legal expertise. However, lawyer CEOs are less likely to issue pre-warnings prior to material settlements, especially for cases that result in higher settlements. These combined results suggest that lawyer CEOs carefully deliberate the costs and benefits of providing litigation loss contingency disclosures. The findings confirm our prediction that lawyer CEOs adopt either an informer or an obfuscator role according to the perceived levels of the proprietary costs of disclosure. Our study thus offers an enriched understanding of disclosure behavior by CEOs who possess legal expertise.

Keywords: Litigation Loss Contingency Disclosures; Lawyer CEOs; Proprietary Costs; Material Losses
JEL Classification: M41, K41, M12

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1. Introduction

The passage of the Sarbanes-Oxley Act (SOX) in 2002, the Dodd-Frank Act in 2010, and other regulations have forced firms to operate in an increasingly complex and highly regulated legal environment. The increasing need to handle legal issues has contributed to a rising number of chief executive officers with legal expertise ("lawyer CEOs") among U.S. publicly listed companies (France and Laville 2004; Curriden 2010). In this study, we examine how a CEO's legal expertise impacts a firm's litigation loss contingency disclosure, a disclosure which is both fraught with uncertainty and strategically important to the underlying firms and their stakeholders (Cen, Chen, Hou, and Richardson 2018).

Litigation loss contingency disclosures provide us with a unique setting to test the effect of a CEO's legal expertise. In the U.S., ASC 450, Accounting for Contingencies (formerly SFAS No. 5, see FASB 1975), is the primary standard governing the reporting of potential losses from pending litigations. According to ASC 450, whether and how to disclose a litigation loss contingency are based on managers' estimates of the likelihood of the event confirming a material loss. Because litigation involves a high level of ambiguity and uncertainty regarding expected litigation losses, a lawyer CEO's better insights on litigation and regulation can be instrumental in the decision-making process. Therefore, we expect that a CEO's legal expertise is likely to play a significant role when making litigation loss contingency disclosure decisions.

While all CEOs must deliberate the cost-benefit trade-off when making ASC 450 disclosures, we predict that lawyer CEOs adopt two shifting roles according to the perceived levels of the proprietary costs of disclosure. On the one hand, lawyer CEOs understand legal and regulatory problems at an earlier stage and work more effectively with corporate counsels to solve complex problems (Bagley 2008). Thus, when the perceived proprietary costs are minimal, lawyer CEOs might

use their superior legal training to make timelier ASC 450 disclosures in order to facilitate investor demand for timely litigation-related disclosures. We refer to this aspect as the *informer* role arising from a CEO's legal expertise. On the other hand, when disclosure proprietary costs outweigh disclosure benefits, lawyer CEOs might go beyond compliance with the letter of the law and extend legal constraints. Because lawyer CEOs know better how to defend themselves when being challenged by other parties such as auditors and regulators, they might withhold the disclosure of bad news about a pending litigation case. Thus, out of the concern for substantial proprietary costs, lawyer CEOs may use their legal expertise in order to withhold the disclosure of bad news about a pending litigation case, thereby avoiding "tipping one's hand" to opposing counsels. We refer to this latter aspect as the *obfuscator* role arising from a CEO's legal expertise.

Given that lawyer CEOs may adopt either the informer or the obfuscator role according to the perceived levels of the proprietary costs of disclosure, how a CEO's legal expertise affects a firm's litigation loss contingency disclosures boils down to an empirical question. We utilize a large hand-collected sample of litigation loss contingency disclosures over the life cycle of lawsuits from U.S. companies' 10-Qs and 10-Ks from 1993 to 2016. Empirically, we first use a hazard model and duration analysis to examine whether firms with lawyer CEOs make first-time litigation disclosures in their SEC filings (i.e., first disclosure) on a timelier basis. Even though the initiation of a lawsuit is publicly available information, a firm's first disclosure about the case by itself signals to investors that the case outcome is potentially material to the firm. Nonetheless, since first disclosure does not divulge sensitive information to the opposing counsel, it results in less substantial proprietary costs. Our results show that, while almost all material cases are disclosed in financial reports before the case resolution, lawyer CEOs tend to make first disclosures about a pending litigation case on a timelier basis compared to non-lawyer CEOs.

Then we partition our sample cases based on their types because lawyer CEOs may have less legal expertise advantage in certain types of cases. We find that, when cases are related to accounting irregularities and patent/copyright infringement, which require accounting and technology expertise in addition to legal expertise, lawyer CEOs are not associated with timelier disclosures about litigation compared to non-lawyer CEOs. In contrast, the acceleration in disclosure is more pronounced for the other litigation case types that do not require additional expertise and are more likely to utilize a lawyer CEO's legal expertise. These results are consistent with the informer role of lawyer CEOs and indicate that lawyer CEOs are more capable of understanding the nature of the case at an earlier stage.

We then turn to pre-warning disclosures of pending litigation, which involve potentially substantial proprietary costs. Pre-warning disclosures constitute information that the opposing counsel would find valuable (e.g., indicating a potential material impact of the case, providing a material loss estimate, or stating that an accrual has been made). We run probit regressions on whether lawyer CEOs withhold pre-warnings about material loss cases. Consistent with the obfuscator role of lawyer CEOs, we find that lawyer CEOs are less likely to issue pre-warnings in advance of material settlement losses. To examine whether this finding is driven by lawyer CEOs' proprietary cost concerns, we partition material cases based on their settlement losses. The cross-sectional results show that the reluctance to issue pre-warnings is concentrated in material cases that end up with greater losses. These results, in contrast to those related to first disclosures, are consistent with the obfuscator role of lawyer CEOs. In other words, lawyer CEOs are likely to utilize their legal expertise to withhold the disclosure of bad news when being faced with potentially substantial proprietary costs. On the contrary, provided that CEOs have decided to issue pre-warnings before case resolution following the cost-benefit deliberation, we find that lawyer CEOs in this conditional sample tend to issue pre-warnings on a timelier basis compared to non-lawyer CEOs. Thus, the informer role of lawyer CEOs prevails in the subsequent scenario. Combined, these results provide evidence consistent with our

prediction that lawyer CEOs adopt two shifting roles according to the perceived levels of the proprietary costs of disclosure.

The above research may be subject to self-selection bias, i.e., firms in industries with more litigation risk are more likely to hire lawyer CEOs. To mitigate the self-selection bias, we conduct two identification tests. First, we develop a two-stage analysis that utilizes the local supply of lawyer CEOs as an instrument variable. We also adopt a matched sample based on Coarsened Exact Matching (CEM) to ensure the robustness of our inferences. The results of both tests are consistent with our main findings. Finally, our additional tests indicate that the main findings are not driven by the quality of external counsels.

Our study makes the following contributions. First, we contribute to the growing literature on how legal expertise inside a firm influences financial reporting/disclosure choices. A number of studies have examined the role of legal expertise based on the prominence of general counsels in the top management team or the presence of directors with legal expertise, but these studies offer mixed findings (see Krishnan, Wen, and Zhao 2011; Kwak, Ro, and Suk 2012; Litov, Sepe, and Whitehead 2014; Hopkins, Maydew, and Venkatachalam 2015; Morse, Wang, and Wu 2016). In contrast to the existing studies involving the role of lawyers inside a firm, there is limited evidence regarding the role of CEOs' legal expertise in financial reporting/disclosure choices. We fill this void by examining ASC 450 disclosures regarding pending litigation cases, a fertile setting in which the legal expertise of CEOs potentially matters. Our findings confirm that lawyer CEOs adopt two shifting roles according to the perceived levels of the proprietary costs of disclosure. While lawyer CEOs may leverage their superior legal training to make timelier first disclosures about a pending case, these lawyer CEOs also apply their legal expertise to withhold the disclosure of bad news when faced with potentially substantial proprietary costs. Our study thus offers an enriched understanding of disclosure behavior by CEOs

who possess legal expertise. These findings are of interest to investors and regulators who are concerned with the implementation of ASC 450 disclosure requirements.

Second, our study contributes to the stream of literature related to the "upper echelons" theory, which confirms the influence of managerial characteristics on strategic choices and firm outcomes (see the reviews by Carpenter, Geletkanycz, and Sanders 2004; Hambrick 2007). More specifically, our study adds to the growing body of evidence that suggests that individual manager traits, such as managerial overconfidence, optimism, and past legal infractions, impact firms' financial reporting and disclosure choices (e.g., Ahmed and Duellman 2013; Davidson, Dey, and Smith 2015; Davis, Ge, Matsumoto, and Zhang 2015).

We organize the rest of this study as follows. We present the institutional background related to ASC 450, review the related literature on legal expertise within firms, and develop the testable hypotheses in Section 2. Then we describe our data and variable construction in Section 3. In Section 4, we discuss the primary tests and present the results. Section 5 presents the additional tests and results. We conclude in Section 6.

2. Institutional Background, Literature Review, and Hypotheses Development

2.1 Institutional Background

ASC Topic 450 has been and continues to be a source of controversy, and compliance with the recognition and disclosure requirements of ASC 450 continues to be a source of concern to the SEC (see Chen, Hou, Richardson, and Ye 2018). ASC 450 divides loss contingencies for defendant firms into three groups based on the likelihood of a material loss in a lawsuit (either by losing the case or by receiving an unfavorable settlement): remote, reasonably possible, and probable. Loss contingencies that are reasonably possible or probable must be disclosed, and a point or range estimate should be provided unless a reasonable estimate cannot be made. Loss contingencies that are probable

and estimable must be accrued. ASC 450 offers limited guidance on how the terms "remote," "reasonably possible," and "probable" should be interpreted. Critics of ASC 450 argue that disclosures about litigation-related loss contingencies do not provide sufficient and timely information (e.g., Holder and Karim 2012).

Prior research (e.g., Basu 1997) suggests that investors demand timely disclosure of bad news to prevent managers from overclaiming performance-based compensation and to help creditors assess the company's ability to repay its debt. Recent research has underscored the importance of timeliness as well as the extent of ASC 450 disclosures to equity investors (Chen et al. 2018; Krupa 2020), creditors (Lou 2019), and stakeholders such as suppliers and customers (Cen et al. 2018). In recent years, the SEC has enhanced scrutiny of loss contingency disclosures, as reflected in the SEC's review of registrants' filings and comment letters to the registrants (Deloitte 2019). A continuing concern of the SEC regarding ASC 450 compliance is related to the registrants' failure to provide early warning disclosures about the possibility of incurring a loss in future periods. The emphasis by the SEC review on early warning disclosures supports our focus on the first disclosure of a pending litigation case in a firm's ASC 450 footnotes, a disclosure that itself signals to investors that the case outcome is potentially material to the firm. For similar reasons, our manual coding of several types of pre-warnings in ASC 450 footnotes captures aspects of disclosure timeliness important to the SEC. For example, another longstanding SEC concern regarding ASC 450 disclosures is the lack of quantification of a possible range of loss or disclosure about why such an estimate cannot be made. It supports our analysis in this study of first disclosures of loss estimates for a focal case. Moreover, the SEC's call for continual evaluation over time supports our focus on the life cycle of a focal case and "cradle-to-grave" manual coding that captures quarters until first disclosure and until first pre-warning, both of which are variables defined in a later section of this study. In addition, the SEC's concern about timely recognition supports our use in this study of disclosures that an accrual has been made

by the defendant firm. A timely accrual captures another aspect of compliance timeliness important to the SEC.

2.2 Literature Review

There has been extensive research on the impact of legal expertise inside a firm involving the firm's general counsel and directors on various corporate policies. Curiously enough, while CEOs are considered to be the primary decision-makers of business organizations (e.g., Bertrand and Schoar 2003; Ben-David, Graham, and Harvey 2013), few studies have examined the role of lawyer CEOs in affecting corporate outcomes.

Prior studies on legal expertise have concentrated on examining the impact of a firm's general counsel on firm financial reporting behavior and general practices, provided that the general counsel is part of the firm's top management team (hereafter, a GC in top management). In general, two arguments have emerged with respect to the role played by GCs in top management. One argument is that GCs in top management lead to more conservative firm policies, including financial reporting choices, which implies that such GCs monitor top management and thus serve in an internal governance role. Kwak et al. (2012) find that firms with GCs in top management are more likely to issue management forecasts which are less optimistic and more accurate. Similarly, Al Mamun, Balachandran, Duong, and Gul (2020) observe that firms with GCs in top management have lower stock price crash risk, implying that such firms release private bad news on a timelier basis. In a similar vein, Morse et al. (2016) find that firms with GCs in top management are less associated with compliance failures as proxied by SEC enforcement actions, which implies that such firms exhibit less financial misrepresentation. They also find that such firms have a lower propensity to be subject to lawsuits, especially class action lawsuits, and a lower propensity to be subject to SEC allegations of

insider trading. Overall, these studies point to more conservative policies in general that serve to lower a firm's litigation risk, consistent with the gatekeeper/monitoring role for GCs in top management.

A rival argument is that GCs in top management facilitate less conservative policies and choices, and thus play a facilitator role as advisors to top management. This argument implies that such GCs act in the interest of top management rather than shareholders, which is intuitive given that GCs in top management are often hired by CEOs and are well compensated. For example, Hopkins et al. (2015) observe that despite remaining within the bounds of legal compliance, GCs in top management are linked to aggressive financial reporting practices. Ham and Koharki (2016) observe an increase in credit risk when GCs are appointed to top management. They attribute this result to a perception by creditors that GCs are more likely to act as facilitators when promoted to top management, thus allowing the firm to engage in riskier behavior that pushes the boundary of legality.

Prior studies have also examined the impact of having one or more directors with legal backgrounds ("lawyer directors") on firms' financial reporting behavior and general corporate policies. Litov et al. (2014) explain how having one or more lawyer directors on a firm's board can facilitate more informed monitoring (the monitoring role of directors) as well as help the firm manage its litigation and regulatory costs (the advisory role of directors). They explicitly cite (p. 417) a lawyer director's influence on litigation decisions and assert that "she can assist her colleagues to better understand legal and regulatory problems and, as necessary, act as a bridge between the board and outside advisors to resolve them." Litov et al. further show that the presence of a lawyer director on a board significantly lowers the likelihood of litigation related to stock option backdating. Both Krishnan et al. (2011) and Litov et al. (2014) find that lawyer directors are associated with higher financial reporting quality.

In this study, we control for the presence of a GC in top management and the percentage of a firm's directors with a legal background. GCs in top management play an important role in assessing

the firm's recognition and disclosure of contingent liabilities (Hopkins et al. 2015). Bagley (2008, 383) asserts that top management teams "that include the general counsel have a higher degree of legal astuteness than those that do not." Similarly, the expertise of lawyer directors is likely to be called upon in reviewing and assessing the firm's disclosure adequacy related to contingent liabilities, acting as a bridge between the board and the firm's outside counsel (Litov et al. 2014). Thus, any results we observe related to lawyer CEOs in enhancing the timeliness of contingent liability disclosures would have to be incremental to effects attributable to having a GC in top management and having lawyer directors on the board.

In contrast to the studies discussed above involving the role of lawyers inside a firm (GCs in top management and lawyer directors), few studies have examined the role of lawyer CEOs. There are only two studies of appointing lawyer CEOs, one related to litigation case management (Henderson, Hutton, Jiang, and Pierson 2018) and the other about capital market impacts (Pham 2020). In particular, Pham (2020) observes that firms run by lawyer CEOs are associated with greater stock liquidity compared to firms run by non-lawyer CEOs, which she attributes to an enhanced firm information environment. However, there is limited literature involving the association between lawyer CEOs and financial reporting/disclosure choices. To the best of our knowledge, this is the first empirical study to provide direct evidence that the legal expertise of CEOs affects financial reporting/disclosure quality. We focus on the timeliness as well as the likelihood of ASC 450 disclosure regarding pending litigation cases, a fertile setting in which the legal expertise of CEOs potentially matters.

2.3 Hypothesis Development

The "upper echelons" theory holds that corporate strategic choices and decision outcomes can be predicted by individual managerial characteristics (Hambrick and Mason 1984; Hambrick and

Fukutomi 1991). As the most critical member of a firm's management team, salient characteristics of CEOs may ultimately influence organizational outcomes. For example, prior research shows that CEOs with technical backgrounds are more likely to increase innovation (Daellenbach, McCarthy, and Schoenecker 1999), that CEOs with military backgrounds are better equipped to guide firms during crisis (Benmelech and Frydman 2014), and that CEOs who are considered financial experts carry out more sophisticated financial and investment policies (Custódio and Metzger 2014). Brochet, Faurel, and McVay (2011) document breaks in guidance following CEO turnovers, which provide evidence for the managerial-specific effects on earning guidance. Baik, Farber, and Lee (2011) show that high-ability CEOs are more likely to issue earnings forecasts and generally issue more accurate forecasts.

Compared to non-lawyer CEOs, lawyer CEOs have better insights into how litigation and regulation would affect the outcomes of potential operational and strategic decisions. We argue that lawyer CEOs' legal expertise likely plays a significant role when making litigation loss contingency disclosure decisions. According to ASC 450, whether and how to disclose litigation loss contingencies are determined by managers' estimates of the likelihood of material losses. Lawyer CEOs' legal expertise is relevant because it helps CEOs understand legal and regulatory problems at an earlier stage in a case (Bagley 2008). Compared to non-lawyer CEOs, lawyer CEOs have a better sense of the status as well as the final outcome of the litigation due to superior legal astuteness.

While the legal expertise of other executives and board members such as general counsels could also influence the disclosure decision, CEOs' legal expertise nonetheless plays a critical role in firms' ASC 450 disclosures. First, a CEO is generally regarded as the most powerful organizational member (Daily and Johnson 1997). Section 302 of the Sarbanes-Oxley Act dictates that both the CEO and the CFO are directly responsible for the accuracy, documentation, and submission of all financial statements and disclosures. Ultimately, CEOs make the final decisions on litigation loss contingency disclosures and take the primary responsibilities along with CFOs. Second, unlike external and internal

counsels, who may not understand the broader business objectives, lawyer CEOs tend to accept responsibility for managing the legal aspects of the business and do not delegate those decisions to counsels. Furthermore, lawyer CEOs have higher personal and reputational stakes at risk when facing litigation loss contingencies, compared to non-lawyer CEOs (Hendricks and Berkheiser 1992; Bagley 2008).[1] Thus, it is unlikely for lawyer CEOs to hand such disclosure decisions to counsels with a "you-take-care-of-it approach." Finally, lawyer CEOs are expected to communicate more effectively with internal and external counsels, which further contributes to better estimates of the case outcomes. The enhanced communication capability cannot be replaced by the legal expertise of other executives or board members.

To formulate a testable prediction, we start with the analysis of a cost-benefit trade-off of lawyer CEOs when they make disclosure decisions (e.g., Verrecchia 1983). We argue that lawyer CEOs' legal expertise allows them to play two shifting roles depending on how such CEOs assign the weights to the costs and benefits related to litigation loss contingency disclosures. On the one hand, the informer role suggests that lawyer CEOs ensure the proper disclosure of all material litigation information concerning their firms. In this role, lawyer CEOs perceive the proprietary costs of disclosure to be minimal, and they focus on various benefits related to disclosure, such as reducing information asymmetry and cost of capital, signaling relative superiority, and adjusting market expectations (e.g., Trueman 1986; Botosan 1997).[2] Withholding material news may result in regulatory sanctions by the SEC, as well as the legal costs associated with follow-on lawsuits alleging fraud. Lawyer CEOs in the informer role would be particularly focused on liabilities arising from financial

[1] For example, Jiang, Wintoki, and Xi (2017, 12) conjecture that executives who are lawyers face more censure than non-lawyer insiders, i.e., more is expected of lawyer CEOs by the SEC and the courts. In the context of a prison sentence imposed on one lawyer insider (an in-house attorney assisting in M&As) who was charged with insider trading, the sentencing judge said the following: "his actions were particularly egregious because he was a lawyer who had taken oaths of integrity."

[2] Empirically supporting the above statement, all but two of the material cases in our sample were mentioned before their resolution, indicating that first disclosure involves less substantial disclosure proprietary costs.

reporting both because of their trained sensitivity to litigation risk and their duty for the oversight of financial reporting. They would like to provide timely disclosures of bad news to deter follow-on litigation, reduce the costs of litigation, and avoid reputational penalties levied on managers (Skinner 1994, 1997). As mentioned, the literature suggests that reputational penalties levied on managers are especially high for lawyer CEOs. Greater legal astuteness would, in the informer role, result in timelier disclosures of litigation information, compared to non-lawyer CEOs. On the other hand, when disclosure proprietary costs outweigh disclosure benefits, lawyer CEOs' legal expertise enables them to better defend the firm and alleviate the possibility of divulging internal litigation strategies to opposing counsels (e.g., by providing the maximum exposure to losses). We expect that lawyer CEOs endowed with bad news use their superior legal training to minimize disclosure proprietary costs (i.e., the obfuscator role). Specifically, with knowledge of bad news about the litigation outcome, lawyer CEOs tend to withhold information to appease the outside legal counsel involved with the case, which can be viewed as minimizing proprietary costs in terms of "tipping one's hand" to opposing counsels (Hennes 2014; Allen 2018; Allen, Standridge, and Thornock 2020). Doing so would potentially enhance long-run shareholder value.

To summarize, our prediction that lawyer CEOs adopt either the informer or the obfuscator role according to the perceived levels of proprietary costs suggests that there is uncertainty as to what we might observe in the empirical tests under different scenarios. This uncertainty, as well as the limited prior literature involving the association between lawyer CEOs and financial reporting choices, suggests the need for further investigation of the role played by lawyer CEOs in shaping firms' disclosure choices. Thus, our hypothesis, stated in the null form, is as follows:

H1: *The presence of lawyer CEOs is not associated with the likelihood and timeliness of litigation loss contingency disclosures.*

3. Research Design

3.1 Data and Sample Construction

We first compile an initial list of defendant firms from the Audit Analytics legal file. The initial list is matched with accounting data from Compustat and stock price information from CRSP, resulting in a sample of public defendant firms from 1993 to 2016. We then manually search each firm's 10-Qs and 10-Ks for the litigation loss contingency disclosures (in the sections titled "Legal Proceedings" and "Commitments and Contingencies").[3] For each resolved case, we code the litigation loss contingency disclosure from the first public disclosure of the case to the final disclosure of the case resolution. The longitudinal nature of defendant firms' disclosure information allows us to explore the likelihood and timeliness of various types of litigation loss contingency disclosures. Following audit standards (e.g., AICPA AU Section 312), we consider a legal case to be material if the loss payout from a defendant firm, net of anticipated insurance coverage, is greater than 0.5 percent of the defendant's total assets; otherwise, the case is immaterial.[4]

We collect personal information about top management and boards of directors across our full sample period (1993-2016) from multiple sources. The BoardEx database is our primary source for various characteristics of top management and boards of directors. For sample firms not covered by BoardEx, we use supplemental hand-collected data related to executives' and directors' biographies, including ages, tenure, and educational backgrounds. This information is collected by searching through the firms' proxy statements, Google, Factiva, and Lexis-Nexis. We obtain executive compensation information and construct the general counsel variable using ExecuComp data. For

[3] We have thoroughly checked all 8-K disclosures pertinent to the sample cases and we find only 0.4% of sample cases were first mentioned in the 8-Ks of defendant firms, suggesting that defendant firms tend not to resort to 8-Ks to disclose pending lawsuits. Even for those 8-Ks that disclose case information earlier than 10-Ks and 10-Qs, the same case information is also disclosed in 10-Ks or 10-Qs in the same quarter. Therefore, our timeliness measures, which are based on the number of quarters, are unaffected by the possibility of 8-K disclosure.

[4] Auditing guides and textbooks (e.g., Kinney 2000, Chapter 7; Guy and Carmichael 2000) suggest that planning materiality ranges from 5% to 10% of net income before taxes or 0.5% to 1.5% of total assets or revenues. We focus on thresholds based on total assets to avoid the loss of observations due to negative net income before taxes.

firms that are not covered by ExecuComp, we manually collect compensation information from proxy statements.

We require the availability of top executive and financial information, and we identify 850 material and 2,367 immaterial cases in our final sample. As presented in Table 1 Panel A, those cases are initiated from 1993 to 2016 because we require the case duration to be greater than one year. Panel B presents the distribution by industry, and the top two industries are "Business Equipment" and "Healthcare, Medical Equipment, and Drugs," which comprise over 10 percent of both material and immaterial cases.

Furthermore, we manually read the cases and classify sample cases into nine types based on the case information provided in the Audit Analytics Legal File and firms' 10-Qs and 10-Ks. These case types include: "Accounting Malpractice," "Patent and Copyright Related," "Disclosure Related," "Breach of Contract," "Product and Service Liability," "Social Responsibility Related," "Operational Malpractice," "Securities Laws, Other," and "Antitrust Violation." Panel C of Table 1 lists the case-type distribution in our sample for material and immaterial cases.

3.2 Litigation Loss Contingency Disclosure Variables

Our coding of litigation loss contingency disclosures largely follows the coding schemes by Chen et al. (2018) and Cen et al. (2018). For each year during the life cycle of a lawsuit, we identify a number of litigation loss contingency disclosure variables.[5] We highlight two key disclosure variables among the material loss cases. First, we focus on first-time disclosure about a focal case, since first disclosure implies that estimated losses have exceeded a materiality threshold requiring disclosure of

[5] Our manual content analysis approach has the advantage of providing rich analyses of specific types of disclosures of interest to the SEC, at the level of a focal case. In contrast, Allen et al. (2020) use textual analysis to measure certain qualitative disclosures using a keyword approach, as well as the total level of ASC 450 footnote disclosures for all pending cases in a particular fiscal quarter, using a word count approach. Allen et al. (2020) discuss data aggregated across all pending litigation cases, rather than a focal case.

the existence of the litigation. Second, the pre-warning variable includes the following disclosure items: the defendant's explicit pre-warning of potential material losses or a significant adverse economic outcome, the statement of a material loss estimate, and the report of a material litigation accrual. Appendix A presents the examples of loss contingency disclosures related to first disclosure and pre-warnings. As the examples suggest, first disclosure of a pending case typically involves factual information about the pending case, thus involving minimal risk of disclosing proprietary costs. In contrast, pre-warning disclosures tend to entail significant proprietary costs.

3.3 Measurement of Legal Expertise

Consistent with Krishnan et al. (2011) and Henderson et al. (2018), we consider a CEO to possess legal expertise if s/he holds an undergraduate degree in law such as an LLB, or a graduate degree such as LLM or J.D., or a Ph.D. in Jurisprudence. We assume that legal education is equivalent to legal expertise and use these terms interchangeably.

Our measure of the prominence of general counsels in the top management team follows the prior literature (e.g., Kwak et al. 2012). Specifically, the variable *GC* equals 1 if the general counsel is among the top five paid executives, and 0 otherwise. We also calculate the percentage of directors with a legal education background.

3.4 Multivariate Models

We explore the role of CEOs' legal expertise in determining the timeliness of making first loss contingency disclosure about a case with ex-post material losses. To gauge how soon firms make first litigation-related disclosure after the initiation of litigation, we employ a multi-period hazard model. Our hazard model is as follows:

$$Timing\_LD = \alpha + \beta_1 CEOlawyer + \beta_2 Ivy + \beta_3 Doctorate + \beta_4 CEOtenure + \beta_5 CEOage \quad (1)$$

$$+\beta_6\ LogIncentives +\beta_7\ LawyerDirectorPct +\beta_8\ GC + \beta_9\ AuditorExpert + \beta_{10}\ Size + \beta_{11}\ BookToMarket +\beta_{12}\ Leverage +\beta_{13}\ ROA +\beta_{14}\ InstOwn +\beta_{15}\ NumAnalysts+\beta_{16}\ LogSettleAmt +\beta_{17}\ LitExperience+\beta_{18}\ NewsCover +Industry\ FE + Case\ Type\ FE +Year\ FE+\varepsilon$$

The dependent variable is the first disclosure timeliness variable, *Timing_LD,* calculated as the number of quarters between the date of case initiation and the date of first disclosure scaled by the total number of quarters for the case. The independent variables include our main test variables, *CEOlawyer*, which is an indicator variable for CEOs' legal expertise, as well as a set of control variables. The control variables relate to managers' consideration of the costs and benefits associated with timely disclosure about litigation losses, given their opportunity to exercise discretion. Specifically, we consider the proprietary costs of disclosure, proxied by defendant firm size (i.e., market value) and profitability (i.e., return on assets). We control for the book-to-market ratio because the capital market's response to bad news disclosure is more pronounced for growth firms (Skinner and Sloan 2002). Moreover, we control for the monitoring demand for litigation loss contingency information by stakeholders, including creditors, analysts, and institutional investors; thus, we include financial leverage, the number of analysts following the firm, and the percentage of shares held by institutions.

We also control for various characteristics of directors and top management. Specifically, we control for CEOs' age, educational background, and compensation-based incentives. We further control for firms' corporate governance strength (measured by the percentage of independent directors, and the existence of city-level industry specialist auditors), and whether top management team members and directors possess legal expertise (Custódio and Metzger 2014). Moreover, CEOs may benefit from past litigation experience irrespective of whether they have legal backgrounds or not (Cready and Hu 2018). Therefore, we control for firms' prior experience dealing with litigation (*LitExperience*), defined as the number of cases that a firm has prior to the initiation of the focal case. We further control for settlement loss amount net of anticipated insurance coverage (*LogSettleAmt*)

and news coverage (*NewsCover*) because they are expected to increase the onus to disclose. We include industry fixed effects to control for industry unobserved time-invariant heterogeneities, and case initiation year fixed effects to control for macroeconomic shocks that may affect all the sample firms in a given year. Finally, we include case-type fixed effects to control for the possibility that the difference in disclosure practices is driven by different case types. Appendix B provides variable definitions.

As we have mentioned, while pre-warnings can be critical in assisting investors in making trading decisions, the information revealed in pre-warnings can be used by the plaintiff against the firm in court (i.e., "tipping one's hand" to opposing counsels) Thus, pre-warnings about a pending material case could result in significant proprietary costs. To examine whether lawyer CEOs affect the likelihood of providing pre-warnings, we estimate model (2) below using the probit regression:

$$\begin{aligned} LL\_Pre= \quad & \alpha+\beta_1\, CEOlawyer + \beta_2\, Ivy + \beta_3\, Doctorate + \beta_4\, CEOtenure + \beta_5\, CEOage \\ & + \beta_6\, LogIncentives + \beta_7\, LawyerDirectorPct + \beta_8\, GC + \beta_9\, AuditorExpert \\ & + \beta_{10}\, Size + \beta_{11}\, BookToMarket + \beta_{12}\, Leverage + \beta_{13}\, ROA + \beta_{14}\, InstOwn \\ & + \beta_{15}\, NumAnalysts + \beta_{16}\, LogSettleAmt + \beta_{17}\, LitExperience + \beta_{18}\, NewsCover \\ & + Industry\ FE + Case\ Type\ FE + Year\ FE + \varepsilon \end{aligned} \tag{2}$$

The dependent variable is the incidence of pre-warning disclosures, *LL_Pre,* an indicator variable that equals 1 if the firm issues a pre-warning for a focal case and 0 otherwise. We include the same set of control variables as in model (1).

4. Empirical Results

4.1 Sample Characteristics

Panel A of Table 2 reports summary statistics for all the variables used in the main analysis. The mean of *Timing_LD* is 13% for material cases, suggesting that the elapsed time between the case initiation quarter and the first disclosure quarter on average accounts for 13% of case duration for

material cases. Since a legal case in our sample, on average, takes about 13 quarters to resolve (untabulated), the above statistics suggest that defendant firms typically wait nearly two quarters to make first disclosure about a pending case. On average, 9% of the firms involved in material cases have a lawyer CEO. The mean (median) loss payout from defendant firms, net of anticipated insurance coverage, is $97.30 million ($7.00 million). Since we include material cases in the main analyses, the mean (median) litigation loss payout accounts for 3.8 percent (2.2 percent) of the defendant's total assets (untabulated). The distribution of other variables is largely consistent with our observation. Panel B reports Pearson correlations between variables used in the main analysis. Although *CEOlawyer* is not significantly correlated with *Timing_LD*, other pairwise correlations are consistent with expectations in general. For example, *Timing_LD* is negatively correlated with institutional ownership and the existence of city-level industry specialist auditors, suggesting that firms more promptly disclose litigation loss contingencies when they are subject to greater external monitoring by institutional shareholders and auditors.

4.2 Lawyer CEOs and Timeliness of First Litigation Loss Contingency Disclosure

We first examine whether lawyer CEOs' legal expertise contributes to timelier loss contingency disclosures.[6] Table 3 reports the results of estimating model (1) where the dependent variable is *Timing_FD,* computed as the time elapsed between the case initiation quarter and the first disclosure quarter, scaled by the case duration. This measure captures the delay in managers' disclosure of litigations. Column (1) reports the baseline result. The coefficient on *CEOlawyer*, -0.014, is statistically significant, suggesting that lawyer CEOs disclose a case sooner than non-lawyer CEOs. For a typical

[6] We do not test the likelihood of first-time loss contingency disclosure because such disclosure is mandatory for all material cases. Specific to our sample of material cases, we find that firms make first-time litigation disclosures in all but two of the sample cases. As a result, a probit model with the probability of disclosing the case as the dependent variable does not converge.

case lasting 13 quarters or 1,170 days, first disclosure about the pending case made by lawyer CEOs is about 0.2 quarter or 18 days earlier than first disclosure made by non-lawyer CEOs. The signs of the coefficient estimates for the control variables are largely consistent with our expectations. For example, firms with higher institutional ownership make timelier litigation disclosures, and cases with higher settlement amounts tend to be disclosed in a timelier manner.

One may argue that lawyer CEO appointment is an endogenous choice made by the firm. If a correlated omitted variable exists that jointly explains CEO selection and disclosure outcomes, we may not draw causal inferences. We mitigate this endogeneity concern using two approaches. Following Yonker (2017), we first adopt an instrumental variable approach and instrument the presence of lawyer CEOs (*CEOlawyer*) with the local labor pool of potential executives with legal expertise, which is independent of firm litigation risk. Specifically, we calculate the percentage of firms that hire lawyer CEOs in each metropolitan statistical area (MSA) for each year and denote the variable as *CEOlawyer_MSA*. We then run a probit model and use *CEOlawyer_MSA* along with other factors to predict the appointment of lawyer CEOs in firms' CEO recruiting choices. The regression is conducted on a sample constructed from the interaction among various databases, including BoardEx, ExecuComp, Compustat, CRSP, and IBES. The resulting sample, therefore, includes more firm-year observations than our main sample. The result of the prediction model is reported in Appendix C. First, *Lawyer_MSA* is associated with a higher probability of hiring lawyer CEOs. The coefficient on *Lawyer_MSA* is positively significant (0.074), confirming the validity of the instrumental variable. Moreover, the coefficients on other variables, such as *Size* and *HighIntangibles*, are statistically significant in the expected directions. We then compute the fitted probability of the presence of lawyer CEOs (*CEOlawyerPred*) and use it to replace *CEOlawyer* in our main analysis. The result is reported in Column (2) of Table 3. The coefficient on *CEOlawyerPred* in Column (2) continues to be negative and significant. This result indicates that our main inferences are robust to the potential self-selection issue.

In the second approach, we repeat the analysis using a matched sample based on Coarsened Exact Matching (CEM). Our choice of matching variables is based on prior literature, which finds that more litigious firms tend to appoint CEOs with legal expertise (Henderson et al. 2018). We match firms that appoint lawyer CEOs with those firms that do not on two firm characteristics: (1) ex-ante litigation risk based on Kim and Skinner (2012), and (2) prior litigation experience (*LitExperience*, measured as the number of litigation cases in which the firm is involved as a defendant in the past three years).[7] We report the result in Column (3) of Table 3. The coefficient on *CEOlawyer* is significantly negative in Column (3), consistent with our previous finding that lawyer CEOs broach the litigation disclosure in a timelier manner. In summary, the results based on these additional identification strategies increase our confidence in the inferences we draw, although we can not entirely rule out other sources of endogeneity.

4.3 Lawyer CEOs and Likelihood of Pre-warning Disclosure

Next, we examine another key disclosure component in loss contingency disclosure, i.e., pre-warnings. We define pre-warnings as those disclosures in which firms warn investors of a potential material loss outcome for a focal case by disclosing one or more of the following: warning investors of potentially significant adverse economic consequences from the lawsuit, providing a material loss estimate, and/or accruing a loss.

We report the results in Table 4. Column (1) shows the baseline result. The coefficient on *CEOlawyer* is negative (-0.212) and significant at the 5% level, suggesting that lawyer CEOs are less likely to issue pre-warnings, consistent with the obfuscator role played by lawyer CEOs in this context. In other words, lawyer CEOs may take the risk to withhold bad news with potentially substantial

[7] After matching, there is no significant difference in these two variables for the firms with lawyer CEOs and those without lawyer CEOs (p-value=0.40 and 0.76, respectively).

proprietary costs given their familiarity with the regulation and the litigation process. As a result, they manage to reduce proprietary costs associated with revealing valuable information to the litigation adversaries. In terms of economic magnitude, the marginal effect of lawyer CEOs on the likelihood of pre-warning issuance is -8.5% when other variables are held at the mean. Similar to the first litigation disclosure tests, we also repeat the analyses using the two-stage approach and the CEM sample in columns (2) and (3), respectively. Our inferences remain the same.

Interestingly, the coefficient on *GC* across the three columns is positive and generally highly significant. The result indicates that general counsels in top management tend to prompt pre-warning disclosure, which is consistent with the gatekeeper/monitoring role for GCs in top management. The diverging results with respect to pre-warning disclosures between lawyer CEOs and general counsels reaffirm our earlier argument that lawyer CEOs do not simply rely on legal expertise of other executives or directors to make disclosure decisions. Rather, lawyer CEOs manage the legal aspect of the business with a better understanding of the broader business objectives.

4.4 Cross-sectional Test Results

To further explore the effect of CEOs' legal expertise on firms' litigation contingency disclosure, we conduct the following cross-sectional analysis. First, we examine how the effect of CEOs' legal expertise on firms' litigation contingency disclosure varies with the extent to which lawyer CEOs can leverage their legal expertise. If lawyer CEOs' legal expertise indeed contributes to a timelier loss contingency disclosure for material cases, the acceleration in disclosure is expected to be more apparent when lawyer CEOs are more likely to apply their legal expertise. Among all case types, we deem that the litigation process of "Accounting Malpractice" cases requires substantial accounting knowledge. Similarly, the litigation process of "Patent and Copyright Related" cases requires substantial technology expertise. As such, lawyer CEOs have less expertise advantage in understanding

the status as well as predicting the final outcome of these two types of cases. Conversely, lawyer CEOs have more legal expertise advantage when predicting the outcome of cases from the other case types, which do not involve substantial expertise in accounting and technology fields.

Thus, we partition material cases into two groups based on case types: (1) cases in which lawyer CEOs can better leverage their legal expertise, which applies to all cases but accounting malpractice and patent and copyright cases, and (2) cases in which lawyer CEOs cannot leverage their legal expertise, i.e., accounting malpractice and patent and copyright cases. The results are reported in Panel A of Table 5. Consistent with our expectation, lawyer CEOs make first-time litigation disclosures in a timelier manner when they have more legal expertise advantage as indicated by a negative and significant coefficient on *CEOlawyer* (-0.022) in Column (1). In Column (2), reflecting less expertise advantage, the coefficient on *CEOlawyer* is insignificant (0.014). An untabulated test indicates that the difference in the coefficients on *CEOlawyer* across the two subsamples is marginally significant (p-value = 0.08, one-tailed). Taken together, these results corroborate our main findings and suggest that timelier first-time disclosure is likely attributed to lawyer CEOs' legal expertise.

Next, we study whether lawyer CEOs' decisions to issue pre-warnings depend on the settlement amount of focal cases. Conceptually, larger settlement amounts ex-post, on average, imply higher expected proprietary costs ex-ante, which a rational CEO would attempt to avoid. Thus, lawyer CEOs would be more likely to withhold pre-warnings to reduce proprietary costs when the cases lead to greater losses. We thus partition all material cases based on their ex-post settlement amounts. The results are reported in Panel B of Table 5. We find that lawyer CEOs are more likely to withhold pre-warnings for cases leading to higher settlement amounts. Specifically, while the coefficient on *CEOlawyer* is negative (-0.364) and significant at the 1% level in the high settlement amount group in Column (1), the coefficient is not significant in the low settlement group. An untabulated test indicates that the difference in the coefficients on *CEOlawyer* is statistically significant (p-value = 0.02, one-

tailed). These results suggest that lawyer CEOs are more likely to withhold information when the proprietary costs of disclosure are higher, lending further support to the obfuscator role played by lawyer CEOs in the bad news disclosure context.[8]

4.5 Additional Evidence from Timeliness of Pre-warning Disclosure

To provide further evidence of the effect of CEOs' legal expertise on firms' litigation contingency disclosure, we next investigate the timeliness of pre-warning disclosures conditional on CEOs' decision to issue pre-warnings. This conditional setting is an interesting one since the CEO has assessed that the benefits of disclosure (in terms of facilitating investor requirements for timely litigation disclosures and minimizing the corresponding regulatory risk) exceed the costs of such disclosure (proprietary costs associated with tipping one's hand to opposing counsels). Accordingly, we remove cases where no pre-warnings are issued before case resolution. For this conditional sample, we would expect that lawyer CEOs assume the informer role. The dependent variable, *Timing_Pre*, captures the time elapsed between the case initiation quarter and first pre-warning disclosure quarter, scaled by the case duration. The result is reported in Table 6. We find that lawyer CEOs issue timelier pre-warnings than non-lawyer CEOs, as indicated by a significantly negative coefficient on *CEOlawyer* (-0.037 and significant at the 1% level). As expected, the informer role emerges for lawyer CEOs.

Combining the results reported in Table 4, we find evidence supporting the finding that lawyer CEOs adopt either the informer role or the obfuscator role according to the perceived levels of the proprietary costs of disclosure. However, these results are not mutually exclusive, given the conditional nature of Panel B discussed above. On the one hand, revealing potential material losses before case

[8] For the sake of completeness, in untabualted tests, we also test how the relationship between CEOs' legal expertise and the likelihood of issuing pre-warnings varies according to lawyer CEOs' legal expertise advantage. For the case types in which expertise would be to the lawyer CEOs' advantage, the coefficient is negative and marginally significant (p-value = 0.106). For the other case types (i.e., accounting malpractice and patent and copyright infringement cases), lawyer CEOs have no observed advantage relative to their peers. These results constitute weak evidence that lawyer CEOs use their expertise advantage to minimize the proprietary costs of disclosure.

resolution would jeopardize the firm's position with respect to revealing valuable information to opposing counsels. In this case, a lawyer CEO's legal expertise can enable the firm to withhold the information while still maintaining compliance with laws and regulations. Hence, lawyer CEOs would primarily play the obfuscator role. On the other hand, once the information cannot be withheld without bearing additional regulatory risk and CEOs decide to disclose to satisfy the information needs of investors, lawyer CEOs tend to provide a pre-warning on a timelier basis, compared to non-lawyer CEOs, given their superior legal expertise and proactive case management. In this case, lawyer CEOs are more forthcoming about the pre-warning disclosure. Hence, the informer role dominates.

4.6 Additional Evidence Using Immaterial Cases

Our analysis so far has focused on material cases. Next, we provide evidence using immaterial cases, cases where litigation loss is below 0.5 percent of a defendant firm's total assets. Because the SEC requires firms to disclose cases only when likely losses are material, we do not expect CEO legal expertise to have an impact on firm litigation contingency disclosure for immaterial cases. As a falsification test, we report the results using immaterial cases in Table 7. Consistent with our expectation, the coefficient on *CEOlawyer* is insignificant in both columns.

4.7 Controlling for External Counsel Quality

Prior studies show that a firm's outside counsel can have an impact on the firm's financial reporting behavior. For example, Choudhary, Schloetzer, and Sturgess (2013) find that conditional on Form 10-K being filed late, retention of a top-tier external counsel is associated with a lower likelihood of filing Form 12b-25, which is required by the SEC for late filings. More recently, Bozanic, Choudhary, and Merkley (2019) document that, consistent with an advocacy role, outside counsel's involvement with the SEC comment letters reveals a pattern of resisting the SEC disclosure inquiries.

To ensure our main results on lawyer CEOs are not driven by the quality of outside counsels, we repeat our main tests after removing the defendant firms that hire Top 10 law firms as the defense attorney. We hand-collect the case-specific defense attorney information from Westlaw. Our law firm rankings are based on Vault Law 100.[9] The results are reported in Table 8. The coefficient on *CEOlawyer* continues to be significantly negative for both the timeliness of first disclosure analysis in Column (1) and the likelihood of pre-warning analysis in Column (2). These results indicate that our main results are robust and do not simply reflect the quality of external counsels.

4.8 Issuance of Optimistic Claims

Our previous discussion primarily focuses on firm disclosure for material cases or bad news disclosure. In this section, we study good news disclosure, i.e., cases in which firms issue optimistic claims. Optimistic claims are those disclosures in which firms express optimistic views that the cases are not likely to have material impacts, and/or that the cases have no merit. We examine whether optimistic claims issued by firms with lawyer CEOs can better indicate that the case is an immaterial loss case. If a firm issues optimistic claims for a case that later turns out to be a material loss case, it may draw unwanted attention from investors and regulators and may even trigger follow-on litigations and regulatory investigations. We expect that lawyer CEOs are less likely to make such erroneous disclosures given their superior legal expertise. Consistent with our expectation, an untabulated analysis shows that 81% of optimistic claims issued by firms with lawyer CEOs turn out to be immaterial loss cases, whereas only 73% of optimistic claims issued by firms with non-lawyer CEOs indicate immaterial cases (p-value = 0.03). This finding is also in line with the informer role of lawyer

[9] See https://www.vault.com/best-companies-to-work-for/law/top-100-law-firms-rankings. Vault Law 100 includes rankings only beginning in 2006. For the cases that start before 2006, we backfill the rankings with the 2006 data.

CEOs and isolates the effects of superior legal expertise, since proprietary costs do not arise from optimistic claims.

5. Conclusion

In this study, we examine how CEOs' legal expertise may help shape firms' litigation loss contingency disclosures, which are fraught with uncertainty. CEOs must deliberate the cost-benefit trade-off when making litigation loss contingency disclosures. We predict that lawyer CEOs adopt two shifting roles according to the perceived levels of the proprietary costs of disclosure. On the one hand, when the proprietary costs of disclosure are less substantial, we expect lawyer CEOs to make timelier litigation loss contingency disclosures in order to facilitate investor requirements for timely litigation disclosures (the informer role). On the other hand, when disclosure proprietary costs outweigh disclosure benefits, we expect that lawyer CEOs might leverage their legal expertise in order to minimize the proprietary costs by delaying or withholding the disclosure of bad news about a pending litigation case (the obfuscator role).

Using a large hand-collected sample of litigation loss contingency disclosures over the life cycle of lawsuits from 1993 to 2016 from U.S. companies, we find that lawyer CEOs tend to provide first disclosures about a pending litigation case on a timelier basis compared to non-lawyer CEOs. The acceleration in disclosure is more pronounced for cases in which lawyer CEOs are more likely to utilize their legal expertise. However, consistent with our prediction that lawyer CEOs would minimize the proprietary costs of disclosure, lawyer CEOs are less likely to issue pre-warnings prior to material settlements, especially for cases that result in substantial settlements. Nevertheless, once the decision to issue a pre-warning before case resolution is made, lawyer CEOs tend to provide such pre-warnings on a timelier basis compared to non-lawyer CEOs, highlighting the informer role of lawyer CEOs. These combined results suggest that lawyer CEOs carefully deliberate the costs and benefits of

providing litigation loss contingency disclosures. The findings confirm our prediction that lawyer CEOs adopt either the informer or the obfuscator role according to the perceived levels of the proprietary costs of disclosure. Our study thus offers an enriched understanding of disclosure behavior by CEOs who possess legal expertise.

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Appendix A Examples of Litigation Loss Contingency Disclosures

First disclosure (*LD*): First-time disclosure of a litigation by the defendant firm in its SEC filings.

- "On August 20, 2007, Harris v. Amgen Inc., et al., an ERISA class action lawsuit was filed against Amgen and certain of its Board of Directors in the California Central District Court. Plaintiffs claim that Amgen and various Board members breached their fiduciary duties by failing to inform current and former employees who participated in the Amgen Retirement and Savings Manufacturing Plan and the Amgen Savings Plan of the alleged off-label promotion of both Aranesp® and EPOGEN® while a number of studies allegedly demonstrated safety concerns in patients using ESAs." (from the 10Q of **Amgen, Inc.** filed on November 9, 2007)

Pre-warnings (*Pre*): Disclosures in which firms warn investors about significant adverse economic consequences from lawsuits, and/or provide a material loss estimate, and/or accrue a loss.

- An example of warning investors about significant adverse economic consequences from lawsuits:
  "… however, we cannot assure you that this lawsuit ultimately will be resolved in our favor. An adverse judgment or injunction could seriously impact our ability to conduct our business and to offer our products and services to our customers. This, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. Whether or not we prevail in this case, we expect that the litigation will continue to be expensive, time consuming and a distraction to our management in operating our business." (from the 10K of **Limelight Networks, Inc.** filed on March 12, 2008)

- An example of providing a material loss estimate:
  "An adverse outcome to the proceeding could materially affect the Company's financial position and results of operations. In the event the Company is unsuccessful, it could be liable to Mr. Parker for approximately $5.4 million under the Parker Agreement plus accrued interest and legal expenses." (from the 10Q of **Pizza Inn, Inc.** filed on November 9, 2005)

- An example of accruing a loss:
  "During this time a mediator was also appointed for the case and settlement discussions occurred. Management was subsequently apprised of the status of the case by counsel and based on these developments and an assessment of its remaining insurance coverage, the Company recorded a charge of $16.0 million in the quarter ended September 30, 2013 to establish an accrual in connection with this matter, which is included in accrued liabilities in the accompanying condensed consolidated balance sheet (see Note 7). Although the Company attempted to settle the 2010 Class Action prior to trial and may continue settlement discussions, the Company intends to continue to vigorously defend this case, up to, and including, defending this case through trial." (from the 10Q of **Nuverra Environmental Solutions, Inc.** filed on November 12, 2013)

Appendix B Variable Definitions

Variable	Definition
AuditorExpert	Indicator variable that equals 1 if (1) an audit firm's annual market share of audit fees within the industry for a particular city is the largest among all audit firms in the industry and the city, and (2) the audit firm's market share is at least 10 percent greater than the second-largest industry leader in that city-level audit market, and 0 otherwise; measured at the start of each case.
BookToMarket	The mean of book-to-market value of the defendant firm for the case duration.
CEOage	The mean of CEO age for the case duration.
CEOlawyer	Indicator variable that equals 1 if at least one of the CEOs possesses legal expertise for the case duration, and 0 otherwise. Following Henderson et al. (2018), we consider a CEO to possess legal expertise if s/he holds an undergraduate degree in law such as an LLB, or a graduate degree such as LLM, J.D., or Ph.D. in Jurisprudence.
CEOlawyerPred	The predicted value of the probability of a firm hiring a lawyer CEO based on the model in Appendix C. We use the average probability throughout the case duration for each case.
CEOtenure	The mean of CEO tenure for the case duration.
Doctorate	Indicator variable that equals 1 if the CEO has a doctoral degree, and 0 otherwise.
GC	Indicator variable that equals 1 if the general counsel is among the top five paid executives, and 0 otherwise.
HighIntangibles	Indicator variable that equals 1 if a firm's intangible assets percentage is above sample median, and 0 otherwise.
InstOwn	The mean of institutional ownership percentage for the case duration.
Ivy	Indicator variable that equals 1 if the CEO has a degree from an Ivy League school, and 0 otherwise.
CEOlawyer_MSA	The percentage of other firms in the same metropolitan statistical area (MSA) having lawyer CEOs.
LawyerDirectorPct	The mean percentage of board of directors with legal expertise for the case duration. We consider a board member to possess legal expertise if s/he holds an undergraduate degree in law such as an LLB, or a graduate degree such as LLM, J.D., or Ph.D. in Jurisprudence.
Leverage	The mean of firm leverage (total liabilities scaled by total assets) for the case duration.
LitExperience	Litigation experience that a defendant firm has, proxied by the number of cases that the firm has in the three years prior to the initiation of the focal case.
LL_Pre	Indicator variable that equals 1 if the defendant firm issues a pre-warning (i.e., disclosure that the case could have a material impact, or a disclosure of a loss estimate, or accrual of a loss amount).
LogIncentives	The mean log value of equity incentives embedded in CEO compensation for the case duration.
NewsCover	Indicator variable that equals 1 if there is media coverage about the case prior to the first disclosure of the case by the defendant firm, and 0 otherwise.
NumAnalysts	The mean number of equity analysts who issue earnings forecasts for the defendant firm for the case duration.
ROA	The mean returns on total assets of the defendant firm for the case duration.
LogSettleAmt	Log value of 1 plus the settlement amount net of anticipated insurance coverage for a case.
SettleAmtMil	Settlement amount net of anticipated insurance coverage for a case in millions.
Size	The mean log value of total assets (in millions) of the defendant firm for the case duration.

Timing_LD	Duration from case initiation to first disclosure of the case by the defendant firm, scaled by the total number of case quarters.
Timing_Pre	Duration from case initiation to first pre-warning (i.e., a disclosure that the case could have a material impact, or a disclosure of a loss estimate, or accrual of a loss amount) by the defendant firm, scaled by the total number of case quarters.
TotalAssets	The mean of total assets (in millions) of the defendant firm for the case duration.

Appendix C Result of the Prediction Model for Lawyer CEO Appointment

This table reports the result of the prediction model for lawyer CEO appointment. The sample includes the intersection of BoardEx and ExecuComp data since we require BoardEx data to accurately identify the percentage of directors with legal expertise and we require ExecuComp data to identify whether a general counsel is among the top five paid executives. We control for firm and year fixed effects. The standard errors reported in parentheses have been adjusted for clustering at the firm level.

Dependent Variable=	(1) *CEOlawyer*
CEOlawyer_MSA	0.074*
	(0.083)
HighIntangibles	0.021*
	(0.063)
Ivy	0.002
	(0.912)
Doctorate	-0.018
	(0.551)
Tenure	0.001
	(0.180)
Age	0.000
	(0.658)
LawyerDirectorPct	-0.178***
	(0.000)
GC	0.003
	(0.615)
Size	0.017**
	(0.014)
BookToMarket	0.004
	(0.515)
Leverage	0.021
	(0.266)
ROA	0.016
	(0.365)
InstOwn	0.005
	(0.701)
NumAnalysts	-0.001**
	(0.049)
Constant	-0.086
	(0.171)
Observations	22,108
Firm FE	Yes
Year FE	Yes
R-squared	0.70

Table 1 Sample Distribution

This table presents our case distribution by year in Panel A, by Fama-French 12-industry classification in Panel B, and by case type in Panel C.

Panel A Sample Distribution by Year

Year	Frequency	Percent	Frequency	Percent
	Material		**Immaterial**	
1993	1	0.12	3	0.13
1994	9	1.06	8	0.34
1995	14	1.65	14	0.59
1996	20	2.35	25	1.06
1997	26	3.06	19	0.8
1998	21	2.47	34	1.44
1999	23	2.71	112	4.73
2000	62	7.29	146	6.17
2001	89	10.47	154	6.51
2002	79	9.29	179	7.56
2003	72	8.47	192	8.11
2004	93	10.94	180	7.6
2005	54	6.35	167	7.06
2006	52	6.12	170	7.18
2007	44	5.18	148	6.25
2008	35	4.12	135	5.7
2009	15	1.76	126	5.32
2010	24	2.82	127	5.37
2011	25	2.94	143	6.04
2012	27	3.18	107	4.52
2013	22	2.59	94	3.97
2014	24	2.82	60	2.53
2015	18	2.12	22	0.93
2016	1	0.12	2	0.08
Total	850	100	2,367	100

Panel B Sample Distribution by Industry

Industry	Frequency	Percent	Frequency	Percent
	Material		**Immaterial**	
Consumer Nondurables	32	3.76	99	4.18
Consumer Durables	18	2.12	48	2.03
Manufacturing	69	8.12	168	7.1
Oil, Gas, and Coal Extraction and Products	20	2.35	43	1.82
Chemicals and Allied Products	11	1.29	57	2.41
Business Equipment	274	32.24	608	25.69
Telephone and Television Transmission	20	2.35	95	4.01
Utilities	12	1.41	58	2.45
Wholesale, Retail, and Some Services	63	7.41	245	10.35
Healthcare, Medical Equipment, and Drugs	177	20.82	436	18.42
Finance	51	6	244	10.31
Other	103	12.12	266	11.24
Total	850	100	2,367	100

Panel C Sample Distribution by Case Type

Case Type	Frequency	Percent	Frequency	Percent
	Material		**Immaterial**	
Accounting Malpractice	145	17.06	268	11.32
Patent & Copyright	131	15.41	655	27.67
Disclosure	165	19.41	290	12.25
Breach of Contract	40	4.71	116	4.9
Product & Service Liability	67	7.88	315	13.31
Social Responsibility	37	4.35	161	6.8
Operational Malpractice	85	10	220	9.29
Securities Laws	25	2.94	107	4.52
Antitrust Violation	155	18.24	235	9.93
Total	850	100	2,367	100

Table 2 Summary Statistics

This table reports summary statistics for the variables used in the main analyses. We focus on the sample of material loss cases in the main analyses. The material loss cases are defined as cases in which litigation loss is over 0.5 percent of the defendant firm's total assets. Panel A presents descriptive statistics and Panel B reports Pearson correlations between variables. The unit of analysis is at the case level. The number of observations for *Timing_Pre* is smaller than the full sample size because this variable is calculated only for cases in which a pre-warning is issued for the duration of the case.

Panel A Descriptive Statistics

Variable	N	Mean	p25	p50	p75	St. Dev.
Timing_LD	850	0.13	0.06	0.10	0.17	0.13
LL_Pre	850	0.51	0.00	1.00	1.00	0.50
CEOlawyer	850	0.09	0.00	0.00	0.00	0.29
Ivy	850	0.11	0.00	0.00	0.00	0.28
Doctorate	850	0.09	0.00	0.00	0.00	0.26
CEOtenure	850	4.13	1.00	2.50	5.50	4.26
CEOage	850	53.16	48.00	53.10	58.00	7.24
LogIncentives	850	8.17	5.76	8.53	12.42	4.87
LawyerDirectorPct	850	0.09	0.00	0.07	0.16	0.10
GC	850	0.37	0.00	0.00	1.00	0.48
AuditorExpert	850	0.28	0.00	0.00	1.00	0.45
TotalAssets (in $MM)	850	3,587	68	281	1,242	12,415
Size	850	5.68	4.15	5.61	7.05	2.25
BookToMarket	850	0.43	0.18	0.35	0.62	0.63
Leverage	850	0.60	0.30	0.50	0.70	0.53
ROA	850	-0.02	-0.06	0.07	0.15	0.37
InstOwn	850	0.47	0.17	0.49	0.75	0.31
NumAnalysts	850	7.45	1.50	5.00	10.00	8.03
SettleAmtMil (in $MM)	850	97.30	2.13	7.00	36.90	283.00
LogSettleAmt	850	15.97	14.57	15.76	17.42	2.23
LitExperience	850	0.83	0.00	0.00	1.00	2.77
NewsCover	850	0.33	0.00	0.00	1.00	0.47
Timing_Pre	431	0.12	0.06	0.09	0.14	0.12

Panel B Correlation Matrix

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
(1)	*Timing_LD*																			
(2)	*LL_Pre*	-0.10 0.01																		
(3)	*CEOlawyer*	-0.03 0.42	-0.03 0.47																	
(4)	*Ivy*	0.05 0.18	-0.01 0.82	0.05 0.17																
(5)	*Doctorate*	0.05 0.15	0.02 0.54	0.02 0.52	0.00 0.95															
(6)	*CEOtenure*	-0.04 0.29	0.03 0.35	-0.03 0.34	0.02 0.54	0.15 0.00														
(7)	*CEOage*	0.07 0.06	0.00 0.95	0.04 0.21	-0.03 0.33	0.10 0.00	0.13 0.00													
(8)	*LogIncentives*	-0.03 0.39	0.03 0.40	0.03 0.33	-0.03 0.35	0.03 0.32	-0.10 0.00	-0.02 0.48												
(9)	*LawyerDirectorPct*	-0.03 0.39	0.01 0.76	0.20 0.00	-0.01 0.85	-0.02 0.65	-0.06 0.06	0.01 0.68	0.07 0.06											
(10)	*GC*	-0.05 0.16	0.15 0.00	0.01 0.67	0.00 0.97	-0.07 0.04	-0.08 0.02	-0.02 0.49	0.06 0.06	0.13 0.00										
(11)	*AuditorExpert*	-0.09 0.01	0.10 0.00	-0.02 0.66	0.03 0.36	0.02 0.65	-0.02 0.51	0.02 0.61	0.15 0.00	-0.01 0.79	0.16 0.00									
(12)	*Size*	-0.05 0.15	0.11 0.00	0.05 0.14	0.07 0.06	-0.02 0.59	-0.05 0.14	0.08 0.03	0.16 0.00	0.14 0.00	0.36 0.00	0.35 0.00								
(12)	*BookToMarket*	-0.03 0.39	0.03 0.40	0.01 0.87	-0.02 0.63	-0.05 0.13	0.00 0.99	-0.01 0.73	-0.03 0.38	0.01 0.67	0.02 0.56	0.00 0.93	0.09 0.01							

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
(13)	*Leverage*	0.10	-0.08	0.11	-0.01	0.02	-0.05	0.04	-0.14	0.11	-0.02	-0.05	-0.20	-0.38						
		0.00	0.02	0.00	0.77	0.59	0.13	0.27	0.00	0.00	0.52	0.18	0.00	0.00						
(14)	*ROA*	-0.10	0.07	-0.05	-0.03	-0.14	0.05	-0.01	0.05	0.03	0.18	0.14	0.51	0.19	-0.44					
		0.00	0.05	0.17	0.35	0.00	0.13	0.76	0.18	0.47	0.00	0.00	0.00	0.00	0.00					
(15)	*InstOwn*	-0.09	0.15	0.01	-0.02	-0.07	-0.05	0.04	0.19	0.08	0.27	0.31	0.64	0.02	-0.20	0.41				
		0.01	0.00	0.79	0.52	0.04	0.12	0.30	0.00	0.02	0.00	0.00	0.00	0.57	0.00	0.00				
(16)	*NumAnalysts*	-0.07	0.09	0.00	0.09	0.03	-0.01	0.02	0.13	0.07	0.24	0.30	0.76	-0.10	-0.13	0.29	0.50			
		0.05	0.01	0.91	0.01	0.45	0.76	0.47	0.00	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
(17)	*LogSettleAmt*	-0.12	0.15	0.11	0.08	0.00	-0.06	0.06	0.19	0.13	0.33	0.33	0.77	0.02	-0.14	0.32	0.50	0.64		
		0.00	0.00	0.00	0.02	0.96	0.08	0.08	0.00	0.00	0.00	0.00	0.00	0.59	0.00	0.00	0.00	0.00		
(18)	*LitExperience*	0.06	0.04	0.01	0.04	-0.03	0.02	0.02	0.03	0.06	0.17	0.16	0.36	-0.06	-0.03	0.10	0.16	0.35	0.29	
		0.07	0.29	0.76	0.28	0.46	0.63	0.56	0.33	0.08	0.00	0.00	0.00	0.09	0.42	0.00	0.00	0.00	0.00	
(19)	*NewsCover*	-0.10	0.15	0.00	0.00	-0.02	0.04	-0.03	-0.03	-0.02	0.02	-0.03	0.05	0.00	-0.02	0.10	0.12	0.02	0.04	
		0.00	0.00	0.94	0.94	0.65	0.24	0.41	0.46	0.61	0.59	0.38	0.17	0.91	0.61	0.00	0.00	0.57	0.30	

Table 3 Lawyer CEO and Timeliness of First Disclosure

This table reports the results of the relationship between CEOs' legal expertise and the timeliness of first litigation loss contingency disclosure for material cases. The dependent variable is *Timing_FD*, calculated as the duration from case initiation to first disclosure of the case by the defendant firm, scaled by the total number of case quarters. A higher value of *Timing_FD* indicates less timely disclosure. The material loss cases are defined as cases in which litigation loss is over 0.5 percent of the defendant firm's total assets. The unit of analysis is at the case level. Column (1) shows the baseline result. Column (2) reports the result using the predicted probability of a firm having a lawyer CEO as the key independent variable. The result of the prediction model is reported in Appendix C. Column (3) reports the result using a matched sample based on the Coarsened Exact Matching (CEM) method with ex-ante litigation risk and past litigation experience as the matching variables. We control for industry, year, and case-type fixed effects. P-values (two-sided) reported in parentheses are based on robust standard errors clustered at the industry level.

	(1) Baseline	(2) Two Stage	(3) CEM
Dependent Variable=	*Timing_FD*	*Timing_FD*	*Timing_FD*
CEOlawyer	**-0.014****		**-0.020*****
	(0.022)		**(0.002)**
CEOlawyerPred		**-1.051***	
		(0.083)	
Ivy	0.027*	0.000	0.029*
	(0.091)	(0.989)	(0.054)
Doctorate	0.024*	-0.064***	0.020*
	(0.082)	(0.000)	(0.072)
CEOtenure	-0.001	0.001	-0.001
	(0.489)	(0.382)	(0.446)
CEOage	0.000	0.002**	-0.000
	(0.963)	(0.049)	(0.769)
LogIncentives	-0.000	-0.000	0.000
	(0.867)	(0.947)	(0.553)
LawyerDirectorPct	-0.032	-0.266**	-0.039
	(0.350)	(0.047)	(0.258)
GC	-0.003	-0.012	-0.001
	(0.808)	(0.454)	(0.960)
AuditorExpert	-0.018	-0.011	-0.017
	(0.281)	(0.497)	(0.306)
Size	0.015**	0.028***	0.014**
	(0.013)	(0.000)	(0.015)
BookToMarket	-0.000	-0.004	-0.000
	(0.999)	(0.871)	(0.971)
Leverage	0.012	0.058***	0.010
	(0.206)	(0.010)	(0.313)
ROA	-0.004	0.063	-0.006
	(0.770)	(0.484)	(0.623)
InstOwn	-0.056***	-0.066	-0.053**
	(0.009)	(0.160)	(0.010)
NumAnalysts	-0.001	-0.002**	-0.001
	(0.140)	(0.033)	(0.163)
LogSettleAmt	-0.011***	-0.013***	-0.010***
	(0.000)	(0.001)	(0.000)
LitExperience	0.003*	0.002	-0.002
	(0.054)	(0.155)	(0.633)

NewsCover	-0.003	-0.006	-0.002
	(0.702)	(0.499)	(0.809)
Constant	1.665***	0.159	1.662***
	(0.000)	(0.318)	(0.000)
Observations	850	349	802
Industry FE	YES	YES	YES
Case-Type FE	YES	YES	YES
Year FE	YES	YES	YES
Log-Likelihood	445.4	199.2	433.7

Table 4 Lawyer CEO and Likelihood of Pre-warnings

This table reports the results of the relationship between CEOs' legal expertise and the likelihood of pre-warning disclosure for material cases. The dependent variable is *LL_Pre*, an indicator variable equal to 1 if a defendant firm issues a pre-warning (i.e., disclosure that the case could have a material impact, or a disclosure of a loss estimate, or accrual of a loss amount). The material loss cases are defined as cases in which litigation loss is over 0.5 percent of the defendant firm's total assets. The unit of analysis is at the case level. Column (1) shows the baseline result. Column (2) reports the result using the predicted probability of a firm having a lawyer CEO as the key independent variable. The result of the prediction model is reported in Appendix C. Column (3) reports the result using a matched sample based on the Coarsened Exact Matching (CEM) method with ex-ante litigation risk and past litigation experience as the matching variables. We control for industry, year, and case-type fixed effects. P-values (two-sided) reported in parentheses are based on robust standard errors clustered at the industry level.

	(1)	(2)	(3)
	Baseline	Two Stage	CEM
Dependent Variable=	*LL_Pre*	*LL_Pre*	*LL_Pre*
CEOlawyer	**-0.212****		-0.236**
	(0.011)		(0.022)
CEOlawyerPred		**-14.520****	
		(0.031)	
Ivy	-0.072	0.005	-0.026
	(0.732)	(0.977)	(0.905)
Doctorate	0.065	-0.330	0.089
	(0.651)	(0.571)	(0.583)
CEOtenure	0.010	0.017	0.010
	(0.452)	(0.266)	(0.422)
CEOage	-0.001	0.008	0.005
	(0.935)	(0.553)	(0.678)
LogIncentives	0.000	-0.027*	0.004
	(0.999)	(0.095)	(0.813)
LawyerDirectorPct	-0.091	-2.773*	0.003
	(0.822)	(0.068)	(0.995)
GC	0.379***	0.303	0.400***
	(0.000)	(0.106)	(0.000)
AuditorExpert	0.187	0.306**	0.159
	(0.225)	(0.049)	(0.317)
Size	-0.092*	0.055	-0.094**
	(0.053)	(0.750)	(0.024)
BookToMarket	0.067	-0.453***	0.056
	(0.492)	(0.003)	(0.592)
Leverage	-0.119*	-0.000	-0.129**
	(0.084)	(0.996)	(0.043)
ROA	-0.077	-0.411	-0.178
	(0.615)	(0.632)	(0.180)
InstOwn	0.419	0.285	0.463
	(0.178)	(0.653)	(0.126)
NumAnalysts	0.004	-0.006	0.004
	(0.722)	(0.773)	(0.711)
LogSettleAmt	0.098***	0.139***	0.103***
	(0.003)	(0.000)	(0.002)
LitExperience	0.007	0.008	-0.056
	(0.481)	(0.482)	(0.216)

NewsCover	0.361***	0.219	0.319***
	(0.001)	(0.481)	(0.001)
Constant	-1.270*	-1.139	-1.423
	(0.087)	(0.342)	(0.109)
Observations	848	336	800
Industry FE	YES	YES	YES
Case-Type FE	YES	YES	YES
Year FE	YES	YES	YES
Pseudo R-squared	0.10	0.14	0.10

Table 5 Cross-sectional Test Results

This table reports cross-sectional test results. Panel A reports how the relationship between CEOs' legal expertise and the timiliness of first litigation loss contingency disclosure varies with CEOs' legal expertise advantage. We classify CEOs' legal expertise advantage based on case types. Column (1) includes all the legal cases except accounting and patent-related cases, and Column (2) includes only accounting and patent-related cases. The dependent variable is *Timing_LD*, calculated as the duration from case initiation to first disclosure of the case by the defendant firm, scaled by the total number of case quarters. A higher value of *Timing_LD* indicates less timely disclosure. Panel B reports how the relationship between CEOs' legal expertise and the likelihood of issuing pre-warnings varies with settlement amount. Column 1 (2) includes cases with high (low) settlement amount, i.e., the ratio of settlement amount to total assets is above (below) the median within each case type in the sample. The unit of analysis is at the case level. We control for industry, year, and case-type fixed effects. P-values (two-sided) reported in parentheses are based on robust standard errors clustered at the industry level.

Panel A Timeliness of First Disclosure Partitioned by CEOs' Legal Expertise Advantage

Dependent Variable=	(1) *Timing_LD* More Expertise Advantage	(2) *Timing_LD* Less Expertise Advantage
CEOlawyer	**-0.022****	**0.014**
	(0.020)	**(0.497)**
Ivy	0.020	0.045**
	(0.504)	(0.017)
Doctorate	0.046**	-0.003
	(0.033)	(0.864)
CEOtenure	-0.001	-0.002
	(0.262)	(0.417)
CEOage	0.000	0.001
	(0.789)	(0.353)
LogIncentives	-0.000	-0.000
	(0.859)	(0.892)
LawyerDirectorPct	0.006	-0.138
	(0.856)	(0.126)
GC	-0.004	-0.012
	(0.713)	(0.700)
AuditorExpert	-0.022	-0.001
	(0.376)	(0.981)
Size	0.018***	0.009
	(0.007)	(0.471)
BookToMarket	-0.008	0.009
	(0.429)	(0.706)
Leverage	-0.004	0.044***
	(0.697)	(0.001)
ROA	-0.010	0.045
	(0.395)	(0.171)
InstOwn	-0.015	-0.128**
	(0.499)	(0.034)
NumAnalysts	-0.003	0.001
	(0.139)	(0.703)
LogSettleAmt	-0.014***	-0.010***
	(0.000)	(0.010)
LitExperience	0.006***	0.001
	(0.000)	(0.738)
NewsCover	-0.002	0.000

	(0.784)	(0.982)
Constant	1.625***	0.420***
	(0.000)	(0.000)
Observations	564	286
Industry FE	YES	YES
Case-Type FE	YES	YES
Year FE	YES	YES
Log-Likelihood	328.3	150.2

Panel B Likelihood of Pre-warnings Partitioned by Case Settlement Amount

Dependent Variable=	(1) *LL_Pre* Higher Settlement	(2) *LL_Pre* Lower Settlement
CEOlawyer	**-0.364*** **	**0.008**
	(0.010)	**(0.956)**
Ivy	-0.183	0.138
	(0.205)	(0.714)
Doctorate	0.144	0.178
	(0.498)	(0.306)
CEOtenure	0.012	0.007
	(0.480)	(0.745)
CEOage	0.000	0.001
	(0.987)	(0.961)
LogIncentives	0.002	0.002
	(0.939)	(0.872)
LawyerDirectorPct	-0.380	-0.237
	(0.349)	(0.772)
GC	0.680***	0.189
	(0.000)	(0.190)
AuditorExpert	0.049	0.294
	(0.783)	(0.257)
Size	-0.015	-0.162
	(0.875)	(0.239)
BookToMarket	0.149	0.123
	(0.417)	(0.331)
Leverage	-0.048	-0.159
	(0.735)	(0.203)
ROA	-0.014	-0.500**
	(0.930)	(0.010)
InstOwn	0.470	0.457
	(0.198)	(0.350)
NumAnalysts	-0.003	0.007
	(0.859)	(0.711)
LogSettleAmt	0.054	0.144*
	(0.449)	(0.053)
LitExperience	0.036	-0.008
	(0.198)	(0.692)
NewsCover	0.504***	0.191
	(0.000)	(0.311)
Constant	-1.355	-1.248
	(0.196)	(0.307)
Observations	418	426
Industry FE	YES	YES
Case-Type FE	YES	YES
Year FE	YES	YES
Pseudo R-squared	0.18	0.12

Table 6 Additional Test: Timeliness of Pre-warnings

This table reports the results of the relationship between CEOs' legal expertise and the timeliness of pre-warning disclosure for material cases conditional on the firm providing a pre-warning. The dependent variable is *Timing_Pre*, calculated as the duration from case initiation to first pre-warning of the case by the defendant firm, scaled by the total number of case quarters. A higher value of *Timing_Pre* indicates less timely pre-warning disclosure. The material loss cases are defined as cases in which litigation loss is over 0.5 percent of the defendant firm's total assets. The unit of analysis is at the case level. We control for industry, year, and case-type fixed effects. P-values (two-sided) reported in parentheses are based on robust standard errors clustered at the industry level.

Dependent Variable=	(1) *Timing_Pre*
CEOlawyer	**-0.037***** **(0.000)**
Ivy	0.041* (0.059)
Doctorate	0.032 (0.107)
CEOtenure	-0.000 (0.949)
CEOage	0.000 (0.653)
LogIncentives	0.001 (0.475)
LawyerDirectorPct	0.017 (0.714)
GC	0.003 (0.836)
AuditorExpert	-0.024* (0.069)
Size	0.011 (0.213)
BookToMarket	0.019* (0.065)
Leverage	-0.022 (0.214)
ROA	-0.014 (0.379)
InstOwn	-0.042 (0.283)
NumAnalysts	-0.002** (0.010)
LogSettleAmt	-0.009 (0.146)
LitExperience	0.003 (0.132)
NewsCover	0.006 (0.438)
Constant	0.313*** (0.000)

Observations	431
Industry FE	YES
Case-Type FE	YES
Year FE	YES
Log-Likelihood	274.5

Table 7 Additional Test: Using Immaterial Loss Cases

This table reports the results of the relationship between CEOs' legal expertise and the timeliness of first litigation loss contingency disclosure (Column (1)) and the likelihood of pre-warning disclosure (Column (2)) for immaterial loss cases. The dependent variable in Column (1) is *Timing_FD*, calculated as the duration from case initiation to first disclosure of the case by the defendant firm, scaled by the total number of case quarters. The dependent variable in Column (2) is *LL_Pre*, an indicator variable equal to 1 if a defendant firm issues a pre-warning (i.e., disclosure that the case could have a material impact, or a disclosure of a loss estimate, or accrual of a loss amount). The immaterial loss cases are defined as those cases in which litigation loss is below 0.5 percent of the defendant firm's total assets. The unit of analysis is at the case level. We control for industry, year, and case-type fixed effects. P-values (two-sided) reported in parentheses are based on robust standard errors clustered at the industry level.

Dependent Variable=	(1) *Timing_LD*	(2) *LL_Pre*
CEOlawyer	**0.005**	**0.101**
	(0.533)	**(0.353)**
Ivy	-0.016	-0.005
	(0.235)	(0.965)
Doctorate	0.012	-0.180
	(0.414)	(0.111)
CEOtenure	-0.002***	-0.001
	(0.000)	(0.798)
CEOage	-0.000	-0.002
	(0.891)	(0.754)
LogIncentives	-0.002**	-0.000
	(0.049)	(0.980)
LawyerDirectorPct	0.034	-0.639***
	(0.433)	(0.001)
GC	-0.008	-0.049
	(0.336)	(0.535)
AuditorExpert	-0.023	0.096*
	(0.114)	(0.083)
Size	0.003	-0.006
	(0.269)	(0.762)
BookToMarket	0.006	-0.033
	(0.444)	(0.713)
Leverage	0.026***	-0.087
	(0.000)	(0.537)
ROA	0.019***	-0.032
	(0.003)	(0.793)
InstOwn	-0.037**	0.095
	(0.026)	(0.447)
NumAnalysts	-0.001	-0.006
	(0.316)	(0.106)
LogSettleAmt	-0.000	0.032***
	(0.942)	(0.000)
LitExperience	-0.001	0.004
	(0.290)	(0.588)
NewsCover	0.032***	0.130
	(0.001)	(0.289)
Constant	0.110***	-1.086***
	(0.000)	(0.005)

Observations	2,367	2,340
Industry FE	YES	YES
Case-Type FE	YES	YES
Year FE	YES	YES
Log-Likelihood/Pseudo R-sq.	411.4	0.08

Table 8 Robustness Test: Excluding Firms that Hired Top 10 Law Firms

This table reports the results of the relationship between CEOs' legal expertise and the timeliness of first litigation loss contingency disclosure (Column (1)) and the likelihood of pre-warning disclosure (Column (2)) for material cases after removing cases where aTop 10 law firm is hired as a defense attorney. The dependent variable in Column (1) is *Timing_FD*, calculated as the duration from case initiation to first disclosure of the case by the defendant firm, scaled by the total number of case quarters. The dependent variable in Column (2) is *LL_Pre*, an indicator variable equal to 1 if a defendant firm issues a pre-warning (i.e., disclosure that the case could have a material impact, or a disclosure of a loss estimate, or accrual of a loss amount). The unit of analysis is at the case level. We control for industry, year, and case-type fixed effects. P-values (two-sided) reported in parentheses are based on robust standard errors clustered at the industry level.

Dependent Variable=	(1) *Timing_LD*	(2) *LL_Pre*
CEOlawyer	**-0.016****	**-0.226****
	(0.014)	**(0.036)**
Ivy	0.029*	-0.139
	(0.066)	(0.524)
Doctorate	0.018	0.081
	(0.246)	(0.631)
CEOtenure	-0.001*	0.007
	(0.054)	(0.597)
CEOage	-0.000	0.001
	(0.993)	(0.927)
LogIncentives	-0.000	-0.001
	(0.911)	(0.942)
LawyerDirectorPct	-0.018	-0.030
	(0.516)	(0.944)
GC	-0.001	0.370***
	(0.948)	(0.000)
AuditorExpert	-0.018	0.192
	(0.195)	(0.261)
Size	0.015**	-0.078
	(0.018)	(0.119)
BookToMarket	-0.000	0.062
	(0.991)	(0.600)
Leverage	0.014	-0.077
	(0.134)	(0.316)
ROA	-0.005	-0.047
	(0.707)	(0.733)
InstOwn	-0.047**	0.479
	(0.045)	(0.134)
NumAnalysts	-0.001	0.004
	(0.135)	(0.751)
LogSettleAmt	-0.012***	0.099**
	(0.000)	(0.013)
LitExperience	0.000	-0.001
	(0.949)	(0.949)
NewsCover	-0.004	0.302**
	(0.660)	(0.013)
Constant	1.658***	-1.489**
	(0.000)	(0.042)

Observations	804	802
Industry FE	YES	YES
Case-Type FE	YES	YES
Year FE	YES	YES
Log-Likelihood/Pseudo R-sq.	434.4	0.10