Online Appendix for

Director Liability Protection and the Quality of Independent Directors

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This Online Appendix provides additional results that were omitted from the paper for brevity.

Table OA1 Distribution of firm numbers in treatment and control states

This table tabulates the number of firms headquartered in each of the nine states under the jurisdiction of the Ninth Circuit Court (i.e., Washington (WA), Oregon (OR), California (CA), Montana (MT), Idaho (ID), Nevada (NV), Arizona (AZ), Alaska (AK) and Hawaii (HI)) in the propensity score (PS) matched sample (Panel A) and the number of firms in each headquarters state in the propensity score matched sample in the baseline talent recruitment test requiring a firm to have nominated at least one new independent director (ID) in both the pre-event and post-event periods (Panel B).

Panel A: The number of firms in each headquarters state in the PS matched sample

Treatment states	Number of firms	Control states	Number of firms
AK	1	AL	10
AZ	29	AR	4
CA	406	CO	19
HI	5	CT	18
ID	6	DE	1
MT	3	FL	28
NV	20	GA	20
OR	30	IA	3
WA	42	IL	27
Total	542	IN	9
		KS	3
		KY	3
		LA	2
		MA	76
		MD	7
		ME	2
		MI	13
		MN	33
		MO	9
		NC	11
		NE	7
		NH	2
		NJ	31
		NY	51
		OH	24
		OK	7
		PA	26
		RI	1
		SC	4
		SD	2
		TN	8
		TX	49
		UT	5
		VA	13
		VT	2
		WI	11
		WY	1
		Total	542

Panel B: The number of firms in each headquarters state in the PS matched sample in the baseline recruitment test requiring a firm to have recruited at least one new independent director in both the pre-event and post-event periods

Treatment states	Number of firms
AZ	16
CA	175
HI	3
ID	5
MT	3
NV	6
OR	18
WA	16
Total	242

Control states	Number of firms
AL	6
AR	2
CO	11
CT	11
DE	1
FL	15
GA	12
IA	2
IL	17
IN	4
KS	1
KY	1
LA	2
MA	34
MD	6
ME	1
MI	7
MN	16
MO	4
NC	7
NE	4
NJ	15
NY	18
OH	15
OK	5
PA	15
RI	1
SD	1
TN	2
TX	23
UT	3
VA	6
VT	1
WI	4
Total	273

Table OA2 Balance checks before and after propensity score (PS) matching

The matching criteria are based on seven firm characteristics averaged over the pre-event period 1996-1998, namely, *Ln(Market value of equity)*, *Leverage*, *ROA*, *Big-6 auditor*, *Annual return*, Stock return volatility (*Stk volatility*), and *Predicted SCA risk* (see Kim and Skinner (2010) Table 7 model 3). After our initial matching, we also check and confirm in Panels B, C and E that the treatment and control firms exhibit no statistically significant differences for an extended set of firm characteristics beyond the above seven covariates originally used in our matching procedure. The extended set of firm characteristics are comprise of *Ln(Assets)*, sales growth, logged firm market value (*LnMktVal*), institutional ownership, capital expenditures scaled by total assets (*CAPEX*), R&D spending scaled by total assets *(R&D*), and the LLP index measuring director protection under corporate charter/bylaw provisions. The numbers reported in the parentheses are t-statistics in Panel A and standard errors in Panels B, C and E. Statistical significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

Panel A: Probit regression before and after PS matching

	(1)	(2)
	Before Matching	After Matching
Y=	*Treat (0/1)*	
Ave_Ln(Market value of equity)	-0.006	-0.027
	(-0.28)	(-0.83)
Ave_Leverage	-0.790***	0.047
	(-4.71)	(0.22)
Ave_ROA	-0.012	0.016
	(-0.10)	(0.11)
Ave_Big-6 auditor	0.498***	0.221
	(4.32)	(1.36)
Ave_Annual return	-0.109	0.117
	(-1.31)	(1.04)
Ave_Stk volatility	7.816***	-1.810
	(3.59)	(-0.60)
Ave_Predicted SCA risk	12.203***	-0.967
	(7.37)	(-0.44)
Constant	-1.553***	0.008
	(-7.38)	(0.03)
Observations	2,684	1,084
Pseudo R^2	0.066	0.003

Panel B: Comparison of the (mean) firm characteristics in the pre-event period before PS matching

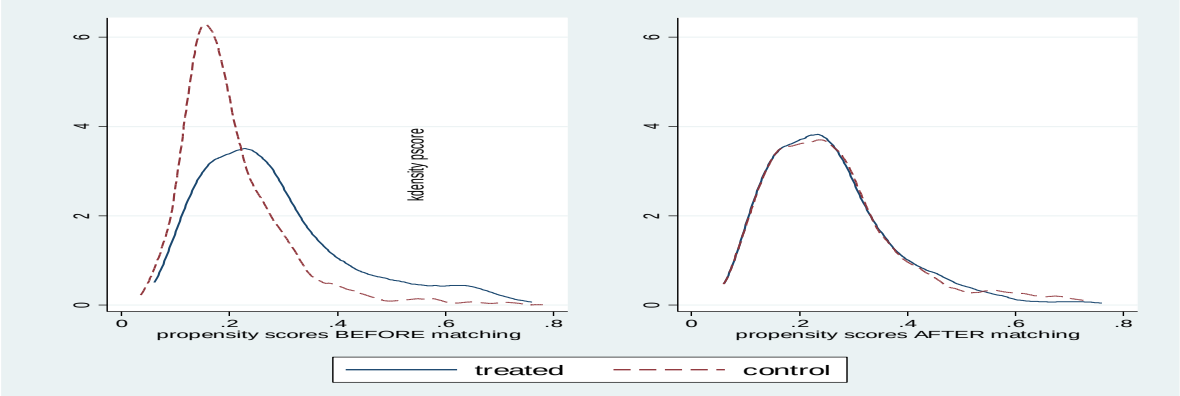
Variables	Control firms (C)	Treatment firms (T)	*t*-statistic of the difference (C – T)
Matching variables			
Ln(Market value of equity)	5.236	5.191	0.53
	(0.043)	(0.074)	
Leverage	0.225	0.164	7.14***
	(0.004)	(0.008)	
ROA	0.114	0.076	2.84***
	(0.005)	(0.012)	
Big-6 auditor	0.887	0.940	-4.53***
	(0.007)	(0.009)	
Annual return	0.142	0.120	1.27
	(0.007)	(0.016)	

Stk volatility	0.038	0.044	-6.97***
	(0.000)	(0.001)	
Predicted SCA risk	0.014	0.024	-8.81***
	(0.000)	(0.001)	
Extended set of firm characteristics			
Ln(Assets)	5.152	4.796	4.20***
	(0.042)	(0.074)	
Sale growth	0.166	0.198	-2.27**
	(0.006)	(0.013)	
LnMktVal	5.723	5.544	2.11**
	(0.043)	(0.073)	
Institutional ownership	0.355	0.345	0.94
	(0.005)	(0.010)	
CAPEX	0.099	0.095	0.96
	(0.002)	(0.003)	
R&D	0.304	0.577	-2.77***
	(0.038)	(0.091)	
LLP index	0.680	0.578	1.66*
	(0.027)	(0.055)	

Panel C: Comparison of the (average) firm characteristics in the pre-event period after PS matching

Variables	Control firms (C)	Treatment firms (T)	*t*-statistic of the difference (C – T)
Ln(Market value of equity)	5.106	5.104	0.02
	(0.083)	(0.076)	
Leverage	0.166	0.169	-0.25
	(0.007)	(0.008)	
ROA	0.062	0.070	-0.48
	(0.013)	(0.013)	
Big-6 auditor	0.914	0.934	-1.33
	(0.011)	(0.010)	
Annual return	0.107	0.128	-0.94
	(0.015)	(0.017)	
Stk volatility	0.044	0.043	0.76
	(0.001)	(0.001)	
Predicted SCA risk	0.020	0.019	0.78
	(0.001)	(0.001)	
Extended set of firm characteristics			
Ln(Assets)	4.780	4.730	0.44
	(0.083)	(0.076)	
Sale growth	0.203	0.201	0.11
	(0.014)	(0.014)	
LnMktVal	5.479	5.471	0.07
	(0.083)	(0.076)	
Institutional ownership	0.332	0.333	-0.07
	(0.010)	(0.010)	
CAPEX	0.095	0.093	0.42
	(0.004)	(0.003)	
R&D	0.664	0.612	0.35
	(0.110)	(0.099)	
LLP index	0.578	0.567	0.14
	(0.051)	(0.057)	

Panel D: Checking validity of the common support condition



Panel E: Comparison of the (average) firm characteristics in the pre-event period for our baseline recruitment test that requires a firm to have recruited at least one new independent director in both the pre-event and post-event periods.

Variables	Control firms (C)	Treatment firms (T)	*t*-statistic of the difference (C – T)
Matching variables			
Ln(Market value of equity)	5.276	5.334	-0.33
	(0.124)	(0.124)	
Leverage	0.166	0.187	-1.28
	(0.010)	(0.013)	
ROA	0.043	0.044	-0.05
	(0.019)	(0.020)	
Big-6 auditor	0.926	0.933	-0.33
	(0.015)	(0.015)	
Annual return	0.116	0.119	-0.08
	(0.023)	(0.025)	
Stk volatility	0.043	0.042	0.96
	(0.001)	(0.001)	
Predicted SCA risk	0.023	0.020	1.39
	(0.001)	(0.001)	
Extended set of firm characteristics			
Ln(Assets)	4.943	4.914	0.16
	(0.126)	(0.129)	
Sale growth	0.222	0.199	0.78
	(0.022)	(0.020)	
LnMktVal	5.639	5.698	-0.34
	(0.125)	(0.125)	
Institutional ownership	0.353	0.348	0.23
	(0.015)	(0.016)	
CAPEX	0.096	0.092	0.56
	(0.006)	(0.005)	
R&D	0.718	0.640	0.36
	(0.159)	(0.145)	
LLP index	0.654	0.656	-0.02
	(0.069)	(0.084)	

Table OA3 Robustness check: OLS regressions on the changes in the quality of newly recruited independent director following the 1999 Court Ruling

This table reports the results from difference-in-differences (DiD) regressions regarding the impact of the 1999 Court Ruling on the quality of newly recruited IDs using OLS estimates. *Qindex* is a simple aggregation of ten director quality indicators (i.e., *Keyexec, S&P 1500, HP_firm, Patents, Multiple_seats, Degree, MBA, Financial, Legal, Industry*). We divide *Qindex* into two components: *Experience* is a simple aggregation of the first five quality indicators reflecting a candidate's experience, and *Credential* is a simple aggregation of the last five director quality indicators reflecting a candidate's background. *Unexposed* is an indicator variable that equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. *Exposed* = 1 - *Unexposed*. *Treat* equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event) and zero otherwise. *Post* equals one for years 1999 to 2002 and zero for years 1996 to 1998. Detailed variable definitions are provided in the Appendix. Estimates are based on OLS regressions with robust standard errors clustered at the headquarters-state level. T-statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Treat* × *Post	0.177	-0.031	0.209**	0.117**	0.091
	(1.46)	(-0.19)	(2.29)	(2.08)	(1.65)
Observations	2,209	2,209	2,209	2,209	2,209
Adjusted R^2	0.124	0.164	0.102	0.074	0.090
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA4 Robustness check with an equal number of treatment and randomly chosen control firms: Effects of the 1999 Court Ruling on the quality of newly recruited independent directors

This table reports the results on a robustness check by using recruitments of new independent directors of a randomly chosen sample of 242 firms out of the 273 control firms shown in Table 1 Panel B as the control firms for the 242 treatment firms. We estimate director-year-level difference-in-differences (DiD) regressions regarding the impacts of the 1999 Court Ruling on the quality of new ID nominees. *Qindex* is a simple aggregation of ten director quality indicators of (i.e., *Keyexec, S&P 1500, HP_firm, HI_patents, Multiple_seats, Degree, MBA, Financial, Legal, Industry*). *Qindex* has two components: *Experience* is a simple aggregation of the first five quality indicators reflecting a candidate's experience, and *Credential* is a simple aggregation of the last five director quality indicators reflecting a candidate's background. *Unexposed* is an indicator variable that equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. *Exposed* = 1 - *Unexposed. Treat* is an indicator that equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event). *Post* is an indicator variable that equals one for years 1999 to 2002 and zero for years 1996 to 1998. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T-statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

Panel A: Regression DiD

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Treat* × *Post	0.084**	-0.022	0.316***	0.431***	0.260***
	(2.08)	(-0.26)	(3.32)	(2.75)	(3.05)
Observations	2,072	1,796	1,820	1,542	1,691
Pseudo R^2	0.096	0.163	0.133	0.100	0.119
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Panel B: Dynamic DiD estimations

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
$Treat \times Pre\ (-3)$	-0.050	-0.064	-0.111	-0.144	-0.097
	(-0.61)	(-0.54)	(-0.51)	(-0.61)	(-0.37)
$Treat \times Pre\ (-2)$	-0.038	-0.123	0.071	0.383	-0.134
	(-0.58)	(-0.85)	(0.38)	(1.44)	(-0.50)
Treat* × *Post (0)	0.106	-0.147	0.578***	0.617**	0.547**
	(1.23)	(-1.11)	(3.65)	(2.51)	(2.49)
Treat* × *Post (1)	0.009	-0.037	0.093	0.356	-0.065
	(0.12)	(-0.22)	(0.56)	(1.57)	(-0.38)
Treat* × *Post (2)	-0.006	-0.207	0.434**	0.864***	0.199
	(-0.06)	(-0.95)	(2.34)	(3.92)	(0.91)
Treat* × *Post (3)	0.163*	0.131	0.254**	0.352**	0.218
	(1.88)	(0.92)	(2.03)	(2.03)	(1.46)
Observations	2,072	1,796	1,820	1,542	1,691
Pseudo R^2	0.096	0.164	0.135	0.102	0.121
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA5: The sample for the tests using adjacent states in Table 4

This provides the before-matching list of the number of firms headquartered in the seven states under the jurisdiction of the Ninth Federal Circuit Court of Appeals excluding Alaska and Hawaii which are states off the US mainland and a set of control firms headquartered in five adjacent states of North Dakota (ND), South Dakota (SD), Wyoming (WY), Utah (UT), and New Mexico (NM).

Treated states	Num of firms	Control states	Num of firms
AZ	16	ND	2
CA	175	SD	3
ID	5	WY	1
MT	3	UT	15
NV	6	NM	3
OR	18	Total	24
WA	16		
Total	239		

Table OA6: Placebo tests using adjacent states as the pseudo-treatment states

This table present results from placebo tests in which we artificially assign the states adjacent to the states within the jurisdiction of the Ninth Circuit Court as pseudo-treatment states, which include North Dakota (ND), South Dakota (SD), Wyoming (WY), Utah (UT), and New Mexico (NM). We define firms that are headquartered in these pseudo-treatment states in year 1998 (the year before the 1999 Ninth Circuit Court Ruling) as pseudo-treatment firms, which are denoted by the indicator variable *Pseudo_Treat* =1. We then incorporate *Pseudo_Treat* ×*Post* in our baseline DiD regression to have placebo tests on these pseudo-treatment firms, and conduct a horserace with the change in the quality of newly recruited independent directors in real treatment firms. In the DiD regressions, the control group comprises firms that are headquartered in non-Ninth-Circuit-Court states and are not adjacent to the Ninth-Circuit-Court states. *Treat* is an indicator that equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event). *Post* is an indicator variable that equals one for years 1999 to 2002 and zero for years 1996 to 1998. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T-statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Pseudo_Treat* × *Post	0.099	0.332	-0.071	0.082	-0.169
	(1.11)	(1.42)	(-0.43)	(0.36)	(-0.53)
Treat* × *Post	0.072*	-0.009	0.257***	0.379**	0.197**
	(1.80)	(-0.10)	(2.60)	(2.52)	(2.20)
Observations	2,278	1,976	2,008	1,691	1,870
Pseudo R^2	0.092	0.158	0.132	0.102	0.118
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA7 Robustness check: Changes in the quality of newly recruited independent directors following the 1999 Court Ruling controlling for a state's business and political environment

This table reports the results from difference-in-differences (DiD) regressions regarding the impact of the 1999 Court Ruling on the quality of new independent director nominees after controlling for a state's one-period lagged business and political environment. *Ln (GDP per capita)* is the natural logarithm of the GDP per capita of a state-year, and is obtained from the Bureau of Economic Analysis. *Ln (Population)* is the natural logarithm of the population of a state-year. *State unemployment rate* (*%*) is the unemployment rate in a state-year, and is obtained from the U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, and Current Population Survey. *Ln* (*# of incorp. firms*) is the natural logarithm of the number of firms incorporated in a state. *Republican control* is an indicator that equals one if a state's two chambers of the legislature and the governor's office are controlled by the Republican, and zero otherwise; the data are obtained from the Carl Klarner Dataverse (Harvard University). *Qindex* is a simple aggregation of ten director quality indicators (i.e., *Keyexec, S&P 1500, HP_firm, Patents, Multiple_seats, Degree, MBA, Financial, Legal, Industry*). We divided *Qindex* into two components, *Experience* is a simple aggregation of the first five experience-based director quality indicators, and *Credentials* is a simple aggregation of the second five background-based director quality indicators. *Unexposed* is an indicator variable that equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. *Exposed* = 1 - *Unexposed*. *Treat* equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event) and zero otherwise. *Post* equals one for years 1999 to 2002 and zero for years 1996 to 1998. Detailed variable definitions are provided in the Appendix. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T-statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Treat* × *Post	0.080*	0.024	0.235**	0.303**	0.202**
	(1.75)	(0.27)	(2.46)	(2.15)	(2.16)
Age>65 (0/1)	-0.283***	-0.143	-0.515***	-0.839***	-0.387***
	(-2.88)	(-0.89)	(-5.47)	(-6.59)	(-3.62)
Female (0/1)	-0.012	-0.118	0.231***	0.272**	0.205**
	(-0.33)	(-1.49)	(2.79)	(2.28)	(2.21)
LnCashPay	0.008	-0.003	0.026	0.058*	0.009
	(1.50)	(-0.21)	(1.54)	(1.80)	(0.57)
StkPay (0/1)	-0.033	-0.059	-0.028	-0.003	-0.049
	(-0.53)	(-0.40)	(-0.16)	(-0.01)	(-0.24)
LnMktVal	-0.030	0.103**	-0.190***	-0.249***	-0.161***
	(-1.48)	(2.58)	(-3.37)	(-3.13)	(-2.83)
Leverage	0.068	-0.297	0.520***	0.155	0.688***
	(0.60)	(-1.32)	(3.52)	(0.54)	(4.32)
Stk volatility	-0.028	-0.076	0.023	-0.135	0.086
	(-0.45)	(-0.52)	(0.16)	(-0.73)	(0.57)
Ln (GDP per capita)	0.286	-0.222	1.083	0.602	1.382
	(0.61)	(-0.22)	(0.96)	(0.46)	(1.16)
Unemployment (%)	0.026	0.072	-0.061	-0.055	-0.066
	(0.79)	(1.28)	(-0.83)	(-0.49)	(-0.99)
Ln (Population)	-0.052	0.071	-0.148	0.137	-0.264
	(-0.38)	(0.21)	(-0.64)	(0.47)	(-1.09)
Ln (# of incorp. firms)	0.024	-0.112	0.152	0.028	0.194
	(0.20)	(-0.57)	(0.91)	(0.10)	(1.23)
Republican control	0.071	0.237*	-0.091	-0.216	-0.029
	(1.59)	(1.83)	(-0.68)	(-0.89)	(-0.24)
Observations	2,195	1,911	1,933	1,639	1,802
Pseudo R^2	0.093	0.158	0.133	0.101	0.120
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA8 Robustness check: Effects of the 1999 Court Ruling on the quantity of newly recruited unexposed independent director candidates at a firm

This table reports the results from firm-year-level difference-in-differences (DiD) regressions regarding the impacts of the 1999 Court Ruling on the total quantity of newly recruited unexposed independent director candidates. Column (1) reports the result for the full recruiting sample, and Column (2) reports the result for the non-classified-board subsample. We also count the number of old and female candidates among all the newly recruited independent directors (IDs) in the year (denoted as *Age>65* and *Female*, respectively). *Number of Unexposed* is the count of new ID nominees who do not serve as a director or a key executive in any public firm at the time of nomination. *Treat* is an indicator that equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event). *Post* is an indicator variable that equals one for years 1999 to 2002 and zero for years 1996 to 1998. Detailed variable definitions are provided in the Appendix. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T- statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)
Y= *Number of Unexposed*	*All boards*	*Non-classified boards*
Treat × *Post*	0.149*	0.235**
	(1.68)	(2.06)
Observations	1,373	700
Pseudo R^2	0.111	0.116
Controls in Table 2	YES	YES
Firm FE	YES	YES
Year FE	YES	YES

Table OA9 Robustness check: Changes in the quality of newly recruited independent directors following the 1999 Court Ruling (excluding firms incorporated in states adopted Universal Demand Laws before 2003)

This table reports the results from difference-in-differences (DiD) regressions regarding the impact of the 1999 Court Ruling on the quality of newly recruited IDs after excluding firms that are incorporated in a state that adopted the Universal Demand (UD) law before 2003 which is the last year of our sample period. This exclusion ensures that our sample firms are not affected by the previous passage of the UD law. Specifically, we exclude firms incorporated in the state of "GA", "MI", "FL", "WI", "MT", "UT", "VA", "MS", "NH", "NC", "AZ", "NE", "CT", "ME", "PA", "TX", "WY", "ID" and "HI". *Qindex* is a simple aggregation of ten director quality indicators (i.e., *Keyexec, S&P 1500, HP_firm, Patents, Multiple_seats, Degree, MBA, Financial, Legal, Industry*). We divide *Qindex* into two components: *Experience* is a simple aggregation of the first five quality indicators reflecting a candidate's experience, and *Credential* is a simple aggregation of the last five director quality indicators reflecting a candidate's background. *Unexposed* is an indicator variable that equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. *Exposed* = 1 - *Unexposed*. *Treat* equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event) and zero otherwise. *Post* equals one for years 1999 to 2002 and zero for years 1996 to 1998. Detailed variable definitions are provided in the Appendix. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T-statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Treat* × *Post	0.050	-0.049	0.264***	0.444***	0.168*
	(1.13)	(-0.55)	(2.81)	(3.11)	(1.74)
Observations	1,972	1,741	1,731	1,465	1,619
Pseudo R^2	0.093	0.161	0.129	0.100	0.118
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA10 Robustness check: Changes in the quality of newly recruited independent directors following the 1999 Court Ruling controlling for stock valuation

This table reports the results from difference-in-differences (DiD) regressions regarding the impact of the 1999 Court Ruling on the quality of newly recruited independent directors after controlling for a firm's stock valuation proxied by the M/B ratio. M/B is the ratio of market value of equity to book value of equity. *Qindex* is a simple aggregation of ten director quality indicators (i.e., *Keyexec, S&P 1500, HP_firm, Patents, Multiple_seats, Degree, MBA, Financial, Legal, Industry*). We divided *Qindex* into two components, *Experience* is a simple aggregation of the first five experience-based director quality indicators, and *Credential* is a simple aggregation of the second five background-based director quality indicators. *Unexposed* is an indicator variable that equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. *Exposed* = 1 - *Unexposed*. *Treat* equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event) and zero otherwise. *Post* equals one for years 1999 to 2002 and zero for years 1996 to 1998. Detailed variable definitions are provided in the Appendix. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T- statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Treat* × *Post	0.068*	-0.012	0.258***	0.353**	0.215**
	(1.68)	(-0.15)	(2.63)	(2.35)	(2.38)
M/B	-0.002	0.000	-0.003	-0.022***	0.005
	(-0.97)	(0.00)	(-0.68)	(-2.98)	(1.13)
Observations	2,207	1,917	1,939	1,645	1,806
Pseudo R^2	0.093	0.158	0.132	0.103	0.119
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA11 Robustness check: Changes in the quality of newly recruited independent directors following the 1999 Court Ruling after excluding Hi-tech firms

This table reports the results from difference-in-differences (DiD) regressions regarding the impact of the 1999 Court Ruling on the quality of newly recruited independent directors after excluding high-technology companies that were affected by the Internet bubble in early 2000s. Following Yang et al. (2021), we define high-technology manufacturing companies as firms operating in electronic, computer, and pharmaceutical industries. *Qindex* is a simple aggregation of ten director quality indicators (i.e., *Keyexec, S&P 1500, HP_firm, Patents, Multiple_seats, Degree, MBA, Financial, Legal, Industry*). We divide *Qindex* into two components: *Experience* is a simple aggregation of the first five quality indicators reflecting a candidate's experience, and *Credential* is a simple aggregation of the last five director quality indicators reflecting a candidate's background. *Unexposed* is an indicator variable that equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. *Exposed* = 1 - *Unexposed*. *Treat* equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event) and zero otherwise. *Post* equals one for years 1999 to 2002 and zero for years 1996 to 1998. Detailed variable definitions are provided in the Appendix. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T-statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Treat* × *Post	0.050	-0.048	0.263**	0.284*	0.254**
	(1.05)	(-0.51)	(2.12)	(1.83)	(2.02)
Observations	1,712	1,466	1,493	1,262	1,388
Pseudo R^2	0.093	0.149	0.128	0.102	0.116
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA12 Robustness check: Changes in the quality of newly recruited independent directors following the 1999 Court Ruling after excluding the effect of the passage of the 2002 SOX Act

This table reports the results from difference-in-differences (DiD) regressions regarding the impact of the 1999 Court Ruling on the quality of newly recruited IDs after excluding observations in 2002. *Qindex* is a simple aggregation of ten director quality indicators (i.e., *Keyexec, S&P 1500, HP_firm, Patents, Multiple_seats, Degree, MBA, Financial, Legal, Industry*). We divided *Qindex* into two components: *Experience* is a simple aggregation of the first five quality indicators reflecting a candidate's experience, and *Credential* is a simple aggregation of the last five director quality indicators reflecting a candidate's background. *Unexposed* is an indicator variable that equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. *Exposed* = 1 - *Unexposed*. *Treat* equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event) and zero otherwise. *Post* equals one for years 1999 to 2002 and zero for years 1996 to 1998. Detailed variable definitions are provided in the Appendix. Estimates are based on Poisson regressions with robust standard errors clustered at the headquarters-state level. T- statistics are reported in parentheses. Significance at the 10%, 5% and 1% levels (two-tailed) are indicated by *, ** and ***, respectively.

	(1)	(2)	(3)	(4)	(5)
Y=	*Qindex*	*Qindex*× *Exposed*	*Qindex*× *Unexposed*	*Experience*× *Unexposed*	*Credential*× *Unexposed*
Treat* × *Post	0.057	-0.021	0.234**	0.370**	0.168
	(1.26)	(-0.22)	(2.00)	(2.24)	(1.54)
Observations	1,871	1,593	1,623	1,322	1,480
Pseudo R^2	0.104	0.160	0.132	0.103	0.108
Controls in Table 2	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Table OA13 Robustness check: Results from the Heckman selection procedure

This table presents the two-step Heckman selection model estimates. *RouteNum*, the instrument in the first stage, represents the total count of unique airline routes for airports in the same city as a firm's headquarters and at nearby airports that are within a 60-mile radius of a firm's headquarters as of the beginning of each year. Column (1) shows the first-stage regression results using a Probit model with *Unexposed* as the dependent variable, which equals one if an ID nominee does not serve as a director or a key executive in any public firm at the time of nomination. Please see *Keyexec(0/1)* for the definition of key executives. Column (2) reports second-stage estimation results for the quality of exposed new directors, incorporating the inverse Mills ratio (*IMR*) derived from the first stage in which *Exposed* is the dependent variable. Columns (3)-(5) display the second-stage estimation results for the quality of unexposed new directors, including the inverse Mills ratio (*IMR*) derived from the first stage in which *Unexposed* is the dependent variable. *Qindex* aggregates ten director quality indicators, which we split into *Experience* (first five) and *Credentials* (second five). *Treat* equals one if a firm is headquartered in one of the nine states within the jurisdiction of the Ninth Circuit Court of Appeals in 1998 (the year before the ruling event) and zero otherwise. *Post* equals one for years 1999 to 2002 and zero for years 1996 to 1998. Second-stage estimates are based on Poisson regressions, with robust standard errors clustered at the headquarters-state level. T-statistics are shown in parentheses; *, **, *** denote significance at 10%, 5%, and 1% levels, respectively. Variable definitions are detailed in the Appendix.

	(1)	(2)	(3)	(4)	(5)
	First Stage	Second Stage			
Y=	*Unexposed*	*Qindex× Exposed*	*Qindex× Unexposed*	*Experience× Unexposed*	*Credentials× Unexposed*
RouteNum	-0.002**				
	(-2.06)				
Treat × Post	0.189**	0.435***	0.396***	0.484**	0.349*
	(2.09)	(3.72)	(2.64)	(2.19)	(1.70)
LnCashPay	-0.014*	-0.027***	-0.003	0.038	-0.025
	(-1.90)	(-3.24)	(-0.18)	(1.46)	(-1.14)
StkPay (0/1)	-0.257**	-0.310**	-0.604**	-0.674**	-0.574*
	(-2.13)	(-2.24)	(-2.38)	(-2.33)	(-1.69)
LnMktVal	-0.167***	-0.283***	-0.398***	-0.459***	-0.364**
	(-6.68)	(-2.72)	(-2.93)	(-2.64)	(-2.17)
Leverage	0.291**	0.416**	0.769***	0.543	0.874***
	(2.57)	(2.27)	(3.67)	(1.33)	(2.93)
Stk volatility	0.069	-0.019	0.216*	0.155	0.243*
	(0.94)	(-0.27)	(1.75)	(0.89)	(1.72)
Age>65 (0/1)		-0.315***	-0.394***	-0.570***	-0.336***
		(-3.57)	(-2.99)	(-3.03)	(-2.68)
Female (0/1)		-0.042	0.021	0.078	-0.024
		(-1.01)	(0.41)	(0.59)	(-0.43)
Treat	-0.164				
	(-1.64)				
IMR		-2.388**	3.337**	3.449*	3.246*
		(-2.52)	(2.42)	(1.81)	(1.90)
Observations	2,218	947	1,018	907	984
Pseudo R^2	0.083	0.078	0.099	0.087	0.102
Firm FE	NO	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES