Online Appendix to "Regulatory Competition and the Market for Corporate Law"

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This Online Appendix provides additional descriptions of the data, a detailed legal analysis of the legal indices and their construction, and robustness results. Section 1 describes the data. Section 2 discusses in detail the legal indices. Section 3 contains a discussion of the effects of corporate law. Section 4 compares the rational inertia model to alternative models that do not include the inertia element. Section 5 shows that the state fixed effects estimated in the main specifications are correlated with proxies for states' courts' quality and legislatures' responsiveness to business needs. Section 6 presents several robustness tests, including: (1) estimation results for a specification of our model that includes the combined LP index; (2) an alternative specification of the probability of choosing that directly links the costs of choosing to firm characteristics; (3) specifications without fixed effects; and (4) specifications that include as control the distance between a firm's headquarters and state of incorporation. References to sections and tables refer to this Online Appendix unless it is stated that they refer to sections or tables in the article.

1 Data on Firm Incorporations

In this section we describe the construction of the data on incorporations. The state

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of incorporation is available on Compustat, but does not include historical data. Historical data is available on two main databases: SEC Analytics and Compustat Point in Time. However, each of these seems to have a large number of inaccuracies. SEC Analytics sources the information directly from SEC documents available from 1994, but it extracts the state of incorporation from the filing sheet rather than the document itself. The filing sheets are not updated in a timely fashion - very often they are updated three to four years after the actual reincorporation. For similar problems with SEC Analytics, see Heider and Ljungqvist (2015). Compustat Point in Time includes observations that extend to 1990 and firms with no public documents available on SEC Edgar website. However, this database appears to have a sizable number of mistakes manifested by the presence of firms that supposedly reincorporate several times within a short time frame; many of these mistakes cannot be corrected when public documents are not available, especially before 1994. Barzuza and Smith (2014) seem to address this problem by collecting data on reincorporations from Mergent, but Mergent includes only data from 2000, and does not identify other mistakes in Compustat that can only be detected by inspecting disclosure documents.

To address these problems, we create a new database by parsing data from over two million public documents available on SEC Edgar website. The parsing program sources the state of incorporation and the state of headquarters directly from the regular expressions on 10-Ks, 10-Qs and 8-Ks. In contrast to the filing sheets, the regular expressions are almost invariably accurate. We merge the parsed data with firm level data from Compustat. We further check manually (a) all firms where the parsing failed to identify the state from the document, (b) firms that had more than one reincorporation on the basis of the parsed data, and are therefore more likely to be mistakes, and (c) where there is a discrepancy with Compustat data in the last year of the database (i.e., 2013) when Compustat is supposed to be accurate. Finally, on sampling 200 reincorporations, we find no mistakes. Therefore, we have reasonable assurance that the database is highly accurate.

Table A1 presents descriptive statistics with respect to each state's market share of

incorporations in 2013, including (a) each state's market share for all firms in the sample, (b) each state's market share for firms that incorporate out of the state where their headquarters are located, and (c) each state's retention rate, computed as the ratio of the number of locally headquartered firms incorporated in the state to the number of firms headquartered in that state. Although Delaware and Nevada are the most popular incorporation venues, almost 10 percent of the firms in the database (870 firms and 5,768 firm-year observations) choose at some point to incorporate out-of-state, but not in Delaware or Nevada. Table A2 shows a summary of the reincorporations we observe in our sample.

2 Laws' Characteristics

A. Anti-takeover statutes

In our main specification, we rely on the anti-takeover statutes ("ATS") index developed by Bebchuk and Cohen (2003) that counts the number of anti-takeover statutes in each state. Each state gets a score from 0 to 5 if it has one or more of the following statutes: constituency provisions, business combination statutes, control share statutes, fair price statutes, and poison pill validation laws. In Table A3 we describe the anti-takeover statutes, which are included in the *ATS* index discussed in section 1.B of the article. We note that consistent with other studies, we do not include in the index idiosyncratic statutes that impede takeovers[1] or alternatively seek to facilitate them by placing restrictions on anti-takeover defenses.[2]

[1]For example, California's Corporation Code prohibits a cash-out merger of minority shareholders in a controlled corporation unless the controlling shareholder owns at least 90 percent of the shares, the merger is approved by a California governmental agency, or shareholders approve the merger unanimously. Cal. Corp. Code §§1101.

[2]See North Dakota Publicly Traded Corporations Act, N.D. Cent. Code ch. 10-35 (2007), which requires, *inter alia*, shareholder approval for the adoption of poison pills.

B. Alternative Measures of Anti-takeover laws

As an alternative measure of anti-takeover laws, we use a dummy variable for poison pill statutes. The essence of such statutes is that they not only allow the board to adopt a poison pill, but they also protect the pill from judicial review. To be sure, many states, including Delaware, have case law that validates poison pills.[3] However, Delaware, as well as other states that follow it, subject the pill to some level of judicial scrutiny. In particular, under the *Unocal* standard, a poison pill is valid only if managers can show that there is a threat to their firm's policy and that the defensive measure in question is proportional to the threat posed.[4] Moreover, under the *Revlon* decision, if a sale or break-up of the company is inevitable, the board is obligated to pick the highest bid for shareholders.[5] This level of scrutiny does not generally apply when a state has a poison pill statute (Barzuza, 2009).

To be sure, there is disagreement as to whether the standard of review under *Unocal/Revlon* remains significant following the *Unitrin* decision,[6] which held that a poison pill was valid because the bidder's chance of winning a proxy contest was not "mathematically impossible" or realistically unattainable. Whereas some believe that the decision made poison pills in Delaware largely immune to challenge (e.g., Bebchuk and Jackson, 2014), others argue that Delaware's standard of review remains an important constraint on managerial power to defend bids (e.g., Romano, 1993; Barzuza, 2009). The view that poison pill statutes matter is also supported by an Oklahoma Supreme Court case which held that shareholders of Oklahoma corporations may propose bylaws that restrict directors' implementation of poison pills, noting that had Oklahoma enacted a poison pill statute, it would have found the proposed bylaw invalid.[7]

We note that the poison pill statutes of two states, New York and North Carolina,

[3] *Moran v. Household Int'l, Inc.*, 500 A.2d 1346 (Del. 1985).
[4] *Unocal Corp. v. Mesa Petroleum Co.*, 493 A.2d 946 (Del. 1985).
[5] *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc.*, 506 A.2d 173 (Del.1986).
[6] *Amanda Acquisition Corp. v. Universal Foods Corp.*, 877 F.2d 496 (1989).
[7] See *Int'l Bhd. of Teamsters Gen. Fund v. Fleming Cos.*, 975 P.2d 907 (Okla. 1999).

validate the use of poison pills, but expressly subject them to judicial review. However, North Carolina also has a statute that provides that courts will apply the business judgment rule in reviewing anti-takeover tactics, including poison pills. New York has case law that rejects the applicability of the *Unocal/Revlon* standards of review to standard defensive tactics (see Barzuza, 2009). Accordingly, challenges to standard poison pills in these states are not subject the standard of review which is applicable to Delaware corporations.

Although the poison pill is the most prominent anti-takeover device, it is not completely fatal to a bid. In principle, the bidder may conduct a proxy fight to replace the incumbent board before the pill threshold is triggered. This strategy, however, is unlikely to succeed in two main circumstances. First, some states permit the use of an extreme form of poison pill known as a "dead hand" pill. A dead hand pill cannot be redeemed even by a new board of directors, thereby making the pill impossible to redeem by replacing the board. Two states, Maryland and Virginia, have adopted poison pill statutes that validate dead hand poison pills.[8] Likewise, two states, Pennsylvania and Georgia, have case law that validates dead hand pills.[9] By contrast, Delaware courts take seriously any interference with shareholders' voting rights in the context of defending a bid,[10] and they have expressly rejected the validity of dead hand pills under Delaware law.[11]

Accordingly, we use a dummy, *Dead Hand*, for states that have statutes or case law that validate a dead hand pill. We view this as an interaction term because all states that have validated a dead hand pill also have a poison pill statute. This is consistent with the view that a poison pill statute makes it more likely that courts will uphold dead hand pills (Barzuza, 2009).[12]

[8]Md. Code Ann., Corps. & Ass'ns § 2-405.1(d); Va. Code Ann. § 13.1-727.1

[9]*Invacare Corp. v. Healthdyne Techs., Inc.*, 968 F. Supp. 1578, 1580-81 (N.D.Ga. 1997); *AMP Inc. v. Allied Signal, Inc.*, No. CIV. A. 98-4405, CIV. A. 98-4058, CIV. A. 98-4109, 1998 WL 778348 (E.D. Pa. Oct. 8, 1998).

[10]Pursuant to the *Blasius* case, managers may not use defensive tactics that interfere with shareholder voting rights in elections of directors unless they can show a compelling justification; *Blasius Industries, Inc. v. Atlas Corp.* 564 A.2d 651 (Del.Ch. 1988).

[11]*Quickturn Design Systems, Inc. v. Shapiro*, 721 A.2d 1281 (Del. 1998).

[12]Other than Delaware, the only other state that has invalidated a dead hand pill is New York;

Second, if a firm has a staggered board, replacing the board can take several years and therefore a bid is more likely to fail (Bebchuk, Coates and Subramanian, 2002). A staggered or classified board is a practice in which a fraction (typically, one third) of the members of the board of directors is elected each year instead of the entire board standing for election. When the board is staggered, it could take more than a year before the bidder succeeds in replacing the target board. All states, including Delaware, allow firms to adopt staggered boards. However, a few states have adopted statutes requiring firms incorporated in the state to have staggered boards. Until recently, only Massachusetts had such a statutory provision.[13] More recently Indiana enacted such a law in 2009,[14] Oklahoma in 2010,[15] and Iowa in 2011.[16] In addition, one state, Maryland, allows the board to adopt a staggered board even if contrary to the firm's charter.[17] While some of these statutes allow firms to opt out the requirement to adopt staggered boards, as pointed out by Subramanian (2004), firms rarely opt out of anti-takeover laws that benefit managers. Thus, these laws seem to constitute a particularly strong form of anti-takeover statutes. Accordingly, to account for these statutes, we also use a dummy, *Extreme*, which is identical to *Dead Hand*, except that it is also set to one for states that have laws that impose staggered boards, or allow their adoption even if contrary to the charter.

In comparing Delaware to Nevada, we find that Nevada's laws are again more protective than Delaware's because Nevada has a poison pill statute. However, Nevada does not seem to permit dead hand pills and does not impose staggered boards,[18] and hence does not rank

see *Bank of N.Y. Co. v. Irving Bank Corp.*, 528 N.Y.S.2d 482 (N.Y. Sup. Ct. 1988). Although New York has a poison pill statute, as explained above, its statute subjects poison pills to judicial review.

[13]Mass. Ann. Laws ch. 156D, § 8.06

[14]Ind. Code Ann. § 23-1-33-6.

[15]Okla. Stat. Ann. tit. 18, § 1027

[16]Iowa Code § 490.806A

[17]Md. Code Ann., Corps. & Ass'ns § 3-803.

[18]It is noteworthy though that Nevada allows firms to stagger their boards over a term of four years, rather than three years. This arguably makes it harder to acquire control in Nevada firms; see Nev. Rev. Stat. Ann. § 78.330.

as the most protectionist state in this respect.[19]

Finally, we also conduct tests where we take into account the standards of review that each state has applied to the poison pill over time, following the analysis of Barzuza (2009). Our results are robust to this specification, but for simplicity we do not include them. We note, moreover, that the estimation with respect to *Dead Hand* and *Extreme* is likely to be relatively noisy because there is little cross-sectional and time-series variation in these variables.

C. Director and Officer Protection

Laws on exemption and indemnification differ along several dimensions. First, the standard of liability for which directors and officers can be exempted or indemnified differs from one state to another (see DeMott, 1988). The statutes of Delaware and many other states allow firms to exempt directors only if they acted in "good faith".[20] Some statutes, such as Delaware's, expressly prohibit firms from exempting directors from monetary liability for breaching the duty of loyalty. In any case, the "good faith" requirement has been interpreted to have this effect, and to allow exemption only from the duty of care (Romano, 1990; Strine et al., 2010; Fleischer and Sussman, 2015). The duty of care requires managers to act in the same manner as a reasonably prudent person in their position would. It is generally associated with a gross negligence standard or sustained inattention. There are very few cases where courts found directors or officers to be liable for breaching their duty of care. The reason is that managers are protected by the business judgment rule, which stands for the principle that courts will not second-guess the business judgment of corporate managers and will find the duty of care has been met so long as the fiduciary executed a reasonably informed, good faith, rational judgment without the presence of a conflict of interest. Few

[19] Although Nevada has a a statute that imposes business judgment deference to anti-takeover defenses, it does apply a proportionality standard (which is similar to the *Unocal* standard) to tactics that interfere with shareholders' voting rights; Nev. Rev. Stat. Ann. § 78.139(2).

[20] Del. Code Ann. tit. 8, § 102(b)(7).

states do not allow firms to exempt directors for liability even if they act in good faith if there was gross negligence or unexcused inattention.[21]

On the other hand, other states, such as Maryland and Virginia, allow firms to exempt directors even without good faith as long as there has been no willful or intentional misconduct.[22] This standard is generally viewed as permitting not only exemption from the duty of care, but also from the duty of loyalty. The duty of loyalty requires managers to act as fiduciaries in the best interests of the corporation, rather than for an improper motive or personal gain. This duty is manifested by courts' enhanced review of transactions that might be driven by managers' personal interest, such as takeovers and self-dealing transactions.

Most states' statutes provide that directors can only be exempted for actions taken in "good faith." Laws that enable corporations to exempt directors from the duty of loyalty typically provide that the exemption is not allowed if the conduct is intentional or willful. The laws of Pennsylvania, Indiana and Vermont do not allow exemption for recklessness, but do not have a good faith requirement.[23] Broadly stated, recklessness is less culpable than intention, but more culpable than negligence. We generally take the view that laws that carve out recklessness do allow exemptions from duty of loyalty.

Similar distinctions arise in the context of indemnification provisions. These provisions regulate the standard of liability for which directors can be indemnified both with respect to suits by third parties, and derivative suits by or in the name of the corporation. First, while some states, such as Delaware, allow indemnification for liability if the manager acted in good faith,[24] others, such as Maryland, permit indemnification without it.[25] However, while most states extend indemnification provisions to both directors and officers, most states' laws (including Delaware's) extend exemption from liability to directors only, and do not

[21]e.g., California; Cal. Corp. Code § 204(10).

[22]e.g., Md. Corp. & Assns. § 2-405.2 and Va. Code Ann. § 13.1-692.1.

[23]See 15 Pa. Const. Stat. Ann. § 1713; Ind. Code Ann. § 23-1-35-1; Vt. Stat. Ann. tit. 11A § 2.02.

[24]Del. Code Ann. tit. 8, § 145.

[25]Md. Code Ann., Corps. & Ass'ns § 2-418.

discuss officers at all. However, a few states, such as New Jersey and Nevada, extend this protection to officers as well.[26]

Laws that protect managers from liability also differ as to whether they are default or menu laws. Default rules apply if the corporate documents are silent, whereas menu laws do not apply unless corporations explicitly opt in the corporate documents. There is literature demonstrating that menu provisions make it more likely that firms will adopt corporate governance provisions, and that firms very rarely opt out of corporate governance provisions embedded in default laws, especially if they are favorable to management (see Ayres, 1992; Romano, 1993; Subramanian, 2002; Listokin, 2009). States may also use default rules as a signal to firms about the appropriate level of culpability managers ought to face. Most states, including Delaware, adopt the menu approach to liability exemptions. This approach requires the board to obtain shareholder approval to effect a change to the articles of incorporation. However, several states, such as Wisconsin, exempt directors by a default rule.[27] Only one state, Nevada, exempts officers from liability by default.[28] In fact, Nevada actually adopted a mandatory exemption in 2001, but changed it to a default rule in 2003 (see Barzuza, 2012). We treat mandatory laws and default laws alike for the purpose of the index because firms rarely opt out of default laws.

Indemnification laws are slightly different from exemption laws in this regard because with few exceptions, they are embedded in menu options rather than default rules. An important distinction among states' indemnification laws is that under some statutes the board has sole discretion to indemnify managers (including directors), whereas some statutes require shareholder approval. The requirement for shareholder approval further depends on the type of liability. Many states follow Delaware in allowing the board to indemnify managers without shareholder approval if they acted in good faith. However, following the Model Business Act, many states allow the board to indemnify directors even without good faith

[26]E.g., N.J. Rev. Stat. § 14A:2-7.
[27]Wis. Stat. Ann. § 180.0828.
[28]Nev. Rev. Stat. Ann. § 78.138.

if they obtain shareholder approval (by providing for such indemnification in the articles of incorporation).[29] Interestingly, the Model Business Act allows the board to indemnify officers without shareholder approval even if they act without good faith.[30] In this context, menu laws that do not require shareholder approval may be viewed as equivalent to default rules because they enable managers to protect themselves or their colleagues without input from shareholders.

We construct two indices, *LP (DIR)* and *LP (OFF)*, to capture the degree to which directors and officers are protected under each state's laws over time. In our main specification, we rate each state as follows:

- Exemptions from liability: 2 points if there is no good faith requirement (or if exemption from duty of loyalty is expressly permitted); 1 point if exemption is permitted subject to a good faith requirement; zero if exemption from gross negligence is not permitted. We add one point if the exemption is the default rule and there is no good faith requirement. The maximum score is three.

- Indemnification for liability: 2 points if there is no good faith requirement (or if indemnification for the duty of loyalty is expressly permitted); 1 point if indemnification is permitted subject to a good faith requirement; zero if indemnification for gross negligence is not permitted. We add one point if the board can indemnify the director or executive without shareholder approval and there is no good faith requirement. We give a separate score for indemnification provisions as they relate to (a) third-party lawsuits, and (b) corporate expenses in derivative suits, and divide the total score by two, such that the maximum score is three.

For both *LP (DIR)* and *LP (OFF)* indices, we generally add up the scores for exemption

[29]Model Bus. Corp. Act §2.02(4).
[30]Model Bus. Corp. Act §8.56.

and indemnification, such that the maximum score is six. But, when the exemption score is higher than the indemnification score, we let the indemnification score be equal to the exemption score; the rationale is that if the managers are exempted from liability, then indemnification becomes irrelevant. For the main specifications, we use the *LP (DIR)* and *LP (OFF)* indices. In robustness tests, we use a combined index *LP* that ranges from 0 to 12 to proxy for the general level of liability protection for managers. We do not include idiosyncratic provisions[31] or non-exclusivity indemnification provisions in the indices.[32]

D. Summary

To illustrate the cross-sectional variation among states' corporate laws, we present in Table A4 the scores of each state with respect to the *ATS*, *LP (DIR)* and *LP (OFF)* indices as of 2013.

3 The Effects of Corporate Law

One potential criticism of the empirical strategy we use is that corporate law does not materially affect outcomes. In particular, it might be argued that anti-takeover statutes do not affect the probability of takeovers. On this view, Delaware's case law is highly protective of management because it validates the poison pill, and the level of judicial review is viewed by some as minimal (Kahan, 2006; Catan and Kahan, 2016; Cremers and Ferrell,

[31]For example, Virginia law limits the liability of directors and officers by default to the greater of $100,000 or his or her cash compensation over the year preceding the act or omission giving rise to the liability, unless the articles of incorporation provide otherwise and unless the director or officer engaged in willful misconduct. Va. Code Ann. § 13.1-692.1. We gave Virginia a score of 4 on both *LP (OFF)* and *LP (DIR)* because to exempt managers from full liability for breach of the duty of loyalty requires shareholder approval.

[32]Many states' indemnification statutes, including Delaware (Del. Code Ann. tit. 8, § 145(f)), provide that statutory indemnification will not be deemed exclusive of other rights to which directors or officers may be entitled under any bylaw or contractual agreement. These provisions however do not seem to change the standard of liability for which indemnification is allowed (Lockwood, 2013).

2014). Similarly, it could be argued that Nevada's liability protections are not materially more protective of management, either because other states already allow firms to exempt managers from the duty of loyalty through a menu option (as opposed to Nevada's default rules) or because directors and officers are also heavily protected by insurance policies and rarely pay out of pocket (Black et. al, 2006).

The question then is what explains the robustness of the results we obtain. One explanation is that corporate laws do affect outcomes, at least to some extent. Delaware law is generally associated with a higher takeover probability (Daines, 2001). While Delaware case law has validated the poison pill, it also subjects it to judicial review under the *Unocal* and *Revlon* standards. On the other hand, it may be argued that Delaware's favorable takeover environment stems primarily from the presence of an expert judiciary that resolves disputes efficiently, and not from the lack of anti-takeover statutes, especially a pill validation statute.

To test these claims we run logit regressions where the dependent variable is a 50 percent completed takeover, and the coefficients of interest are the coefficients on the *ATS* index or *Pill Statute*. We use standard controls used by Cremers, Nair and John (2009), such as the lagged industry adjusted Tobin's Q and return on investment, as well as the number of takeovers in the industry in the previous year. The results reported in columns (1) and (2) in Table A5 show that the probability of takeover is negatively related to the *ATS* index and *Pill Statute*. When alternatively we use a Delaware dummy as a coefficient of interest (column (3) of Table A5), the results re-affirm the result in Daines (2001) that Delaware law is associated with higher takeover probability. When we include both the *ATS* index and the Delaware dummy (column (4) of Table A5), the coefficient on *ATS* remains negative (though statitically significant only at the 10 percent level) and the coefficient on the Delaware dummy remains positive. However, when we use *Pill Statute* instead of *ATS*, the coefficient on the Delaware dummy becomes statistically insignificant, while the coefficient on *Pill Statute* is negative and statistically significant (see column (5) of Table A5). Thus, takeover statutes, especially pill validation statutes, are negatively correlated with higher takeover probability

even when controlling for Delaware incorporation; this suggests that takeover statutes do matter.

Similarly, it may be argued that Nevada liability protections do make a significant difference. While directors and officers rarely pay out of pocket in shareholder litigation, there is evidence that the quality of corporate governance, including the state of incorporation, may affect the insurance premiums paid by corporations for director and officer insurance (Baker and Griffith, 2007). Although there is no concrete data on this, it is likely that the extent to which directors and officers can be exempted or indemnified for liability under states' corporate laws has an impact on such premiums. Moreover, while Nevada (as well as other states) already allowed firms to exempt officers from the duty of loyalty prior to 2001 through a menu option, research has shown that firms do not always adopt menu options, whereas firms virtually never opt out of default provisions that benefit managers (Listokin, 2009). In fact, in a sample of firms incorporated in Nevada in 2001, almost 40 percent did not protect their managers from liability to the fullest extent permitted under Nevada law (Eldar, 2018). Firms' adoption of corporate governance provisions itself may be subject to rational inertia, and firms therefore may be sluggish in amending their charters to benefit from corporate menu options.

A second explanation is that even if the laws by themselves do not directly affect outcomes, they are correlated with unobserved attributes of states' legal systems. In particular, states' legislatures may signal a commitment to firms to protect certain interests, whether they are those of shareholders, managers or local constituencies. Romano (2006) points out that Delaware's takeover-friendly environment is reflected in the legislature's reluctance to adopt many anti-takeover statutes. In fact, Bebchuk and Cohen (2003) justify the use of the *ATS* index not by insisting that it is consequential, but rather by arguing that anti-takeover statutes are viewed as potentially consequential by those making incorporation decisions. Barzuza (2009) surveyed state anti-takeover laws and showed that the strength of poison pill statutes and constituency statutes increased the likelihood that the courts would uphold

a dead hand pill. Thus, it is no surprise that Georgia and Pennsylvania, two states with five anti-takeover statutes, also have case law that validates the dead hand pill, whereas Delaware has rejected its validity. Similarly, Nevada's decision to make liability limitations the default rule might be a signal to small firms that their interests will be protected under Nevada law. This signal may even be viewed as part of a marketing campaign to attract firms to Nevada (see Barzuza, 2012).

This explanation is also consistent with Kahan and Rock (2015) who argue that corporate governance has symbolic value. Firms have adopted many pro-shareholder policies in recent years, such as increasing shareholder access to the proxy, even though they arguably have a trivial effect on the quality of governance. Consistent with our counterfactual analysis, a scenario in which Delaware enacted many anti-takeover statutes is equally likely to trigger fierce opposition by institutional investors because if anything, such statutes surely have symbolic value in delineating the balance of power between shareholder and mangers.

4 Comparison of the Inertia Model to Alternative Models

In section 2 of the article, we argued that our model of rational inertia better reflects firms' decision-making. In this section, we further show that it better fits the data as compared to alternative models. In particular, we examine a naive multinomial logit model in which firms make a choice every period with or without a dummy for switching costs (i.e., a dummy that equals 1 when a firm reincorporates into another jurisdiction). This comparison is important because the elasticity in the demand for corporate law under these models is smaller. For example, such models would predict smaller shifts in market shares if Delaware became more protectionist by adopting more anti-takeover laws.

Table A6 shows the results for the multinomial logit model without switching costs (column (1)), a model with switching costs (column (2)), and a "flexible" switching costs model that interacts switching costs with firm characteristics (column (3)). The coefficients on the legal indices are relatively small. For example, the coefficient on ATS is either smaller in

magnitude than in the inertia model, or largely insignificant. The coefficient on switching costs is very strong (-8.08 in column (2) and -8.81 in column (3)) and even larger than the Delaware fixed effect. The interactions between switching costs and firm characteristics suggest that switching costs are lower for smaller firms and higher in firms that have higher institutional shareholding.

In order to compare the models, we use a likelihood-based information criterion, known as the Akaike Information Criterion ("AIC"). The rationale underlying the AIC is to evaluate the distance between the fitted model and the unknown true model that generated the observed data (Burnham and Anderson, 2002).[33] The AIC is based on the value of the log-likelihood of the model evaluated at the parameter estimates, but it also takes into account the number of parameters in order to penalize over-fitting. The AIC is computed as follows. Given the likelihood function $\mathcal{L}_m(\theta^m; x)$ of model m, data x and the parameter estimate $\hat{\theta}^m$, $AIC(m) := -2\log\mathcal{L}_m\left(\hat{\theta}^m; x\right) + 2K_m$, where K_m is the dimension of the parameter vector θ^m.

Table A7 shows the value of AIC using different models and specifications. The lower the AIC, the better the model fits that data. Burnham and Anderson (2002) suggest that a heuristic model comparison can be based on the difference in AIC, and a model that has an AIC which is 10 units greater than the best alternative model has less support from the data (even when the value of the log likelihood is of a greater order of magnitude). It is clear from the table that the multinomial model without switching costs is the worst model under all specifications. The models with switching costs do substantially better because they better explain the inertia in market shifts.

However, they are both inferior to the model of rational inertia. For example, in the baseline model in column (1) of Table A7, the AIC of the switching costs model is 27,118, the AIC of the flexible switching model is 27,030, and the AIC of the inertia model is 25,649.

[33]We note that in this context we cannot use a statistical test that compares only the likelihood ratios because such a test can only be used to compare nested models, whereas the model of rational inertia and the model with switching costs include different parameters.

Because differences in AIC are around 1,400, the inertia model does substantially better in explaining the data.

Finally, as an alternative to the AIC, we also compute the Bayesian Information Criterion ("BIC"), which is defined as follows: $BIC\left(m\right) := -2\log\mathcal{L}_m\left(\hat{\theta}^m; x\right) + K_m \times ln(n)$, where n is the number of firm year observations. The values of the BIC are largely the same as the values of the AIC, and again, indicate that our model fits the data better than other models.

5 Fixed Effects Decomposition into State Characteristics

As reported in section 3 of the article, state fixed effects constitute a salient component in firms' incorporation choices. These fixed effects account for measures of states' institutional quality, which are distinct from states' laws, such as courts' quality and states' responsiveness to business needs (see Romano, 1985). The main problems with including these factors in the model are: (1) there appear to be no accurate measures for courts' quality and states' responsiveness; and (2) these factors do not seem to change over time.[34] Therefore, it is not possible to directly identify the effect of these institutional qualities, other than by including state fixed effects to control for the time-invariant quality of states' legal systems.

Nonetheless, we can regress the fixed effects on two measures that serve as rough proxies for courts' quality and states' responsiveness to business needs. These linear specifications are similar to the regressions in Nevo (2001), who decomposes J brand fixed effects into K characteristics, with $J > K$.

As a proxy for courts' quality, we use the Lawsuit Climate Survey: Ranking the States, which is based on surveys of in-house counsel and senior litigators.[35] This measure has limitations because it does not directly assess quality of adjudication in corporate law matters, but rather looks at commercial litigation at large. Nonetheless, it is likely correlated

[34]For example, Delaware's institutional quality was well known before the sample period, and it remained largely intact throughout it.

[35]See https://www.instituteforlegalreform.com/. The survey was conducted in the years 2002-2008, 2010 and 2012.

with courts' expertise in corporate law (Kahan, 2006). As a proxy for the responsiveness of each state, we use the ratio of taxes collected from incorporation fees to total tax revenue.[36] The rationale is that the greater (lower) the ratio, the greater (lower) the incentives of the state to be responsive to businesses incorporated in its jurisdiction by updating its corporate statutes.[37]

We regress the estimated fixed effects on the average courts' quality and the state responsiveness proxy. We use the average scores because these measures do not vary much over time, and to the extent that they do, the variation appears to be highly noisy (e.g., because survey data tends to be imprecise). As shown in Table A8, the fixed effects are positively correlated with both measures. Thus, consistent with previous studies, these results suggest that courts' quality and states' responsiveness are associated with higher market shares for incorporations.

6 Robustness

A. Alternative Specification with Combined *LP* Index

We consider a specification of our model that uses the combined LP index; we show the estimation results for this specification in Table A9. The coefficient on LP, the combined measure of managerial liability protection, is approximately 0.19 for the average firm. This coefficient is large, especially for small firms with few institutional shareholders. This evidence suggests that Nevada's level of liability protection is mainly attractive to a specific segment of the market, though all firms like some level of protection. Interestingly, the pref-

[36] We obtain data on tax revenue from the Census website, which is available throughout the sample period (except for the years 2002, 2003 and 2006).

[37] Romano (1985) measured responsiveness by looking at the speed at which states adopted certain statutory provisions during the 60s (such as indemnification statutes and merger vote exemptions). She then shows that the speed at which states adopt these provisions is correlated with the ratio of taxes collected from incorporation fees to total tax revenue. Because Romano's measure of legislative speed is seemingly outdated for later periods (see Daines, 2002), particularly for the period that we study in this paper, we simply use the tax ratio as a proxy for responsiveness.

erence for LP increases when the average industry takeover premium is above the median. This reflects the intuition that managers may be concerned about their liability when there is a higher likelihood of takeovers.

B. Linking the Costs of Choosing to Firm Characteristics

The model of inertia described in section 2 of the article is very parsimonious, as the distribution of the costs of choosing is constant across firms. Although in that model firm-specific characteristics influence the expected benefit of choosing (as they enter the indirect utility from incorporation), these characteristics do not directly affect the costs of making a choice of incorporation. However, it may be that larger firms, or those with more institutional shareholding, have access to more sophisticated legal counsel and face lower costs of choosing the state of incorporation. Conversely, it may be that the greater complexity of large firms' operations generates higher costs of considering the incorporation decision. If some firm characteristics that are associated with Delaware incorporation, such as firm size and institutional ownership, make firms less likely to make a choice, our counterfactuals may be overstating the decrease in market share that would follow a deterioration of Delaware law, thus invalidating the finding that Delaware is subject to competitive pressure.

Therefore, we let the cost of considering the incorporation choice for firm i at time t, denoted as c_{it}, be distributed iid according to a logistic distribution with parameters (μ_{it}, σ), where $\mu_{it} = \mu_0 + \sum_r \mu_r z_{it}^r$. Hence, firm-specific observable characteristics have a linear effect,[38] through the coefficients μ_r, on the mean firm-specific cost of choosing a state of incorporation. This model follows previous empirical studies of choice under inertia (Handel, 2013; Ho, Hogan and Scott Morton, 2017) that link the probability of choosing or switching to individual characteristics. Since we do not observe when firms make choices, but only when they change their states of incorporation, the parameters $\boldsymbol{\mu}$ are identified from the

[38]Richer specifications, allowing for nonlinear effects, are immediate extensions. However, neither theory nor exploratory regressions of firm-level characteristics on the probability of reincorporation suggest any particular nonlinear specification, so we adopt the parsimonious linear form.

covariation of the probability of mid-stream reincorporation and firm specific characteristics.

The estimation results for this model, reported in Table A10, are substantially the same as in the main specification in Table 5 of the article. Firm characteristics seem to have some effect on the probability of choosing the state of incorporation: institutional ownership is associated with higher costs of choosing the state of incorporation, and small and medium firms face lower costs than large firms. However, because larger firms tend to have higher institutional shareholding there is no significant economic difference between the costs of choosing across firms of different sizes. Accordingly, the unreported counterfactual analysis is virtually identical to that reported in Figures 6-9 in the main text.

C. Specifications without Fixed Effects

We consider specifications without state fixed effects. It might be argued that our results, primarily the negative coefficients on anti-takeover statutes, derive solely from the inclusion of fixed effects. In contrast, Bebchuk and Cohen (2003) find a positive coefficient on anti-takeover statutes in a logit model where firms have a choice to incorporate in their home state (coded as 1) or migrate to Delaware (coded as 0).

We first present results that replicate Bebchuk and Cohen's basic finding in our sample. As shown in columns 1 and 2 of Table A11, there is a positive correlation between the ATS index and the decision to incorporate in the home state. As discussed in Kahan (2006), the major problem with this specification is that it does not control for unobservable state factors. To take one obvious example, California, which does not have any of the anti-takeover statutes included in the ATS index, loses many firms to Delaware; yet the loss of firms to Delaware is more plausibly related to other factors, primarily that California courts are widely regarded as being unfavorable to business. Thus, the fixed effect of California in our main specification in Table 5 in the article is very low as compared to Delaware.[39]

[39]In addition, many of the other states that have no anti-takeover statutes, such as Alaska and Alabama, have legislatures that are simply not attentive to business needs at all (whether driven by managers or shareholders), and hence the lack of responsiveness arguably better explains their

Second, states that have adopted anti-takeover statutes, such as Texas and Connecticut, in the sample period have actually lost some, albeit small, market share (see Figure 11 in the main text). Thus, when we add fixed effects to Bebchuk and Cohen (2003), the coefficient on the ATS index is negative (columns 3 and 4 of Table A11).

We emphasize that the signs on the coefficients we obtain in the inertia model do not hinge on the inclusion of fixed effects. In fact, these signs are also robust to specifications without controlling for inertia in decision-making. In Table A12, we report two specifications without fixed effects, one for a simple multinomial logit model, and the other with inertia in decision-making. Both specifications generate negative coefficients on the ATS index.

D. Specifications with Distance from Headquarters

An additional factor that may influence firms' incorporation choices is the distance between a firm's headquarters and candidate states of incorporation. We measure distance units as the log of 1,000 kilometers between the capital of the firm's state of incorporation and the capital of the state of its headquarters.[40] Table A13 reports coefficient estimates from a specification of the main inertia model that includes the distance variable.

As expected, the coefficient on distance is negative and statistically significant. However, the economic magnitude of distance seems to be low. The impact on the utility index of 10,000km (about 6,000 miles) of distance is roughly one fourth of the home bias. Moreover, most of the coefficients on legal characteristics remain largely the same. The only exception is home bias, which becomes smaller, partly because distance for firms incorporated in their home state is naturally the lowest (i.e., zero).

The goodness of fit and the predictive power of the specifications with distance are similar to those of the specifications we included in the article. The AIC and BIC are 25,518 and 26,181, as compared to 25,645 and 26,310 without distance. The out-of-sample predictions

inability to retain firms.

[40]Distance between states is computed using ArcGIS as the great circle distance between state capitals. State coordinates are obtained from Merryman (2005).

of the market shares of Delaware and Nevada are very similar. In addition, the mean squared errors of Delaware's and Nevada's market shares are 1.20 and 0.34, similar to those in the specification without distance (0.94 and 0.40, respectively). Moreover, the counterfactual analysis that we do for the main specifications (see Figures 6 to 9 in the article) is largely the same for the specification with distance.

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Tables

Table A1: Incorporations by State in 2013

Column (2) presents each state's market share for incorporations in 2013 for all firms in the sample. Column (3) presents each state's market share in 2013 for firms that incorporate out of the state where their headquarters are located. Column (4) presents retention rate in 2013 by state, computed as the ratio of the number of locally headquartered firms incorporated in the state to the number of firms headquartered in that state. All market shares and retention rates are in percentage points.

(1)	(2)	(3)	(4)
State	Market Share	Market Share of Out-of-State incorporations	Retention Rate
AK	.068	.044	50
AL	0	0	0
AR	.034	0	7.143
AZ	.103	0	7.317
CA	1.848	.133	9.427
CO	1.335	.845	20
CT	.24	0	11.29
DC	0	0	0
DE	63.86	82.659	100
FL	2.088	.578	34.532
GA	.65	.089	24.286
HI	.034	0	20
IA	.205	.089	36.364
ID	.068	.089	0
IL	.411	0	10.345
IN	.753	.267	50
KS	.137	.044	23.077
KY	.068	0	12.5
LA	.137	.044	15.789
MA	1.164	.089	21.918
MD	1.095	1.067	19.512
ME	0	0	0
MI	.65	.044	34.615
MN	2.19	.267	71.605
MO	.479	.178	25
MS	.034	0	25
MT	.068	.044	33.333
NC	.548	.133	20
ND	.034	.044	0
NE	.068	0	12.5
NH	0	0	0
NJ	.856	.445	12.295
NM	0	0	0
NV	8.487	9.693	66.667
NY	2.396	1.023	19.184
OH	1.78	.267	54.118
OK	.205	0	20.69
OR	.684	.133	65.385
PA	1.369	.4	31.959
RI	.103	.044	20
SC	.137	.044	27.273
SD	.034	0	100
TN	.445	.044	25.532
TX	1.54	.178	13.621
UT	.479	.133	32.353
VA	1.095	.534	25
VT	0	0	0
WA	.924	.133	39.344
WI	.958	.089	57.778
WV	.034	0	25
WY	.103	.089	20

Table A2: Summary of Reincorporations

For each state, column (2) presents the total number of reincorporations into the state. Column (3) reports the number of firms that migrate away from the state and reincorporate in another state. Columns (4) and (5) report the number of firms that migrate away from the state and reincorporate in Delaware and Nevada respectively.

(1)	(2)	(3)	(4)	(5)
State	Total Reincorporations In	Total Reincorporations Out	Total Reincorporations in DE	Total Reincorporations in NV
AK	0	1	1	0
AL	0	5	5	0
AR	0	2	2	0
AZ	0	5	3	1
CA	7	103	96	4
CO	5	65	43	13
CT	0	4	3	0
DC	0	0	0	0
DE	399	107	0	30
FL	27	30	23	5
GA	7	6	5	0
HI	0	1	1	0
IA	0	3	3	0
ID	0	8	7	1
IL	5	5	5	0
IN	5	3	3	0
KS	1	3	2	1
KY	0	2	1	0
LA	1	1	1	0
MA	1	11	8	0
MD	10	2	2	0
ME	0	1	1	0
MI	4	5	5	0
MN	3	21	14	3
MO	0	4	2	2
MS	1	1	0	1
MT	1	0	0	0
NC	1	2	2	0
ND	1	1	0	1
NE	0	1	0	0
NH	0	1	0	1
NJ	0	21	14	2
NM	0	3	1	1
NV	77	58	50	0
NY	0	47	42	2
OH	5	9	7	0
OK	4	5	2	0
OR	2	4	3	0
PA	8	8	5	2
RI	0	0	0	0
SC	0	0	0	0
SD	0	1	1	0
TN	5	3	3	0
TX	6	10	10	0
UT	2	15	11	2
VA	2	2	2	0
VT	1	0	0	0
WA	10	8	6	2
WI	3	3	3	0
WV	0	0	0	0
WY	3	6	1	3
Total	607	607	399	77

Table A3: **Anti-takeover Statutes**

Statute	Description
Business Combinations	Business combination statutes prevent a bidder that gains control from merging the target with its own assets for a specified period of time (unless certain difficult-to-meet conditions are satisfied).
Constituency Statute	Statute allowing managers to take into account the interests of non-shareholders in defending against a takeover.
Control Share Acquisition	A control share acquisition statute requires a hostile bidder to put its offer to a vote of the shareholders before proceeding with it. If a bidder does not do so and purchases a large block of shares, it is not able to vote these shares at all and thus will not be able to gain control despite its large holdings.
Fair-price	A fair-price statute requires a bidder who succeeds in gaining control and then proceeds with a second-step freeze-out (a transaction removing remaining shareholders) to pay the remaining minority shareholders the same price it paid for shares acquired through its bid.
Poison-pill Validation	Statutes that protect poison pills from judicial review. Poison pills are warrants or rights issued by the company that are triggered and entitle their holders to significant value in the event that any buyer obtains a significant block without the approval of the board.

Table A4: Summary of State Law Indexes in 2013

State	ATS Index	Directors Protection Index	Officers Protection Index
AK	0	2	.5
AL	0	2	.5
AR	0	2	.5
AZ	5	4	3
CA	0	.5	.5
CO	1	2	.5
CT	4	1	1
DC	0	4	3
DE	1	2	.5
FL	4	2	.5
GA	4	4	3
HI	3	4	3
IA	3	4	3
ID	5	4	3
IL	4	2	.5
IN	5	6	1
KS	2	2	.5
KY	4	2	.5
LA	3	3	3
MA	4	2	1
MD	5	4	4
ME	3	4	3
MI	4	4	.5
MN	5	2	1
MO	5	3	2
MS	4	4	3
MT	0	4	.5
NC	4	4	.5
ND	1	2	1
NE	3	4	3
NH	0	4	4
NJ	4	2	2
NM	1	.5	.5
NV	5	6	6
NY	4	2	.5
OH	5	6	.5
OK	2	2	.5
OR	4	2	.5
PA	5	4	.5
RI	4	2	1
SC	4	.5	.5
SD	5	4	3
TN	5	2	.5
TX	3	2	1
UT	2	4	.5
VA	4	4	4
VT	2	4	.5
WA	3	4	2
WI	5	6	3
WV	0	3	3
WY	4	4	3

Table A5: **Takeover Probability Logit Regressions**

	(1)	(2)	(3)	(4)	(5)
ATS	-0.123***			-0.0617*	
	(0.0206)			(0.0346)	
Pill Statute		-0.460***			-0.297**
		(0.0715)			(0.132)
DE			0.421***	0.262**	0.185
			(0.0666)	(0.111)	(0.124)
Tobin's Q	-0.138***	-0.136***	-0.135***	-0.136***	-0.135***
	(0.0234)	(0.0233)	(0.0232)	(0.0232)	(0.0232)
Log(Mkvalt)	0.0247	0.0218	0.0192	0.0206	0.0200
	(0.0222)	(0.0222)	(0.0222)	(0.0222)	(0.0222)
Cash	-0.434***	-0.433***	-0.431***	-0.440***	-0.437***
	(0.153)	(0.153)	(0.153)	(0.153)	(0.153)
Leverage	0.111***	0.109***	0.108***	0.109***	0.108***
	(0.0183)	(0.0183)	(0.0182)	(0.0183)	(0.0183)
ROA	0.0433	0.0442	0.0446	0.0435	0.0440
	(0.0335)	(0.0335)	(0.0335)	(0.0335)	(0.0335)
# Ind. Takeovers	0.0146*	0.0142*	0.0137*	0.0138*	0.0138*
	(0.00744)	(0.00746)	(0.00745)	(0.00746)	(0.00746)
Institutional Ownership	-0.242	-0.258*	-0.266*	-0.259*	-0.264*
	(0.156)	(0.156)	(0.156)	(0.156)	(0.156)
Manager > 15 percent	-0.426***	-0.428***	-0.421***	-0.421***	-0.423***
	(0.123)	(0.123)	(0.122)	(0.123)	(0.123)
Year dummies	Yes	Yes	Yes	Yes	Yes
Pseudo - R^2	0.0207	0.0212	0.0210	0.0213	0.0215

Standard Errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

This table presents results of the maximum likelihood estimates of the logit model for the total sample excluding observations with missing variables. The dependent variable is a dummy equal to 1 if the company is target of a 50 percent completed takeover. DE is a dummy equal to 1 if the company is incorporated in Delaware. Tobin's Q is the ratio of the market value of assets to the book value of assets, where the market value is calculated as the sum of the book value of assets and the market value of common stock less the book value of common stock. Log(Mkvalt) is the natural log of market value. Cash is the ratio of cash and short-term investments to book assets. Leverage is the ratio of total liabilities to book assets. ROA is the return on assets. #Industry Takeovers is equal to the number of 50 percent completed takeovers in the industry divided by 100, based on the Fama-French 49 industry classification. Tobin's Q, ROA, Cash and Log(Mkvalt) are all industry-adjusted and winsorized at the 1 percent level (5 percent in the case of Tobin's Q). Institutional Ownership is the fraction of shares held by institutional shareholders. Manager > 15 percent is dummy equal to 1 if managers (directors and officers) hold more than 15 percent of the stock of the company. All independent variables are lagged by one year. Robust standard errors are reported in parentheses. The number of firm-year observations is 64,479, and there are 8,450 firms in the sample.

Table A6: **Multinomial Logit and Switching Costs Models**

	Multinomial Logit	Switching Costs	Flexible Sw. Costs.
	(1)	(2)	(3)
ATS	-0.1293***	-0.0210	-0.1451
	(0.0243)	(0.0565)	(0.0960)
ATS × Small	0.0089	-0.0395	0.0866
	(0.0131)	(0.0312)	(0.0808)
ATS × Medium	-0.0117	-0.0850***	0.0443
	(0.0117)	(0.0299)	(0.1773)
ATS × Institutional Ownership	0.0118	0.0391	-0.0150
	(0.0130)	(0.0504)	(0.0714)
ATS × Industry Premium$_{t-1}$ > median	-0.0374***	-0.0535***	-0.0523***
	(0.0071)	(0.0186)	(0.0201)
Average ATS	-0.1509	-0.0868	-0.1329
- Small firms	-0.1457	-0.0928	-0.0978
- Medium firms	-0.1605	-0.1173	-0.1438
- Large firms	-0.1459	-0.0231	-0.1887
LP (DIR)	0.2590***	0.1774	0.2580
	(0.0615)	(0.1168)	(0.1647)
LP (DIR) × Small	-0.1108***	-0.0145	-0.1144
	(0.0187)	(0.0525)	(0.0907)
LP (DIR) × Medium	0.0067	0.0502	-0.0506
	(0.0151)	(0.0502)	(0.1645)
LP (DIR) × Institutional Ownership	0.0646***	0.1193*	0.1689*
	(0.0204)	(0.0638)	(0.0978)
LP (DIR) × Ind. Premium$_{t-1}$ > median	0.0491***	0.0373	0.0356
	(0.0115)	(0.0312)	(0.0342)
Average LP (DIR)	0.2694	0.2572	0.2752
- Small firms	0.1910	0.2039	0.1893
- Medium firms	0.3309	0.3120	0.3153
- Large firms	0.3324	0.2785	0.3899

	(1)	(2)	(3)
LP (OFF)	0.1977***	0.2459**	0.2140
	(0.0610)	(0.1124)	(0.1519)
LP (OFF) × Small	0.1447***	0.1350***	0.1741*
	(0.0143)	(0.0407)	(0.1046)
LP (OFF) × Medium	-0.0794***	-0.0866**	-0.0248
	(0.0132)	(0.0398)	(0.1378)
LP (OFF) × Institutional Ownership	-0.4140***	-0.4878***	-0.5623***
	(0.0178)	(0.0511)	(0.1049)
LP (OFF) × Ind. Premium$_{t-1}$ > median	-0.0304***	0.0245	0.0250
	(0.0102)	(0.0274)	(0.0301)
Average LP (OFF)	0.0637	0.1162	0.0968
- Small firms	0.2710	0.3400	0.3387
- Medium firms	-0.1075	-0.0659	-0.0725
- Large firms	-0.0888	-0.0527	-0.1322
Home Bias	4.9089***	3.4092***	3.5690***
	(0.0286)	(0.1346)	(0.2074)
Home Bias × Small	0.2450***	1.2694***	1.0502***
	(0.0296)	(0.1399)	(0.1938)
Home Bias × Medium	0.3646***	0.9864***	0.7956**
	(0.0297)	(0.1471)	(0.3269)
DE Fixed Effect	7.0703***	6.2669***	6.2957***
	(0.1339)	(0.1621)	(0.2250)
NV Fixed Effect	3.6652***	2.6954***	2.7791***
	(0.2121)	(0.3786)	(0.4172)
CA Fixed Effect	0.7621***	0.5074**	0.5701*
	(0.1619)	(0.2330)	(0.2928)
NY Fixed Effect	1.8716***	1.3739***	1.4817***
	(0.1598)	(0.2484)	(0.2868)
Switching Cost		-8.0829***	-8.8100***
		(0.0707)	(0.2181)
Switching Cost × Small			1.0270***
			(0.2602)
Switching Cost × Medium			1.0945***
			(0.1641)
Switching Cost × Institutional Ownership			-0.8293***
			(0.2121)

Standard Errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

This table reports maximum likelihood estimates of the parameters of the multinomial logit model. The dependent variable is a categorical variable that indicates the state of incorporation. The parameter estimates reflect the effect of one unit of each variable on the latent utility index of firms in the sample. Switching Costs is a dummy equal to 1 if a firm reincorporates in a new a state in a given year. All variables not defined herewith are defined in the Appendix to the article. The table reports in bold firm utility with respect to one unit of each legal characteristic by firm size, given average firm characteristics (i.e., institutional ownership and managerial ownership) and parameter estimates. All specifications include state fixed effects, here reported for Delaware, Nevada, California and New York. The standard errors reported are computed using the Huber-White formula; see Train (2009). Firms with less than three observations are not included. The number of firm-year observations is 83,504, and there are 8,760 firms in the sample.

Table A7: **Goodness of Fit**

	Baseline	With Takeovers	With Takeovers and Insiders
	(1)	(2)	(3)
MNL	196,039.92	196,000.38	195,884.57
Switching Costs	27,118.05	27,116.27	27,109.61
Flex. Switching Costs	27,030.05	27,028.61	27,021.20
Inertia	25,648.72	25,645.24	25,636.76

The table reports the values of the Akaike Information Criterion (AIC) for different models. MNL is the multinomial logit model; see Table A7. Switching Costs is the multinomial logit model that includes a Switching Costs dummy variable; see Table A7. Inertia is the rational inertia model described in section 2 of the article; see Table 5 in the article. Column (1) reports AIC values for the baseline model estimated without interacting state characteristics with takeover variables (e.g., Ind. Premium$_{t-1}$ > median) and managerial ownership dummies; see column (1) of Table 5 in the article. Column (2) reports AIC values for models estimated with interacting state characteristics with Ind. Premium$_{t-1}$ > median; see column (2) of Table 5 in the article. Column (3) reports AIC values for models estimated with interacting state characteristics with Ind. Premium$_{t-1}$ > median and managerial ownership dummies; see column (3) of Table 5 in the article. Lower values of AIC with respect to the same data specifications in each column indicate better fit. Models that have an AIC which is 10 units greater than the best alternative model using the same data have very little support from the data (Burnham and Anderson, 2002).

Table A8: **State Fixed Effects**

Courts' Quality	0.0440**
	(0.0199)
Responsiveness	23.3412***
	(2.6994)
Constant	-1.4192
	(1.1078)
R^2	0.3090
Adjusted R^2	0.2802

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

This table presents the results of OLS regressions, where the dependent variable is the state fixed effects estimated in the rational inertia model depicted in Table 5 column 2 of the article. The independent variables are (1) Courts' Quality, computed as the average state score in the Lawsuit Climate Survey: Ranking the States in the years 2002-2008, 2010 and 2012, when the survey was conducted; and (2) Responsiveness, computed as the average ratio of taxes collected from incorporation fees to total tax revenue, based on Census data from 1994-2013 (except for the years 2002, 2003 and 2006, where data is not available). T-statistics are based on robust standard errors.

Table A9: **Rational Inertia Model with the Combined LP Index**

	(1)	(2)	(3)
ATS	-0.3873***	-0.3468***	-0.3502***
	(0.0838)	(0.0849)	(0.0849)
ATS × Small	0.0209	0.0221	0.0116
	(0.0401)	(0.0407)	(0.0409)
ATS × Medium	0.0112	0.0121	0.0051
	(0.0360)	(0.0364)	(0.0366)
ATS × Institutional Ownership	0.0133	0.0122	0.0135
	(0.0391)	(0.0397)	(0.0400)
ATS × Industry Premium$_{t-1}$ > median		-0.0670***	-0.0664***
		(0.0212)	(0.0212)
ATS × Manager > 15 percent			0.0806***
			(0.0309)
Average ATS	-0.3693	-0.3745	-0.3764
- Small firms	-0.3648	-0.3712	-0.3736
- Medium firms	-0.3695	-0.3740	-0.3762
- Large firms	-0.3787	-0.3823	-0.3826
LP	0.2464***	0.2313***	0.2325***
	(0.0299)	(0.0316)	(0.0317)
LP × Small	0.1037***	0.1031***	0.1043***
	(0.0236)	(0.0240)	(0.0242)
LP × Medium	-0.0077	-0.0084	-0.0073
	(0.0246)	(0.0248)	(0.0249)
LP × Institutional Ownership	-0.2888***	-0.2887***	-0.2903***
	(0.0257)	(0.0261)	(0.0263)
LP × Ind. Premium$_{t-1}$ > median		0.0278**	0.0278**
		(0.0137)	(0.0138)
LP × Manager > 15 percent			-0.0125
			(0.0182)
Average LP	0.1854	0.1889	0.1893
- Small firms	0.3155	0.3197	0.3203
- Medium firms	0.0955	0.0986	0.0990
- Large firms	0.0602	0.0631	0.0630

	(1)	(2)	(3)
Home Bias	4.4299***	4.4265***	4.4286***
	(0.1137)	(0.1144)	(0.1146)
Home Bias × Small	0.8961***	0.8972***	0.8959***
	(0.1123)	(0.1130)	(0.1131)
Home Bias × Medium	0.5942***	0.5945***	0.5952***
	(0.1155)	(0.1162)	(0.1163)
DE Fixed Effect	7.5351***	7.5357***	7.5374***
	(0.1893)	(0.1893)	(0.1895)
NV Fixed Effect	4.8971***	4.8789***	4.8759***
	(0.4293)	(0.4306)	(0.4306)
CA Fixed Effect	0.9633***	0.9669***	0.9669***
	(0.1900)	(0.1905)	(0.1908)
NY Fixed Effect	2.6307***	2.6231***	2.6247***
	(0.3569)	(0.3575)	(0.3577)
Average π (percent)	1.2	1.2	1.2

Standard Errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

This table reports maximum likelihood estimates of the parameters of the rational inertia model. The dependent variable is a categorical variable that indicates the state of incorporation. The parameter estimates reflect the effect of one unit of each variable on the latent utility index of firms in the sample. All variables not defined herewith are defined in the Appendix. The table reports in bold firm utility with respect to one unit of each legal characteristic by firm size, given average firm characteristics (i.e., institutional ownership and managerial ownership) and parameter estimates. All specifications include state fixed effects, here reported for Delaware, Nevada, California and New York. The average π is the mean across firms-years of the probability that a firm makes an incorporation choice in any given year, obtained according to the formula in equation 4. The standard errors reported are computed using the Huber-White formula; see Train (2009). Firms with less than three observations are not included. The number of firm-year observations is 83,504, and there are 8,760 firms in the sample.

Table A10: **Rational Inertia Model with Firm-specific Cost of Incorporation Choice**

ATS	-0.4148***	Home Bias	4.4356***
	(0.0949)		(0.1279)
ATS × Small	0.1019**	Home Bias × Small	0.8331***
	(0.0502)		(0.1280)
ATS × Medium	0.0536	Home Bias × Medium	0.6272***
	(0.0476)		(0.1335)
ATS × Institutional Ownership	-0.0669	Fixed Effect DE	7.5468***
	(0.0454)		(0.2388)
ATS × Industry Premium$_{t-1}$ > median	-0.0663***	Fixed Effect NV	5.0164***
	(0.0226)		(1.5291)
LP (DIR)	0.3925	μ	18.8971***
	(1.1130)		(0.9579)
LP (DIR) × Small	-0.1609**	μ_{Small}	-2.3352***
	(0.0699)		(0.7404)
LP (DIR) × Medium	-0.0752	μ_{Medium}	-2.2529***
	(0.0632)		(0.2841)
LP (DIR) × Institutional Ownership	0.1996***	$\mu_{\text{Institutional Ownership}}$	4.4111***
	(0.0695)		(0.6705)
LP (DIR) × Ind. Premium$_{t-1}$ > median	0.0367	μ Industry Premium$_{t-1}$ > median	0.1066
	(0.0374)		(0.1542)
LP (OFF)	0.0961	Average μ_{it}	18.7625
	(1.0248)		
LP (OFF) × Small	0.2979***	Average μ_{it} for Large Firms	21.8129
	(0.0592)		
LP (OFF) × Medium	0.0495	Average μ_{it} for Medium Firms	18.8999
	(0.0618)		
LP (OFF) × Institutional Ownership	-0.7899***	Average μ_{it} for Small Firms	17.9333
	(0.0704)		
LP (OFF) × Ind. Premium$_{t-1}$ > median	0.0220	Average π_{it} (percent)	1.19
	(0.0303)		

Standard Errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

This table reports maximum likelihood estimates of the parameters of the rational inertia model, with firm-specific cost of incorporation choice that depends on firm characteristics. The dependent variable is a categorical variable that indicates the state of incorporation. Parameter estimates on the left-hand side of the table reflect the effect of one unit of each variable on the latent utility index of firms in the sample. Firms with less than three observations are not included. The number of firm-year observations is 83,504, and there are 8,760 firms in the sample.

Table A11: **Logit Regressions for In-State Incorporation**

	Dependent Variable: In-State Incorporation			
	Without State FE		With State FE	
	(1)	(2)	(3)	(4)
ATS	0.2161***	0.0896***	-0.2296***	-0.2391***
	(0.0047)	(0.0059)	(0.0227)	(0.0229)
LP (DIR)		0.2777***		0.1066*
		(0.0073)		(0.0578)
LP (OFF)		-0.990***		-0.2190***
		(0.0080)		(0.0550)
Pseudo R^2	0.0452	0.0595	0.1177	0.1179

Standard Errors in parentheses. $*$ $p < 0.10$, $**$ $p < 0.05$, $***$ $p < 0.01$

This table reports maximum likelihood estimates of the parameters for Logit regressions. The dependent variable is a binary variable that indicates in-state incorporation. The parameter estimates reflect the effect of one unit of each variable on the latent utility index of firms in the sample. The specifications in columns (1) and (2) do not include state fixed effects; specifications in columns (1) and (2) include instead the full set of state fixed effects. All specifications include two-digit industry dummy variables. Firms with less than three observations are not included. The number of firm-year observations is 83,504, and there are 8,760 firms in the sample.

Table A12: **Multinomial Logit and Rational Inertia Model without Fixed Effects**

	Multinomial Logit	Inertia
	(1)	(2)
ATS	-0.2840***	-0.3316***
	(0.0056)	(0.0147)
ATS × Small	0.0505***	0.1351***
	(0.0052)	(0.0178)
ATS × Medium	0.0236***	0.0579
	(0.0044)	(0.0814)
ATS × Institutional Ownership	-0.0441***	-0.0980***
	(0.0062)	(0.0261)
ATS × Industry Premium$_{t-1}$ > median	-0.0206***	-0.0412***
	(0.0035)	(0.0094)
LP (DIR)	0.0959***	0.0677***
	(0.0067)	(0.0169)
LP (DIR) × Small	-0.0352***	-0.0167
	(0.0063)	(0.0388)
LP (DIR) × Medium	0.0154***	0.0138
	(0.0053)	(0.0680)
LP (DIR) × Institutional Ownership	0.0445***	0.1052***
	(0.0069)	(0.0250)
LP (DIR) × Ind. Premium$_{t-1}$ > median	0.0224***	0.0258
	(0.0042)	(0.0244)
LP (OFF)	-0.0561***	-0.2149***
	(0.0134)	(0.0567)
LP (OFF) × Small	0.0980***	0.3443***
	(0.0121)	(0.0558)
LP (OFF) × Medium	-0.1425 ***	0.0146
	(0.0126)	(0.0852)
LP (OFF) × Institutional Ownership	-0.5949***	-1.1791***
	(0.0158)	(0.0819)
LP (OFF) × Ind. Premium$_{t-1}$ > median	-0.0329***	0.0329
	(0.0087)	(0.0289)

Standard Errors in parentheses. $* p < 0.10$, $** p < 0.05$, $*** p < 0.01$

This table reports maximum likelihood estimates of the parameters of the multinomial logit model and of the rational inertia model without fixed effects. The dependent variable is a categorical variable that indicates the state of incorporation. The parameter estimates reflect the effect of one unit of each variable on the latent utility index of firms in the sample. All variables not defined herewith are defined in the Appendix to the article. These specifications do not include state fixed effects. Firms with less than three observations are not included. The number of firm-year observations is 83,504, and there are 8,760 firms in the sample.

Table A13: **Rational Inertia Model with the Distance Variable**

	(1)	(2)
	Distance	Baseline
ATS	-0.3813***	-0.3756***
	(0.0973)	(0.0929)
ATS × Small	0.0677	0.0715
	(0.0461)	(0.0465)
ATS × Medium	0.0234	0.0234
	(0.0422)	(0.0432)
ATS × Institutional Ownership	-0.0371	-0.0482
	(0.0444)	(0.0437)
ATS × Industry Premium$_{t-1}$ > median	-0.0681***	-0.0660***
	(0.0221)	(0.0223)
Average ATS	-0.4463	-0.3986
- Small firms	-0.4092	-0.3571
- Medium firms	-0.4649	-0.4207
- Large firms	-0.4938	-0.4493
LP (DIR)	0.3620	0.3730
	(0.9987)	(0.6503)
LP (DIR) × Small	-0.1379**	-0.1350**
	(0.0650)	(0.0655)
LP (DIR) × Medium	-0.0461	-0.0498
	(0.0573)	(0.0578)
LP (DIR) × Institutional Ownership	0.1833***	0.1805***
	(0.0671)	(0.0676)
LP (DIR) × Ind. Premium$_{t-1}$ > median	0.0358	0.0373
	(0.0368)	(0.0371)
Average LP (DIR)	0.3664	0.3867
- Small firms	0.2615	0.2863
- Medium firms	0.4217	0.4380
- Large firms	0.4960	0.5135

	Distance	Baseline
LP (OFF)	0.1515	0.1211
	(0.9225)	(0.6031)
LP (OFF) × Small	0.2469***	0.2738***
	(0.0523)	(0.0523)
LP (OFF) × Medium	-0.0062	0.0183
	(0.0542)	(0.0537)
LP (OFF) × Institutional Ownership	-0.7704***	-0.7381***
	(0.0649)	(0.0633)
LP (OFF) × Ind. Premium$_{t-1}$ > median	0.0239	0.0218
	(0.0304)	(0.0297)
Average LP (OFF)	0.0073	-0.0025
- Small firms	0.3342	0.3222
- Medium firms	-0.2108	-0.2116
- Large firms	-0.3196	-0.3405
Home Bias	4.0676***	4.4520***
	(0.1249)	(0.1174)
Home Bias × Small	0.8387***	0.8383***
	(0.1172)	(0.1195)
Home Bias × Medium	0.6253***	0.6268***
	(0.1217)	(0.1241)
DE Fixed Effect	7.3943***	7.5622***
	(0.2110)	(0.1868)
NV Fixed Effect	4.8202***	4.9604***
	(1.4438)	(0.9792)
CA Fixed Effect	0.7299	1.1194
	(1.6223)	(1.0263)
NY Fixed Effect	2.6742***	2.6593***
	(0.4221)	(0.3818)
Distance	-0.4209***	-
	(0.0588)	

Standard Errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

This table reports maximum likelihood estimates of the parameters of the rational inertia model. The dependent variable is a categorical variable that indicates the state of incorporation. The parameter estimates reflect the effect of one unit of each variable on the latent utility index of firms in the sample. Distance is measured as the log of 1,000 kilometers between the capital of the firm's state of incorporation and the capital of the state of its headquarters. Distance between states is computed using ArcGIS as the great circle distance between state capitals. State coordinates are obtained from Merryman (2005). All variables not defined herewith are defined in the Appendix. The table reports in bold firm utility with respect to one unit of each legal characteristic by firm size, given average firm characteristics (i.e., institutional ownership and managerial ownership) and parameter estimates. All specifications include state fixed effects, here reported for Delaware, Nevada, California and New York. The average π is the mean across firms-years of the probability that a firm makes an incorporation choice in any given year, obtained according to the formula in equation 4. The standard errors reported are computed using the Huber-White formula; see Train (2009). Firms with less than three observations are not included. The number of firm-year observations is 83,504, and there are 8,760 firms in the sample.