

Fiducia Die and Equi | Deholder Conflic

Bo Becke and Pe S. mbe g

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We also ran an impact analysis on legal and financial aspects in order to examine the effect of management fiduciary duties on equity debtholder conflicts. As a Delaware bank previously changed the name of its corporate director fiduciary duties in its shareholder management incentive to make action facing equity holders of debt for firm in the vicinity of financial distress. We hypothesized that increasing the likelihood of equity holders increased in the firm and reduced firm risk conditions, it had decreased in debt equity conflicts of interest. The change also isolated of firm equity holders close to default. The long-run financial performance of the firm increased in a large degree and a reduction in equity costs. Finally, the firm's performance implications of the change and find that firm's financial performance increased when the firm's equity holders increased. We conclude that management fiduciary duties affect equity bondholder conflicts in a firm's financial and economic impact on the firm's performance and capital structure choice and affect the firm's

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Becke, Iobcke, hbed, Ha, adB, ine, School and NBER S, mpe, g, Ini, ie of Financial Re, each, SIFR
Stockholm School of Economic, NBER and CEPR

We would like to thank Lynn LoPucki for having da a Ka Chun Chi for each a iance Ken A o e Do gla Bald Cali Bald in Pa ick Bol on Ma hie Bo a d Ma cin Kacpe c k John Goa e Mihi De ai S Gil on Je em G a eline Rocco H ang Michael Lemmon Ed Mo i on Ragham Rajan Ma k Roe Da id Scha f ein Albe Sheen S aj S ini a an G han S b amanian Je em Sein and emina pa icipan a Ha a d Rice Te A i Col mbia he UBC Win e Confe ence and he Thid McGill Ri k Managemen Confe ence fo commen and gge ion

Management decision influence the distribution of value between parties. This can lead to conflicting interests among financial claimants, shareholders of equity and debt. Fama and Miller

Jen en and Meckling M i e E q h o l d e I m a p e f e l o i n t h e m e n m a a n o
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Unfo na el agenc co reflecting he differe decision ha deb and eq holde ill
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We present a novel approach to finding debt-equity conflicts and hierarchical agenda conflicts employing a multi-legal entity framework. Our empirical results show that the fiduciary duties of corporate officers, boards, and banks are not always aligned. In particular, the fiduciary duties of corporate officers and boards are often in conflict with the interests of the bank. This is especially true in the case of the *Credit Lyonnais v. Pathe Communications* bank, where the bank's interests were in conflict with the interests of the corporation.

Although beyond the scope of this paper, the allocation of capital and cash flows between lenders of different seniority is crucial to a firm's financial strategy. For example, Kohn and Scharf (1998) and Ben-Ner (1999) have shown that the allocation of capital and cash flows between lenders of different seniority can be a critical determinant of a firm's financial strategy. In addition, the allocation of capital and cash flows between lenders of different seniority can be a critical determinant of a firm's financial strategy.

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The exact number of possible combinations of debt including direct bank, public, corporate, and other financial debt is too large to calculate. However, the most commonly identified possible debt structure is the one proposed by Wei and Andriade and Kaplan (2000). It consists of a mix of debt. The trade-off between equity and debt seems to be a function of the cost of debt, which is not only a function of the agency cost but also of the debt structure. See, e.g., Almeida and Philippon (2007), Elkhani et al. (2008), and Koller et al. (2008) for recent studies on the different conclusions about the cost of financial debt. It is large enough to explain capital structure in publicly traded firms.

How the number of US states that have constitutional provisions that prohibit the use of public funds to support religious activities has changed over time. The chart shows that the number of states with such provisions has increased from 1970 to 2010, with a notable jump in 2010. The chart also shows that the number of states with such provisions has increased from 1970 to 2010, with a notable jump in 2010. The chart also shows that the number of states with such provisions has increased from 1970 to 2010, with a notable jump in 2010.

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One of the main debt issues in conflict has been proposed in the historical
like the Easing of the debt of the firm in the 19th century and the 20th century
provide the financing for the firm. The agency problem is often called *debt
overhang*. In firm, it has a non

increased after Credi Lonnai. This is the effect of capital expenditure on the ROA. The net income increased economically significant on the order of half a percentage point for the average firm. Together with the evidence on equity, it is consistent with the evidence of debt on the hang problem in highly leveraged firms.

Second, the evidence of the risk shifting problem of earnings risk and volatility. We find that after Credi Lonnai, the standard deviation of Return on Assets (ROA) fell again only for highly leveraged firms. The month standard deviation of equity return fell, and the implied volatility of the stock price fell. The effect is a fall in magnitude, not a sign change. For example, annual average volatility fell by about 1% of the stock price. The finding on risk allocation in the entire sample provides no evidence on board decision making or firm policies. It may have caused the increase in risk although the double mechanism link to the level of indebtedness.

Third, we examine bank portfolio allocation based on the idea that credit policy of banks can be used to guide and has bank portfolio allocation can be expected to be used as a guide for indirect bank portfolio allocation. Frank and Torvik, Moore and Steel, and Bliemel and Zhuravskaya. We find that both Delaware and non Delaware bank portfolio became more after Credi Lonnai and has the fall in leverage and more significant for Delaware bank portfolio. The difference in difference is estimated in month 10 of the post Credi Lonnai average portfolio. The difference is in significant difference from zero. This is illustrated in Figure 1.

Fourth, if Credi Lonnai reduced agency cost of debt, equilibrium leverage should increase and the cost of debt fall. As predicted, we find that the net debt of Delaware firms increased by approximately 1% of the average stock price. The change for non Delaware firms is the same as the cost of debt fell by about 1% in the average stock price.

The overall implication of the finding is not obvious. It is possible that credit policy of lenders did not change, but the one in place after Credi Lonnai in Delaware reduced agency cost of financial distress. This would improve leverage and increase firm value. In this case, both equity and debt value should increase upon the announcement of the new ruling. On the other hand, the fiduciary duty might be a pure allocation of funds from equity to debt, generating no net effect on the cost of financial distress. In this case, the price of debt could still increase but the price of equity could go down, leaving the aggregate firm value unaffected or even decreasing. In this case, the average portfolio is aggregated with the effect. One possibility is that between the two, the one is more significant. The change in net income and the time of Credi Lonnai, the average portfolio has debt value do not decrease, which seems plausible.

We sometimes use the word "difference in difference" to indicate the effect of the treatment on the average based on difference in difference. The comparison is the change for Delaware incorporated firms or the change for non Delaware incorporated firms in the same time and controlling for firm characteristics. All of the above include firm FE and clustering by the interaction of year and Delaware incorporation.

This is also called a "difference in difference" design.

The drop in bank portfolio allocation outside Delaware is the impact of the estimated affecting the portfolio in which the double difference can be estimated.

Also, the Skeel documents have demonstrated that the Delaware bank practice of favoring bank practices in the corporate and agency law has hindered the high efficiency of the Delaware bank practice. Of course, the paper provides an alternative and complementary explanation for the finding that the firm's behavior changed following the decision of the bank practice which enabled them to enter the Chapter 11 in a healthier state than making bank practice decisions alone.

The effect of paper on the paper is organized as follows. First, we discuss the history of equity debtholder conflict and financial distress. Then, we begin our discussion concerning the Creditors' Unfair Lending and Implications. We then describe the data and the results of our empirical evidence and conclusions.

Corporate directors are divided into two groups: the corporate directors and the stockholders. Ordinarily, the directors are the fiduciaries of the corporation and the stockholders. Once a firm is in default, the change and the corporate directors can be divided into two groups: the fiduciaries of the corporation and the stockholders. The general holding of the Delaware law is that the officers and directors of the corporation are the fiduciaries of the corporation prior to insolvency. The case changed following the holding and the creditors' fiduciaries are the primary of the bank practice and in the end.

The Creditors' Unfair Lending followed the holding of the MGM Corporation in November 1994, which was financed by the bank and Time Warner. The holding was a comparison of the ability to meet financial obligations almost immediately and the decision to force the firm into bankruptcy. In his first month, the payment of the firm from the bank practice, MGM received a credit line from the US Bank of Creditors' Unfair Lending. The bank practice, the Communication, MGM controlling stockholder and Creditors' Unfair Lending also entered into a corporate governance agreement. The bank practice, Creditors' Unfair Lending, the contract, although the agreement to replace MGM directors, including the CEO, Parker, who felt that the CEO failed to do his job and was claiming among other things that the CEO breached a duty of good faith owed to them.

The case, which in fact consisted of the entire litigation, considered the holding of the Chancellor William Allen as the precedent Delaware bank practice judge. In the November 1994 holding, the court held that the CEO had been "appropriately mindful of the potential differing interests between the corporation and its shareholder. At least where a corporation is operating in the vicinity of insolvency, a board of directors is not merely the agent of the residue risk bearers, but owes its duty to the corporate enterprise." In footnote 1 of the holding, the fiduciaries of the firm in financial distress are the directors. "In the vicinity of insolvency, circumstances may arise when the right (both the efficient and

What is generally believed by participating corporate law and corporate directors is more important than the holding of the perception of a corporate law as an accurate prediction of hypothetical future outcomes. The evidence also shows that many legal scholars have a common law legal system, which is the case in the US. See Gennaioli and Shleifer for a discussion of this.

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The Credit Lonnai ling e a p eceden fo f m inco p a e d in Dela a e b i l i n o e fa i i ho d no affec o e l . Finall if ha e e e ome leakage e end ng he ho l i n d o e

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Regression of change in i k a o n d a e p e e n e d i n a b l e . In col m n o n e i n d e p e n d e n t a b l e i s t h e v a r i a b l e o f R O A . T h e e s t i m a t e d c o e f f i c i e n t f o r t h e C r e d i t L o n n a i i n d i c a t o r i s n e g a t i v e a n d i g n i f i c a n t d i f f e r e n t f r o m z e r o a t t h e 1 p e r c e n t l e v e l u s i n g t h e s a m p l e o f l o d i a n c e o d e f a l t f i r m . T h e m a g n i t u d e o f t h e b a s i s p o i n t c o r r e s p o n d i n g t o a b o u t 1 p e r c e n t o f t h e m e a n o f a n n u a l R O A . a n d a d d e d i a t i o n . T h e o v e r a l l f i t o f t h e r e g r e s s i o n i s g o o d a n d i t r e f l e c t s t h e h i g h e p l a n a o p o r t i o n o f f i r m f i x e d e f e c t . In col m n t w o t h e d e p e n d e n t a b l e i s e q u i t y o l a i l i . H e r e t h e n e g a t i v e e f f e c t i s i g n i f i c a n t a t t h e 1 p e r c e n t l e v e l . T h e c o e f f i c i e n t e s t i m a t e i s t h e b a s i s p o i n t c o r r e s p o n d i n g t o a b o u t 1 p e r c e n t o f t h e m e a n o f e q u i t y o l a i l i . T h e i m p l i e d m a g n i t u d e f o r a 1 p e r c e n t o l a i l i i s m a l l e r t h a n t h e b a s i s p o i n t i g n i f i c a n t a t t h e 1 p e r c e n t l e v e l . F o r a l l t h e m e a n s o f i k t h e e a p p e a r t o b e a m a l l d o w a f t e r t h e C r e d i t L o n n a i i n t e r a c t i o n c o n t r i b u t i o n i n i k h i f i n g .

A l i h i p e r i o d e s t i m a t e s i n t h e c o m p a r e d l o w a n d h i g h d e b t f i r m . In col m n f o u r a n d f i v e t h e e p e a r t h e r e g r e s s i o n f o r t h e h o l e s a m p l e i s e s t i m a t e d u s i n g a e q u a t i o n w i t h t h e d e p e n d e n t a b l e f i n d i n g a s t a t i s t i c a l l y i g n i f i c a n t b u t m a l l e e c o n o m i c e f f e c t . W h e n e s t i m a t i n g t h e s a m p l e o f t h e f i r m i n t h e l a s t e l a s t h i g h d i s t a n c e o d e f a l t s e e T a

[illegible]

If Cedit Lonnai deduce coefficient of financial distress is logarithmic increase equilibrium age. For example, we made off her prediction that the coefficient will make an age of the child provided by higher age. In Table 1, the effect of age mean of the age on firm control firm and time fixed effect, and the Cedit Lonnai indicator of Foe the held dependent variable in the level age. The control variable book and make the age. We do not include the lag of the age in order to avoid possible level age dynamic.

In collaboration with the OECD, we find that Cedi Lonnai coincide in the mallinc ea e in bo h book and make le e age and ba i poin e pec i el al ho gh he coefficient i no a i call
 ighnifican fom e ofo bookle e age The malleconomic magni de of he e e i ma e ma no be
 oo i i ing g en he fac ha delibera e ac ion d i e onl mode ea o ea change in le e age
 e g f i m make le e age la gel d i en b e g i p ice change Welch

[illegible][illegible]

The le e age inc ea e follo ing C edi L onnai i mode b impo an The conc en fall in in e e
co e abli he ha he le e age inc ea e a no he e l of inc ea ed c edi demand in high ca e

can also be a good point to indicate in Delaware if the firm also equal weighted in a
 a i i c o f . The a i i e i g h e d f i e d a e r n a i b a i p o i n t a i i R e i d a l e n
 which control for factor loading may also clean identification of the announcement effect
 the id al f o m t h e C A P M o r t h e F a m a F e n c h h e e f a c t o r m o d e l b o t h e i m p l i e d f o r e a c h l o o k i n t h e
 t h i r d m o n t h o f t h e h i g h e r m a l l e b i g n i f i c a n t d i f f e r e n c e f o m e o . T h e a i o p e n i a t i o n o f
 a n n o n c e m e n t e i n a e p e e n e d i n T a b l e . A n a l e n a i e a o f f o r m i n g l a n d a d e p o i o
 e p e a t h e a n a l i f o r t h e e a e n d . T h i s w i l l b e m o r e c o n e a i e i f t h e e a e e a e n d D e l a a e
 n o n D e l a a e p a e n f o r e g a e a c h n o n d e i n g t h e h o g n e a e n d
 l e n e i g h o b e a t i o n t h e e e a e t h e s e c o n d h i g h e e i n c o m p a r i n g e c o n d o l a
 a d i n g d a t a o f e a c h e a o h i g h e f i e d a e n a l i n g e c o n d o l a a d i n g d a t a . T h e a
 i m p l i e d b e t a a n d e o f o m t h e e e g e i o n a e o n e d a a n d f i e d a t o h
 i m p l i n g i g n i f i c a n c e a t h e e e l .

The effect on equity value provides the evidence that debt equity conflict cause financial distress
 co has the eco can affect financial in a negative way and have an effect on the equity
 equity holder's confidence in the fama and Jensen

It may be interesting to compare the response of the Credit Lonnai announcement according to firm size. For
 example, the high leverage firm might gain less from Credit Lonnai because they do not have an equity
 like high confidence in the. Similarly, the low leverage firm might have gained less because they had no
 debt on which to increase the corporate value. However, they had no corporate debt since the leverage in the portfolio
 changed condition. Figure presents a high degree of nominal ratio of the firm in different equity of firm
 with a low level of book leverage. The estimated relation between leverage and the differential
 of the portfolio in the U.S. market. The level of leverage in the differential is increasing in
 the leverage. Each line in the estimated peak and the the prediction in the book point after
 with the differential falling in the leverage. The graph fall to a prediction of about book point
 around the leverage of 1 and then in the point of the Horee. The high leverage in the tail of the leverage
 distribution. The empirical leverage distribution is plotted in the graph for reference. The effect of the
 prediction of the credit line prediction is estimated. A confidence interval for the estimated
 regression line is plotted on the graph showing the confidence interval about the prediction. The general
 pattern is consistent with the prediction that the leverage benefit of Credit Lonnai is the leverage for
 firms with low leverage. The model leverage is not significant for high leverage firms.

G. Robustness tests

We now examine the effect of corporate size. The first set of results examine firm size of financial
 distress and corporate size definition of distress. The second set of results examine the impact of the
 concentration of the difference in the business cycle between Delaware and other states in the industry.
 The time series fixed effect is based on firm headquarters. The last set of results examine the time series
 around the Credit Lonnai ruling from the effect of the state and then the effect of the state. For the effect of the

The graph is based on coefficient estimate from a regression of the daily return on a Delaware
 dummy variable of the leverage and the interaction of the Delaware dummy variable with the leverage portfolio. The
 graph is based on the coefficient estimate

The net impact of changing the time index on Cedi L onnai The
made off the e i be een and ing ea o e be e da a and ogie beha io a adj men ime o
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e amination of ho beha io change o e ime can be p hed a li e f he b e aming he effec
ea b l ea l i g e fo he ea l ea diffen e in in e men be een Dela a e and non
Dela a e fi m i plo ed l i clea ha he e i a ga ad al amp p fo m o b l a e ha
he e l no appa en end One po i b i l i ha he impac of Dela a e a fel onl i h a lag
beca e of adj men co of ome kind e g lag be een planning and implemen a ion
The op ne e a p e en ed in h i ec ion gge ha he effec of Cedi L onnai e e mo
ong fel fo fi m ha appea mo e financiall di e ed and ha he e l a eno pa ic la l
en i l e o he ime indo cho en o e amine he impac of Cedi L onnai Thi ppo he
in e p e a ion of CL a a change in co po a e deci ion making o a d he in e e of cedi o b onl

le e age and a mode increase in a e age firm all e a p rd he ime of anno ncemen. Firm h
 appear d have eaped immediate benefit of lo e agenc co i in he fo m of be e acce p deb a
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If ome of he gain a e a a ing he he e lfa e benefit i lo e ha ha e e ima e of co i. If ma ke
 le e age inc ea e b and a a e a e he a a ing implied a e abo ba i poin of fi m al e o
 abo ba i poin of eq i fo a pical fi m. Thi i mode compa ed o mo of he al a ion e ima e
 p o ided in Table

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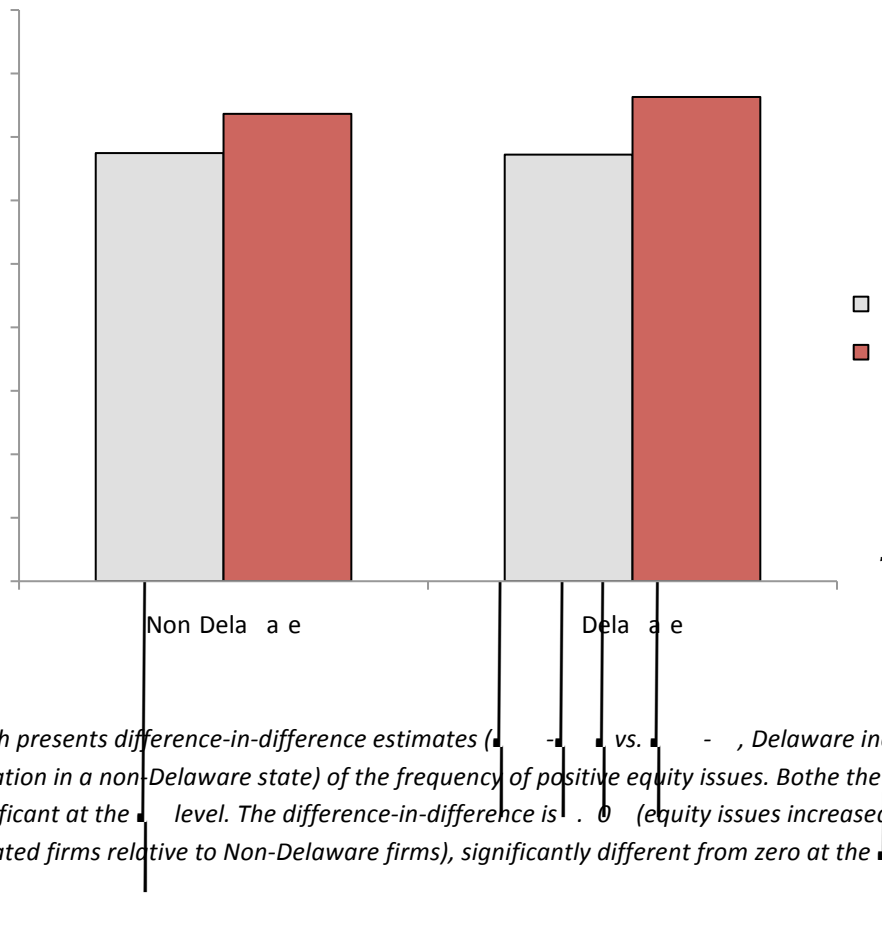
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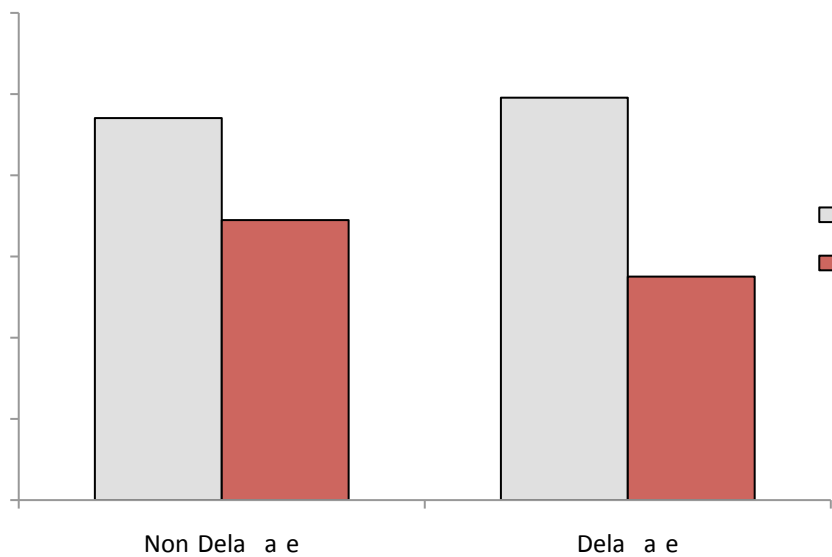
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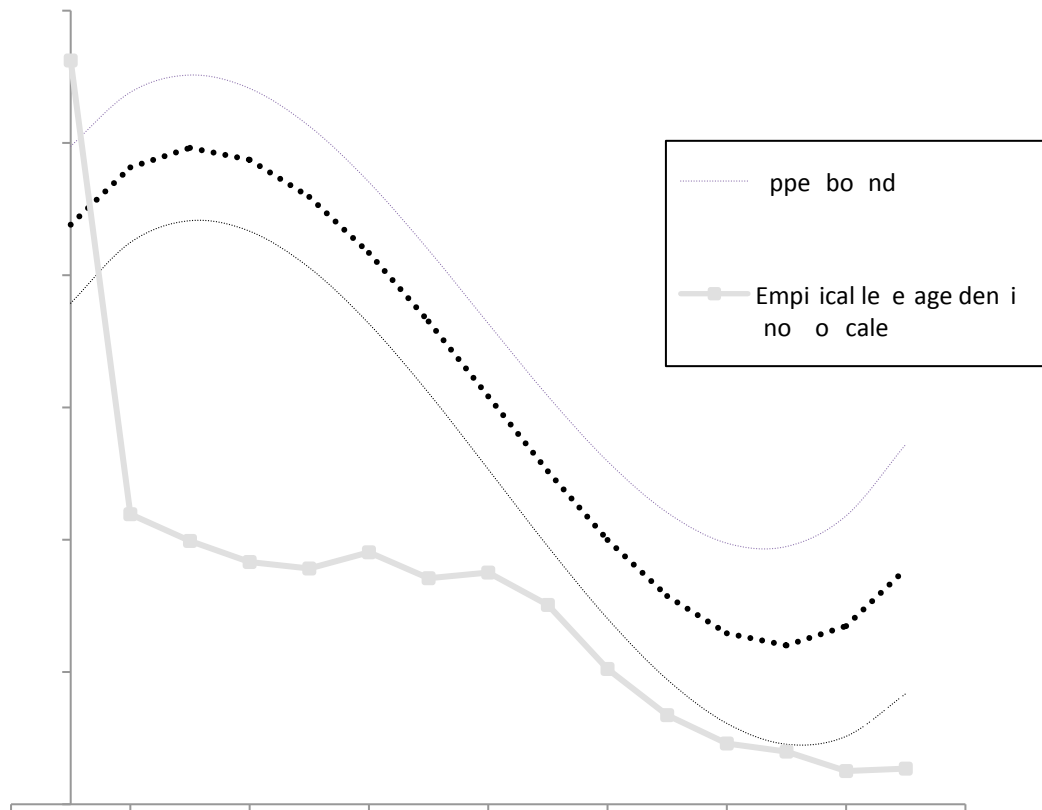
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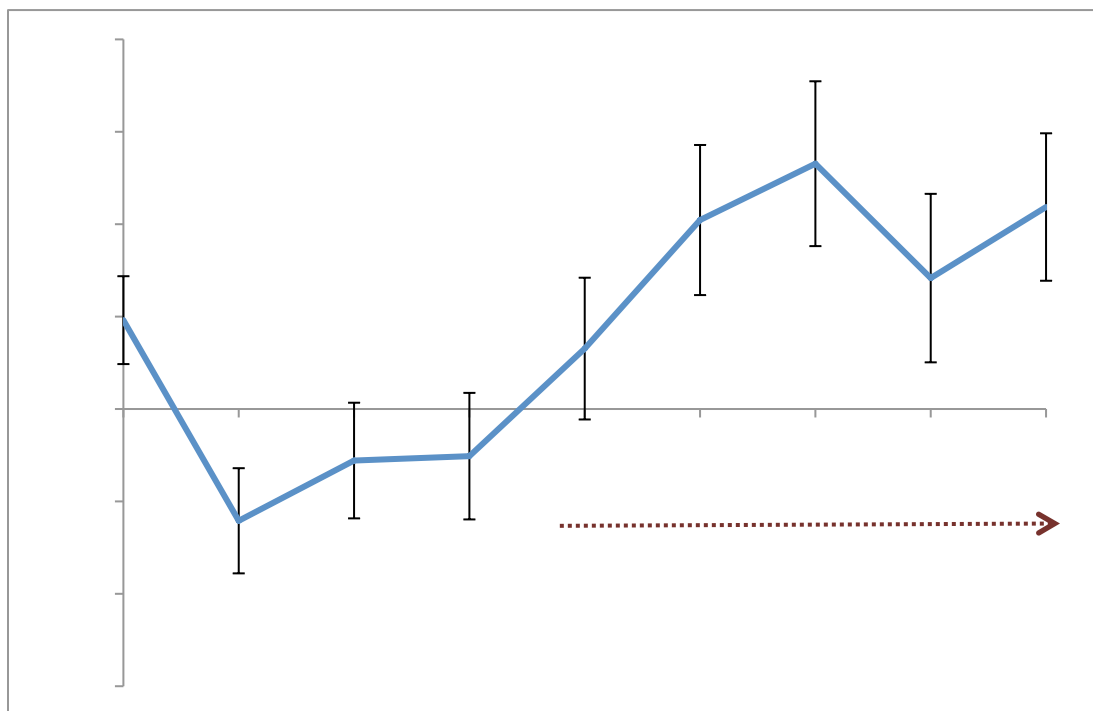
The graph presents difference-in-difference estimates ($\beta_1 - \beta_2$ vs. $\beta_3 - \beta_4$, Delaware incorporation vs. incorporation in a non-Delaware state) of the frequency of positive equity issues. Both the differences are positive and significant at the 5% level. The difference-in-difference is 0.03 (equity issues increased in Delaware incorporated firms relative to Non-Delaware firms), significantly different from zero at the 5% level.



The graph presents difference-in-difference estimates (Non Delaware - Delaware vs. Non Delaware - Delaware, Delaware incorporation vs. incorporation in a non-Delaware state) of the duration of bankruptcies. Bankruptcies are classified based on date of filing. The difference-in-difference is -0.2 months, insignificantly different from zero (p-value = 0.15).



The graph presents a third degree fitted polynomial for value weighted return difference across Delaware and non-Delaware firms for Dec, 0, (the trading day of the Credit Lyonnais v. Pathe Communications ruling), in basis points, by leverage. Leverage is the ratio of long term debt (Compustat items DLC and DLTT) to book assets (Compustat item AT). The average return differential (value weighted) across all firms is basis points. The confidence interval for the regression line is indicated with thin lines. The grey line with markers shows the empirical distribution of leverage.



The graph presents the average difference between Delaware and non-Delaware firms, after firm and year fixed effects and controls, by year, relative to 1999. Vertical bars indicate confidence interval. The dotted line indicates the period after Credit Lyonnais ruling.

	0.0832	0.1001	1,160.7	983.792	803.54	0.0128	0.0873	0.0675	0.1318	0.1757	0.0674	0.1487	0.0299	0.4882	0.3704
	0.1081	0.1004	63.1	61.8025	61.893	0.0000	0.0069	0.0460	0.1007	0.0858	0.0402	0.1247	0.0250	0.4821	0.3306
	0.1485	0.2262	7,236.6	5,203.0	3,950. ^R	0.0317	0.2167	0.0729	0.1210	0.3275	0.0906	0.1036	0.0223	0.2574	0.2591
	51,957	50,163	55,496	55,330	57,357	49,246	46,944	53,813	29,272	28,209	22,784	40,826	46,973	48,991	47,971
	0.0825	0.0953	1,017.6	846.691	714.88	0.0114	0.0970	0.0669	0.1444	0.2042	0.0692	0.1474	0.0302	0.5023	0.3736
	0.0840	0.1048	1,302.1	1,119.2	884.86	0.0141	0.0782	0.0682	0.1196	0.1485	0.0655	0.1510	0.0296	0.4743	0.3672
	1.00	0.557	-0.013	0.058	0.116	0.316	-0.272	0.190	-0.183	-0.350	-0.001	-0.332	-0.352	-0.040	-0.07
		1.000	0.165	0.112	0.113	0.346	-0.230	0.044	-0.209	-0.287	0.011	-0.366	-0.294	-0.108	-0.057
			1.000	0.727	0.555	-0.028	-0.062	-0.072	-0.044	-0.020	-0.001	-0.131	-0.131	0.104	0.109
				1.000	0.678	0.025	-0.096	-0.018	-0.043	-0.035	-0.001	-0.141	-0.155	0.100	0.091
					1.000	0.112	-0.057	0.031	-0.019	-0.021	-0.002	-0.161	-0.149	0.044	-0.018
						1.000	-0.098	0.042	-0.146	-0.083	0.007	-0.194	-0.150	-0.087	-0.131
							1.000	0.028	0.240	0.316	-0.002	0.149	0.320	-0.119	-0.278
								1.000	0.488	0.207	-0.005	-0.082	-0.024	-0.041	-0.110
									1.000	0.554	0.268	0.116	-0.143	-0.143	-0.329
										1.000	0.239	0.105	0.250	-0.154	-0.263
											1.000	0.001	0.390	-0.028	-0.157
												1.000	0.685	0.101	0.130
													1.000	-0.293	-0.363
														1.000	0.768
															1.000

Sample is Compustat firms from 1987 to 1997. Return on assets is EBITDA over assets, return on Sales is EBITDA over Sales, Market Value is number of shares outstanding times end of year share price. Equity issues are calculated as in Baker, Stein and Wurgler (2003): the change in book equity minus the change in retained earnings, divided by assets, and is winsorized, The equity issuer dummy is equal to one if equity issues are at least 1% of assets. Standard deviation is the annualized standard deviation of eight quarterly roa changes (if less than one). Equity volatility is the annualized monthly standard deviation of returns over the last three years (if less than 1). Ass

	Capex / Assets	Capex / Assets > Industry-Year median	Capex + R&D / Assets	Capex + R&D / Sales
	(1)	(2)	(3)	(4)
	Low distance to default	Low distance to default	Low distance to default	Low distance to default
	0.0071 *** (0.0022)	0.0338 ** (0.0127)	0.0073 ** (0.0032)	0.0126 *** (0.0045)
	X	X	X	X
	X	X	X	X
	X	X	X	X
	0.687	0.587	0.811	0.848
	N = 16,270	N = 17,165	N = 8,423	N = 8,438
	20	20	20	20

Each column presents the coefficient estimates from an OLS regression. Firm controls are return on assets, return on sales, the log of assets (book value), the log of sales, the log of equity market value, depreciation over assets, leverage (defined as assets minus equity minus deferred taxes, over assets), and market (defined as assets minus book equity minus deferred taxes, over assets minus book equity plus market equity), two year stock return, and q (capped at 10). Low distance to default is any firm-year for which the log of assets over debt is less than 3.7 times the standard deviation of assets, estimated following Merton (1974). Standard errors are clustered, where clusters are defined by year and whether a firm is incorporated in Delaware.

* significant at 10%; ** significant at 5%; *** significant at 1%

	Dividends/ Assets	Repurchases / Assets	Equity issues/ Assets	Equity issues/ Assets > 0
	(1)	(2)	(3)	(4)
	Low distance to default	Low distance to default	Low distance to default	Low distance to default
	0.0006 ** (0.0002)	-0.0007 * (0.0004)	0.0098 ** (0.0034)	0.0409 ** (0.0163)
	X	X	X	X
	X	X	X	X
	X	X	X	X
	0.737	0.453	0.595	0.416
	N = 19,131	N = 16,179	N = 16,932	N = 16,932
	20	20	20	20

Each column presents the coefficient estimates from an OLS regression. Firm controls are return on assets, return on sales, the log of assets (book value), the log of sales, the log of equity market value, depreciation over assets, leverage (defined as assets minus equity minus deferred taxes, over assets), and market (defined as assets minus book equity minus deferred taxes, over assets minus book equity plus market equity), two year stock price change, and q (capped at 10). Low distance to default is any firm-year for which the log of assets over debt is less than 3.7 times the standard deviation of assets, estimated following Merton (1974). Standard errors are clustered, where clusters are defined by year and whether a firm is incorporated in Delaware.

* significant at 10%; ** significant at 5%; *** significant at 1%

	Volatility of ROA	Equity volatility	Asset volatility	Equity volatility	Asset volatility
	(1)	(2)	(3)	(4)	(5)
	Low distance to default	Low distance to default	Low distance to default	All firms	All firms
	-0.0042 *	-0.0148 ***	-0.0021 ***	-0.0081 ***	-0.0016 ***
	(0.0021)	(0.0030)	(0.0005)	(0.0017)	(0.0002)
	X	X	X	X	X
	X	X	X	X	X
	X	X	X	X	X
	0.822	0.709	0.745	0.750	0.715
	<i>N</i> = 9,391	<i>N</i> = 14,958	<i>N</i> = 17,165	<i>N</i> = 28,704	<i>N</i> = 33,333
	20	20	20	20	20

Each column presents the coefficient estimates from an OLS regression. Firm controls are return on assets, return on sales, the log of assets (book value), the log of sales, the log of equity market value, depreciation over assets, leverage (defined as assets minus equity minus deferred taxes, over assets), and market (defined as assets minus book equity minus deferred taxes, over assets minus book equity plus market equity), two year stock price change, and *q* (capped at 10). Low distance to default is any firm-year for which the log of assets over debt is less than 3.7 times the standard deviation of assets, estimated following Merton (1974). Standard errors are clustered, where clusters are defined by year and whether a firm is incorporated in Delaware.

* significant at 10%; ** significant at 5%; *** significant at 1%

	Leverage	Market leverage	Net debt (book)	Interest cost	Interest cost > 10%
	(1)	(2)	(3)	(4)	(5)
	All firms	All firms	All firms	All firms	All firms
	0.0023 (0.0013)	0.0047 ** (0.0017)	0.0087 *** (0.0022)	-0.0020 ** (0.0008)	-0.0189 ** (0.083)
	-	-	-	X	X
	X	X	X	-	-
	X	X	X	-	-
	X	X	X	X	X
	X	X	X	X	X
	0.875	0.964	0.817	0.551	0.458
	N = 30,485	N = 30,452	N = 29,132	N = 23,216	N = 34,162
	20	20	20	20	20

	Market leverage	Market leverage	Interest cost	Interest cost
	(1)	(2)	(3)	(4)
	High distance to default	Low distance to default	High distance to default	Low distance to default
	0.0073 *** (0.0022)	-0.0010 (0.0008)	-0.0012 (0.0010)	-0.0027 * (0.0013)
	-	-	X	X
	X	X	-	-
	X	X	-	-
	X	X	X	X
	X	X	X	X
	0.955	0.979	0.635	0.599
	N = 15,342	N = 15,110	N = 11,065	N = 12,151
	20	20	20	20

Each column presents the coefficient estimates from an OLS regression. Firm controls are return on assets, return on sales, the log of assets (book value), the log of sales, the log of equity market value, depreciation over assets, leverage (defined as assets minus equity minus deferred taxes, over assets), and market (defined as assets minus book equity minus deferred taxes, over assets minus book equity plus market equity), two year stock price change, and q (capped at 10). Firm controls without leverage is the same set of controls except leverage and market leverage. Low distance to default is any firm-year for which the log of assets over debt is less than 3.7 times the standard deviation of assets, estimated following Merton (1974). Standard errors are clustered, where clusters are defined by year and whether a firm is incorporated in Delaware.

	Raw return		CAPM residuals		Fama French three factor residuals		Raw returns, alternative standard errors	
	EW	VW	EW	VW	EW	VW	EW	VW
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
One day return	60.6 *** (19.5)	41.4 *** (7.0)	40.0 ** (19.7)	24.0 *** (6.8)	33.9 * (19.6)	24.8 *** (6.8)	-	-
Five day return	206 *** (42.1)	55 *** (16.2)	173 *** (41.1)	27.7 * (15.3)	141 * (41.4)	38.1** (15.2)	206 *** (76.3)	55 *** (18.3)

Each column presents the return differential between Delaware and non-Delaware firms around the announcement of the Credit Lyonnais ruling on December, 30, 1991, in basis points. The five day return refers to Dec, 30 and 31, 1991 as well as January, 2, 3 and 5, 1992. EW refers to equal weighted returns, VW to value weighted (using the market value of equity in Dec 1991). CAPM and Fama French three factor residuals refer are based on models estimated in the first eleven months of 1991. In columns (7) and (8), standard errors are calculated from 28 annual observations of the trading days around each year-end (two last d=trading days and there first of the following year) 1980/81-2007/08. T-stats are reported below each return differential.

* significant at 10%; ** significant at 5%; *** significant at 1%

Grouping variable [value for distressed firms]	<hr/>		<hr/>		<hr/>	
	<i>Distressed</i>	<i>Less distressed</i>	<i>Distressed</i>	<i>Less distressed</i>	<i>Distressed</i>	<i>Less distressed</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Distance to default [log(V/D) < 3.7σ]	0.0071***	0.0017	0.0409 **	0.0291 **	-0.0148 ***	-0.0034 ***
Book leverage [D/V > 0.5]	0.0063 ***	0.0017	0.0411 ***	0.0259 **	-0.0081***	-0.0087 ***
Altman's (1968) z-score [z < 2]	0.0116 ***	0.000	0.0490 ***	-0.004	-0.0233 ***	-0.0067 ***

Each cell represents one regression. The columns indicate dependent variables and the Table in which the baseline result for that variable can be found. The Rows indicate the variable along which the sample is split, and the numerical value at which the cutoff is done. Regressions include the same control variables as the corresponding tables. For each regression, only one coefficient is reported: the estimated coefficient for the Delaware* Post 1991 interaction dummy.

* significant at 10%; ** significant at 5%; *** significant at 1%

	Geographic controls			Four year window			Three year window		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Delaware * Post 1991	0.0055 *** (0.0023)	0.0418 *** (0.0180)	-0.0146 *** (0.0030)	0.0067 *** (0.0024)	0.0505 *** (0.0148)	-0.0161 *** (0.0030)	0.0081 *** (0.0266)	0.0581 *** (0.0203)	-0.0166 *** (0.0043)
Firm controls	X	X	X	X	X	X	X	X	X
Year Fixed Effects	-	-	-	X	X	X	X	X	X
Firm Fixed Effects	X	X	X	X	X	X	X	X	X
Year * State Fixed Effects	X	X	X	-	-	-	-	-	-
R-squared	0.701	0.439	0.722	0.694	0.424	0.709	0.727	0.465	0.729
Observations	15,739	16,347	14,900	14,266	14,863	13,123	10,231	10,660	9,830
Number of clusters	20	20	20	16	16	16	249	249	246

The table presents robustness tests of regressions in Tables 2, 3 and 4, with additional controls or shorter windows around 1991. Each column represents one regression, corresponding to the regressions in the Tables above, but with some variation. In the first three columns, fixed effects are included for each year interacted with the HQ state of each firm. In columns four to six, the sample period is restricted to 1988-1995, and in columns seven to nine, to 1989-1994. Standard errors are clustered. In columns one to six, clusters are defined by year and whether a firm is incorporated in Delaware. In columns seven to nine, clusters are defined by state of incorporation times year.

* significant at 10%; ** significant at 5%; *** significant at 1%