

The Revolving Door and the SEC's Enforcement Outcomes: Initial Evidence from Civil Litigation

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July 20, 2015

Abstract:

We investigate the consequences of the “revolving door” for trial lawyers at the SEC’s enforcement division. If future job opportunities motivate SEC lawyers to develop and/or showcase their enforcement expertise, then the revolving door phenomenon will promote more aggressive regulatory activity (the “human capital” hypothesis). In contrast, SEC lawyers can relax enforcement efforts in order to develop networking skills and/or curry favor with prospective employers at private law firms (the “rent seeking” hypothesis”). We collect data on the career paths of 336 SEC lawyers that span 284 SEC civil cases against accounting misrepresentation over the period 1990-2007. Our overall evidence is consistent with the “human capital” hypothesis. However, we find some evidence of “rent seeking” when SEC lawyers are based in Washington DC and when defense firms employ more former SEC lawyers. The revolving door likely impacts numerous aspects of SEC regulation setting and enforcement. This study examines accounting-related civil cases and is not able to study administrative or non-accounting enforcement cases. Further, the study does not address the choice of which cases to pursue, the incentives of employees other than trial lawyers, or how the revolving door affects rule making. Subject to these caveats, our study provides an important first look into the effects of revolving door incentives on the SEC’s enforcement process and lays the groundwork for future research.

This paper benefited greatly from discussions with Joseph Grundfest (former SEC Commissioner), Robert Khuzami (former Director of SEC Enforcement), Andrew Vollmer (former SEC Deputy General Counsel), and other former SEC personnel who asked to remain anonymous. We received valuable comments from Joanna Wu (editor), Rachel Hayes (discussant) and participants at the Journal of Accounting & Economics 2014 Conference. We thank Ross Watts (discussant), Joe Weber (discussant), Truc Thuc Do, Scott Lee, Jerry Martin, Zoe-Vonna Palmrose, Srinivas Sankaraguruswamy, Michael Smallberg and David Hilzenrath of POGO, Michael Roberts, Xuesong Xu, Jun Yang, and seminar participants at the 2011 ALEA Meeting, 2012 AAA Annual Meeting, 2012 Conference on Financial Economics and Accounting, 2013 FARS Mid-Year Meeting, 2013 National Taiwan University Conference, Indian School of Business, Fordham University, Miami University, National University of Singapore, University of Florida, Texas A&M University, University of Minnesota, and Delaware University for their comments. We would like to thank Jonathan Karpoff, Scott Lee and Gerald Martin for graciously sharing their SEC enforcement data and Rebecca Files for sharing her restatement data. We are grateful for financial support from the Foster School of Business, Stanford Graduate School of Business, Nanyang Business School (Singapore Ministry of Education Academic Research Fund Tier 1), Goizueta Business School, Columbia Business School and the Whitcomb Center at Rutgers Business School.

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“At a minimum, the revolving door has undermined the integrity of the SEC’s oversight on numerous occasions, and the SEC isn’t policing as aggressively as it should,” said Nick Schwellenbach, POGO’s director of investigations, quoted in Hilzenrath (2011).

1.0 Introduction

In this paper, we provide an initial examination of whether revolving doors are associated with compromised regulatory oversight by the SEC. In particular, we investigate whether civil cases against accounting misrepresentation are influenced by the past and future job prospects of prosecuting SEC lawyers. The media, members of Congress, academics, former employees of the SEC and investors have raised questions about the impact of the revolving door on the SEC’s efficacy and independence. Indeed, ex-SEC chairwoman, Mary Schapiro (US Senate 2009, page 28), testified that the SEC must seek to avoid conflicts created by employees “walking out the door and going to a firm and leaving everybody to wonder whether they showed some favor to that firm during their time at the SEC.” A GAO report (2011) contends that even the mere appearance of a conflict of interest could undermine confidence in the enforcement process at the SEC, and a report from the SEC watchdog, Project for Government Oversight (2011), discusses individual cases where revolving door incentives likely undermined SEC enforcement. Despite the inherent importance of the SEC’s revolving door phenomenon, there is surprisingly little systematic evidence on the topic. Our paper attempts to provide initial evidence by examining whether SEC trial lawyers’ career prospects are associated with their enforcement efforts, while at the SEC.

Revolving doors lead to both the SEC hiring lawyers from firms that they regulate as well as SEC officials leaving to work for firms that are regulated.¹ Revolving doors are natural in that the SEC needs industry specific expertise to monitor and regulate effectively, and regulated firms need experience and knowledge of complex regulations to minimize the cost of compliance. However, revolving doors can

¹ For instance, Peter H. Bresnan, a former Deputy Director in the SEC’s Division of Enforcement, resigned in December 2007 and joined the law firm of Simpson Thacher & Bartlett LLP. In November 2009, Mr. Bresnan filed a statement advising the SEC that he had been “retained to represent a client [name redacted] in connection with *SEC v. Bank of America Corp.* (09-Civ-6892 (JSR)) (S.D.N.Y.)” A reverse example relates to the recent appointment of Mary Jo White, chair of the litigation department at the law firm of Debevoise & Plimpton, as the chairwoman of the SEC.

undermine enforcement if SEC lawyers are captured by past or future private employers. Specifically, revolving doors raise concerns that: (i) prior experience in industry makes SEC personnel unduly sympathetic to industry's interests; or (ii) SEC personnel go easier on violations to curry favor with future employers. Crucial to whether revolving doors enhance or compromise regulatory effort is the reason why the regulator is being hired by industry. If the SEC official is being hired primarily for his knowledge of the complex regulatory environment and technical expertise, he will have an incentive to invest in and/or demonstrate his human capital skills while at the regulatory agency to increase his future prospects in industry, which, in turn, will make him enforce regulations more aggressively (see Che (1995) and Salant (1995)). We predict aggressive enforcement for both "average" SEC lawyers who want to develop skills to ensure good future job prospects, as well as for highly talented SEC lawyers who want to demonstrate their competence to prospective employers. We label these arguments as the "human capital hypothesis." In contrast, if the SEC official is being hired primarily for his ability to lobby and influence decision makers at the agency, he is likely to under-emphasize or even compromise enforcement outcomes to curry favor with prospective employers (the "rent-seeking hypothesis").

In this paper, we provide initial evidence to discriminate between these two hypotheses by investigating whether and how job opportunities influence the outcomes of SEC civil litigation of accounting misrepresentation cases. We hand-collect data on future employers of a sample of SEC lawyers that prosecuted cases between 1990 and 2007.² The rent-seeking hypothesis implies that lawyers that leave the SEC to work for a private law firm, hereafter referred to as "revolvers," will be associated with lenient or lax enforcement while at the SEC. In contrast, the human-capital hypothesis implies that revolvers will be associated with aggressive enforcement while at the SEC.

We use three proxies for aggressive enforcement effort. The first is the monetary value of the damages collected by the SEC. The second outcome is whether, in addition to prosecuting his own civil

² Revolving door concerns also apply to other SEC employees such as accountants, economists, and Commissioners. We focus on lawyers because case dockets allow us to match lawyers with specific SEC enforcement. Moreover, detailed resumes, necessary to trace career paths, are easier to obtain for lawyers as compared to other professionals.

charges, the SEC lawyer refers the case to the Department of Justice (DOJ) for simultaneous criminal proceedings. The third outcome is whether the SEC lawyer pursues individual charges against the CEO of the firm. Charging the CEO is considered aggressive because: (i) naming individual officers antagonizes influential people who might hinder the SEC lawyers' future employment prospects; and (ii) individuals are likely to defend their case more vigorously relative to when only their company is named (Eagelsham 2011).

We obtain case dockets for all available SEC civil litigation of accounting misrepresentations filed between the years 1990-2007. We then search through Bloomberg Law databases, supplemented with LexisNexis Court Link, to collect data on the names of the SEC lawyers prosecuting each case, the defendant law firms, the parties charged, the monetary damages, and the outcome of the case. We rely on the LexisNexis Academic database, the Martindale Company's database, Freedom of Information Act requests, and general web searches to gather data on the age, education, and the identity of the pre- and post-SEC employers of each SEC lawyer identified above. Our final sample includes 336 unique lawyers that worked on 284 SEC enforcement cases over the sample period.

About 58% (or 196) of the 336 lawyers continue to work for the SEC by the end of our data collection period. About 11%, or 37 lawyers, leave the SEC to join employers other than law firms, and the remaining 31% of the lawyers quit to join private law firms (referred to as "revolvers"). On average, the revolver lawyers are more likely to face conflicts of interest while at the SEC. However, some revolver lawyers leave the SEC to join firms that frequently represent clients before the SEC, while other revolver lawyers join firms that do not specialize in SEC enforcement cases. The revolver lawyers' SEC experience, either in SEC regulation or in lobbying decision-makers, should be more relevant for law firms that specialize in SEC matters and actively defend clients against the SEC (labeled as "SEC_SPECIALIST" firms). The SEC_SPECIALIST variable captures each law firm's level of SEC specialization based on the count of the number of cases the firm defends against the SEC in our sample. Initial tests find some support for human capital hypothesis – revolver lawyers are associated with greater monetary damages, but there is no evidence of differences in criminal cases or CEO charges. However, the data do indicate that enforcement outcomes are consistently more aggressive for revolver lawyers that join SEC_SPECIALIST firms. For

example, a one unit increase in SEC_SPECIALIST, which would be the equivalent of moving from the 50th to 75th percentile, is associated with a 28% increase in damages, a 6.8% increase in the likelihood of criminal proceedings, and a 7.4% increase in the likelihood of naming the CEO as a defendant. Overall, we interpret the evidence as consistent with the human capital hypothesis.

We next investigate whether there is evidence consistent with rent seeking or the human capital hypothesis in instances where the SEC lawyers' revolving door incentives are potentially the strongest. In particular, we evaluate whether SEC lawyers are incrementally more lenient or aggressive: (i) towards target firms located in the same geographic area as the lawyer; (ii) when the lawyer is located in Washington DC and has greater access to senior SEC officials; (iii) in the lawyer's last year at the SEC; (iv) if the lawyer is younger with stronger career incentives; and (v) towards law firms that co-defended with the lawyer's future employer. There is some evidence of rent seeking when SEC_SPECIALIST lawyers are based in Washington DC. However, the weaker enforcement is observed for only some case outcomes, and results for most of the other cross-sectional tests remain consistent with the human capital hypothesis.

Our next set of tests investigates whether enforcement outcomes are laxer not while the lawyer is still at the SEC, but rather after the lawyer has left the SEC and is working for a defense law firm. We proxy for the number of "SEC alumni" at each defense firm, as well as for specific, personal connections between SEC prosecutors and defenders based on whether they overlapped at the same SEC office or case team while at the SEC. We find no evidence that personal connections between prosecutors and defense lawyers are associated with enforcement outcomes. However, we do find evidence of lower damages and fewer criminal cases when the defense firms employ more SEC alumni in general. Thus, the data are consistent with former SEC lawyers being able to obtain more favorable outcomes for the clients they defend after leaving the SEC.

The human capital hypothesis encompasses two possible reasons for observing tougher enforcement among lawyers who later join SEC_SPECIALIST firms: (i) such lawyers invest more effort in developing enforcement skills while at the SEC, and these skills earn them jobs with SEC_SPECIALIST firms; and (ii) high-ability and/or talented lawyers pursue tough enforcement, or at least do not undermine enforcement, so as to signal their type to future employers. It is worth pointing out that, from a policy perspective, an "effort"

versus “ability” explanation is not necessarily relevant. Open revolving doors, whether they encourage some lawyer to work harder or attract talented lawyers that seek to gain experience and move to future employers, are associated with aggressive enforcement outcomes. Notwithstanding the joint nature of ability and effort, a couple of observations deserve mention. If ability explained the results, then all the best lawyers that leave the SEC should be associated with aggressive enforcement outcomes. However, we find evidence of tougher enforcement only when the lawyer quits to join a law firm that specializes in SEC cases. Further, the results persist after we include variables for the lawyer’s background, such as his experience at the SEC and a dummy variable for an Ivy League law school education in the regressions. Lastly, we also endogeneize a lawyer’s likelihood of leaving the SEC as a function of his internal and external job prospects. Controlling for the revolving lawyer’s propensity to leave the SEC does not alter our findings.

Finally, we also collect and analyze data on the lawyers’ prior experience before joining the SEC. In this smaller dataset, spanning 195 lawyer-cases, we identify “inbound” revolvers, or lawyers who join the SEC after working for private law firms. In particular, we evaluate whether such inbound revolvers are associated with laxer or tougher enforcement outcomes. However, we find no systematic difference in case outcomes between inbound revolvers and the other lawyers in the data.

A skeptic can question whether a SEC lawyer has significant discretion over the penalty structure imposed on the culpable firm. However, if one were to argue that SEC lawyers have little or no influence over enforcement outcomes, then the debate over whether the revolving door of trial lawyers compromises regulatory efforts is moot. This seems unlikely as ex-SEC Chairman Mary Schapiro explicitly expressed concerns about revolving door lawyers during her confirmation hearing in January 2009 (Schapiro 2009). Hence, a maintained assumption in the paper is that SEC lawyers can affect enforcement outcomes.

An important caveat and limitation of our study is that, due to data limitations, we are only able to observe enforcement outcomes conditional on the SEC filing at least one civil charge. This is a significant limitation because once a case is in the public’s eye, the room for rent seeking may be limited. It is potentially even more likely that rent seeking behavior manifests not in the choices of *how* a case is prosecuted, but rather in the choice of whether or not to pursue a case at all. Or, rent seeking incentives may

motivate lawyers to pursue administrative charges instead of civil charges. Unfortunately, the SEC does not release data on defendants that were investigated but not charged or on the lawyers that work on administrative cases.³ However, we attempt to shed light on this issue in an indirect way. We examine a subset of cases where the SEC likely has lower discretion in the filing of charges. Specifically, the SEC may have little choice but to file charge in cases that attract a lot of media attention. As laxity cannot be shown in case selection, it plausibly manifests in the types of charges filed. We find no evidence supporting this conjecture – enforcement outcomes do not differ by media attention. However, these tests are indirect at best and this study is not equipped to address how revolving door incentives impact case selection. The results speak only to the aggression, or lack thereof, of enforcement efforts once the SEC chooses to file civil charges against a target.

It is critical to emphasize several other limitations of our study. First, our study only examines the prosecution of specific accounting violations, as tracked in the database used in Karpoff et al. (2008a, 2008b). Revolving door incentives and outcomes could potentially differ in the prosecution of other securities law violations and in other areas of the SEC, such as rule making.⁴ Second, our results can only speak to the *average* enforcement outcomes of revolver lawyers – that is, we cannot comment on idiosyncratic cases of revolver lawyers favoring potential future employers.⁵ Third, our study is limited to SEC lawyers and does not examine revolving door effects among other SEC employees or SEC senior leadership. Finally, our results do not imply that the current implementation of the SEC’s revolving door policies is first-best. Other policies might involve an increase in SEC funding such that it can match law firm salaries, requiring a “cooling off” period between working for the SEC and any law firm, or an outright ban

³ As discussed later in the paper, we identify lawyers on civil cases from court case dockets. Case dockets are not available for administrative cases.

⁴ Our decision to focus on accounting misrepresentations is consistent with many other studies on SEC enforcement (e.g., Correia 2014; Files 2012; Kedia and Rajgopal 2011). We estimate that accounting violations comprise roughly one-third of all SEC civil cases. Limiting the sample to accounting misconduct is a matter of practicality: to our knowledge, there is no existing dataset of enforcement actions against other types of violations.

⁵ Indeed, a 2011 report by the Project on Government Oversight (POGO) identifies several cases where revolving door incentives may have compromised SEC enforcement efforts.

on revolving door employment. The optimal revolving door policy depends on numerous factors, the pros and cons of which are beyond the scope of this study.

Despite these caveats and limitations, our paper provides an important first look into revolving doors and SEC enforcement. Revolving door concerns and policy alternatives at the SEC are often debated among the media, regulators, and special interest groups (e.g., Bair 2012).⁶ However, to date we have only a limited understanding of why and how revolving door incentives might affect SEC enforcement, and we have virtually no systematic empirical evidence on the subject. Our paper contributes to the literature by providing a better understanding of how future employment opportunities likely effect SEC regulators' efforts. Further, in the portion of the SEC enforcement process that we are able to observe (i.e., accounting civil cases, after charges have been filed), our evidence suggests that SEC regulatory efforts are not, on average, compromised due to revolving door incentives. However, we do find some evidence that law firms hiring more SEC alumni are able to obtain more favorable outcomes for their clients.

Apart from our evidence, an important contribution of our paper is to simply introduce revolving door concerns to the accounting literature and to provide a groundwork for future research. We detail the incentives of parties involved with the enforcement process and explain the institutional details necessary to understand when and how revolving door incentives likely affect enforcement. Many of these important institutional details (e.g., the division of responsibilities between the investigation and trial units) are not easily obtained, or at a minimum are not widely disseminated in the accounting and finance literatures. Our paper provides valuable input to the SEC's debate over its revolving door question, as well as lays the groundwork for potential future studies on other aspects of the revolving door phenomenon at the SEC.

The remainder of the paper is organized as follows. Section 2 discusses the institutional details and hypotheses. Section 3 describes the data and the empirical specification. Section 4 presents our main empirical results and cross-sectional tests. Section 5 investigates whether case outcomes differ when a defense law firm employs former SEC prosecutors. Section 6 discusses additional analysis and robustness tests. Section 7 presents an analysis of "inbound" revolving door lawyers. Section 8 concludes.

⁶ <http://dealbook.nytimes.com/2013/11/11/slowing-the-revolving-door-between-public-and-private-jobs/>

2. Literature Review and Hypotheses

2.1 Literature review and institutional background

The theoretical literature on the issue of revolving doors is sparse. Che (1995) presents a model where regulators, during their tenure with the regulatory agency, can invest either in technical expertise or in lobbying capital via social connections with regulatory officials. In our setting, Che's model predicts that if law firms hire former SEC lawyers for their technical expertise, then lawyers will endeavor to acquire and demonstrate such expertise while at the SEC. Thus, SEC lawyers will invest in becoming proficient regulators, which, in turn, will lower the SEC's enforcement costs. An alternate model is to argue that no specific skills or connections are acquired by lawyers at the SEC, and outside opportunities are available to the most competent and/or hard-working lawyers (Che 1995; Salant 1995). Due to the unavailability of good proxies for a lawyer's ability, future employers are likely to use enforcement outcomes. In this scenario, enforcement outcomes signal ability and therefore the SEC lawyers will increase regulatory efforts to obtain these higher enforcement outcomes. Alternatively, a talented SEC lawyer will not undermine his enforcement efforts because doing so would signal lower ability to potential future employers. Under either of these two predictions, acquiring skill or high ability, open revolving doors are associated with better regulatory outcomes - referred to as the human-capital hypothesis. However, law firms may also hire former SEC lawyers for their lobbying potential and their influence with other SEC personnel, or as a quid pro quo for favorable treatment in the enforcement process. In such a case, the lawyer may be deliberately lax while at the SEC, or spend more time networking and less time on enforcement. These incentives result in laxer regulatory outcomes - what we refer to as the rent-seeking hypothesis. An important empirical question is what drives law firms to hire SEC regulators – their technical expertise, or their lobbying potential?

Prior studies on revolving doors have found mixed results and have mostly examined revolving doors in the context of regulating utilities, broadcasters and the insurance industry. Gormley (1979) and Cohen (1986) find that prior industry-experience makes FCC commissioners more supportive of industry's interests. However, Dal Bo (2006) raises concerns that, with both these studies, it is hard to disentangle the effect of the revolving door from the political affiliation of the commissioners. Spiller (1990) posits and finds

that regulators who preside over more lenient regulatory periods are more likely to get jobs in industry. In contrast, Glaeser et al. (2000) argue that the career prospects of enforcement officials are strengthened by cultivating a reputation for aggressive enforcement and not by pandering to potential target-employers. Overall, there is mixed evidence on the impact of revolving doors on regulatory outcomes.

A report from a government watchdog, the Project on Government Oversight (POGO), in 2011 identifies several high profile cases, including Bear Stearns and the Allen Stanford's Ponzi scheme, in which the revolving door appears to have been responsible for lax SEC oversight. Members of Congress, academics, former employees of the SEC and investors have raised questions about the impact of the revolving door on the SEC's efficacy and independence (e.g., Coates 2000, Freeman 2004, Perino 2004, Langevoort 2006, Gadinis 2012, Lewis and Einhorn 2009 and Grassley 2011). Our study is the first to empirically examine the effects of the SEC's revolving door phenomenon by collecting detailed data on the career choices of SEC enforcement lawyers.

2.2 SEC enforcement process

Before we discuss the details of our research design and construction of relevant variables, we outline the SEC enforcement process in brief. Lawyers and other personnel in the SEC Enforcement Division's "Investigation Unit" conduct inquiries into potential securities law violations. Accounting violations may be brought to the SEC's notice in various ways, including news reports, a routine review of the SEC filings, or tips from whistle blowers. The SEC conducts an informal investigation for a subset of these firms. The informal investigation can develop into a formal investigation if questionable activity is suspected. The SEC does not publicly disclose the names of firms that are under informal or formal investigation. After the investigation, the SEC may drop the case or proceed to the regulation period. Lawyers in the Enforcement Division's "Trial Unit" take over the case once the decision to pursue charges has been made, although a small number of personnel from the investigating team often join the trial team.⁷

⁷ It is impossible to ascertain how many of the lawyers in the sample are from the "Investigation" as opposed to the "Trial" unit. Former SEC personnel informed us that lawyers appearing on the case docket, and therefore appearing in our sample, are likely to be from the Trial Unit. Further, the designated "Lead Lawyer" on a case docket is always from the Trial Unit, and the remaining lawyers are likely listed in order of descending importance. Because 47% lawyers in

If the SEC initiates charges against the firm, it can choose to bring an administrative proceeding or civil litigation, or both. Administrative proceedings are heard by an independent administrative law judge, who issues a decision and recommends sanctions. In contrast, in a civil action, the SEC files a complaint with a U.S. District Court and asks the court for a sanction. The choice of administrative proceedings or civil litigation depends on the type of sanction being sought.⁸ When the misconduct warrants it, the SEC might bring both types of proceedings. The SEC can also refer the case to the Department of Justice (DOJ) for criminal proceedings, which is usually reserved for cases of severe misconduct. To implement our empirical tests, we need the names of the SEC lawyers that are associated with a particular enforcement action. The court dockets filed as a part of civil litigation list the names of SEC lawyers involved, but the administrative proceedings do not. Hence, we only examine SEC enforcement action that involves civil litigation.⁹ Many of the civil litigation cases in our sample are also accompanied by administrative and/or criminal proceedings.

2.3 Hypothesis development

SEC lawyers can potentially earn substantially higher wages in the private sector. The SEC seeks to control potential conflict of interests via post-employment restrictions. These restrictions bar former employees from appearing before the SEC and from assisting others in appearing before the SEC on matters in which they participated personally and substantially while they were at the Commission. Former SEC personnel can represent clients before the Commission on matters they personally did not work on during their tenure at the agency. However, these former employees must file statements (known as CFR Title 17 letters) with the SEC when they appear before the agency on behalf of outside parties, on matters that they

our sample are designated as Lead Lawyer on at least one case and 87% are listed in the top three lawyers at least once, it appears likely that the large majority of our sample lawyers are from the Trial Unit. Consequently, enforcement outcomes are likely important for their careers.

⁸ For example, the SEC may bar someone from the brokerage industry in an administrative proceeding, but an order barring someone from acting as a corporate officer or director must be obtained in a federal court. It is our understanding that administrative proceedings involve milder sanctions relative to civil litigation.

⁹ In the last two or three years, SEC lawyers may voluntarily identify themselves on press releases announcing administrative charges. We are unable to use these lawyers in our study because insufficient time has elapsed to be able to track these lawyers through their post-SEC careers. Further, since lawyer identification is voluntary, using lawyers identities from press releases likely introduces sample selection issues.

were not personally involved with while at the Commission, for two years after leaving the SEC. As these regulations facilitate disclosure but do not discourage moving from the SEC, many SEC lawyers leave to pursue outside opportunities. About 42% of lawyers in our sample quit the SEC by the end of our data collection period.

Lawyers who intend to leave the SEC will maximize their future job opportunities by investing in and/or demonstrating skills that are valued by the external job market. If future employers value the knowledge of SEC regulations and practices, the SEC lawyer will bolster his human capital in these areas. The human capital hypothesis implies that future job prospects, or the existence of revolving doors, are likely to lead to aggressive enforcement outcomes that are consistent with the SEC's objectives. In contrast, if the lawyer is being hired to lobby the SEC or as an (implicit or explicit) quid pro quo for lax enforcement, he is unlikely to focus on enforcement effort or, worse, will compromise enforcement to curry favor with defendant law firms (i.e., potential future employers). The rent seeking hypothesis implies that the prospect of future job opportunities is likely to be associated with laxer enforcement outcomes. These alternate outcomes are summarized in our first hypothesis:

H1: Under the "human capital" hypothesis, revolving doors are associated with tougher enforcement by SEC lawyers that eventually leave the SEC. In contrast, the "rent seeking" hypothesis implies that revolving doors are associated with laxer enforcement outcomes.

Both the human capital and rent seeking hypotheses imply that the SEC lawyer will choose to invest in and demonstrate skills – either expertise in SEC regulation or SEC lobbying potential - that are potentially valued by external employers. Therefore, the SEC lawyer's effort in building his human capital or lobbying potential should be increasing in the relevance of his SEC experience to his potential employer. This intuition is summarized in our second hypothesis:

H2: Tougher or laxer enforcement outcomes under the "human capital" and the "rent seeking" hypotheses, respectively, are increasing in the relevance of the lawyer's SEC experience to the future employer.

To test H2, we construct a variable SEC_SPECIALIST that captures the extent to which the revolver lawyer's post-SEC employer specializes in defending clients before the SEC (Section 3.1 describes SEC_SPECIALIST in more detail). The revolver lawyer's SEC experience is likely to be more valuable to his future employer if SEC_SPECIALIST is high. H2 predicts that under the human capital (rent seeking) hypothesis, the intensity of enforcement efforts should be increasing (decreasing) in SEC_SPECIALIST.

3.0 Data and Empirical Specification

3.1 Data collection process

We begin with a list of 865 enforcement actions against accounting misrepresentation initiated by the SEC over the period 1979 to 2007, graciously provided to us by Karpoff, Lee and Martin (KLM).¹⁰ We exclude all enforcement actions prior to 1990 as case dockets for these actions are generally unavailable. The resolution of the last SEC enforcement action in our dataset occurs in August of 2008. As discussed earlier, we restrict our sample to enforcement actions that involve civil litigation.¹¹ After imposing other required data screens, detailed in Table 1, the final sample consists of 284 cases involving 336 lawyers.¹² Because of cases involving multiple lawyers, the unit of observation for our analysis is the lawyer-case level. We have 666 such lawyer-case observations in our sample. The average number of lawyers per case ranges from one to nine, with an average of 2.35 lawyers (666 lawyer-case observations / 284 cases).

¹⁰ For details of the data, see Karpoff et al. (2008a). The sample consists of accounting related violations, which comprise about a third of all SEC enforcement cases over our sample period. SEC enforcement areas not covered by this study include broker-dealer, insider trading, Foreign Corrupt Practices Act (FCPA), securities offerings, investment advisors, and other violations. We have no reason to believe that revolving door incentives and effects relating to accounting violations would differ from those relating to other types of enforcement cases.

¹¹ As we only examine SEC enforcement actions that involve civil litigation, the sample consists of the more severe violations. This is reflected in the fact that the mean cumulative abnormal return around the revelation of the accounting fraud is -21% for enforcement actions with civil litigation relative to -16% for those that have only administrative proceedings (untabulated). Moreover, targets of litigated cases are more likely to delist (36%) relative to those with administrative proceedings (21%).

¹² Untabulated analyses suggest no statistically significant differences between civil litigation cases with and without all available data for the following variables: return on assets, book-to-market value, stock beta, trigger date cumulative abnormal returns, and firms' failure rates.

For each enforcement action, we identify the corresponding SEC litigation releases that are available after 1995 from the SEC’s website at <http://www.sec.gov/litigation/litreleases.shtml>. For SEC enforcement actions prior to 1995, we rely on the Lexis.com database. We extract the following data items from each litigation release: (i) the case docket identifying information; (ii) the charged parties (e.g., company, CEO, CFO); (iii) the outcome of the case (e.g., win or settle); and (iv) the monetary damages. We then use the Bloomberg Law database and LexisNexis Court Link to obtain civil case dockets. We collect the following data from the case dockets: (i) the SEC lawyers’ names and office locations; (ii) the name of the defendant; and (iii) the defense law firm.

We obtain data on each SEC lawyer’s age, education, work history, and post-SEC employer from the following sources: (i) LexisNexis Academic database (source: Martindale-Hubbell(R) Law Directory); (ii) Martindale Company database (<http://www.martindale.com/>); (iii) a general web search including professional network sites such as LinkedIn; and (iv) “CFR Title 17 Letters” that we obtained from the SEC invoking the Freedom of Information Act for the years 2004 – 2010.¹³ Lawyers that leave the SEC to join a private law firm by the end of our data collection period are identified as “revolver” lawyers (binary variable REVOLVER). All other lawyers are considered “non-revolvers,” including lawyers still at the SEC and those who leave to join employers other than law firms.¹⁴

Lawyers who leave the SEC to join “SEC specialist” law firms are a subset of the “revolver” lawyers i.e., those that leave the SEC to join any law firm. We construct the SEC_SPECIALIST variable based on the count of the number of times each law firm appears as a defending law firm in our sample of cases. For example, consider an SEC lawyer who leaves to join the law firm Latham & Watkins. Latham & Watkins appears six times as a defending law firm in our sample. Any SEC lawyer that leaves the SEC to join Latham & Watkins would then be assigned an SEC_SPECIALIST value of “6”. The intuition is that firms that appear

¹³ All data collection was independently completed by two research assistants. Discrepancies related to the coding of outcomes between these two assistants were investigated and reconciled by a third research assistant. Our data collection concluded in July of 2011. Thus, a minimum of three years elapsed between the end of the last case in our sample and end of our data collection window.

¹⁴ Defining REVOLVER such that it includes all lawyers who depart the SEC regardless of whether they join a law firm has little impact on our results.

more frequently as defending law firms are likely to specialize more in SEC litigation, and therefore the SEC lawyer's experience is likely to be more relevant for that law firm.¹⁵ Following this method, the SEC_SPECIALIST variable is set to zero for: (i) lawyers that do not quit the SEC; (ii) lawyers who quit the SEC but do not join a law firm (e.g., they join a corporation); and (iii) lawyers that join a law firm that does not defend a client against the SEC in our database. There are two substantive differences between the REVOLVER and SEC_SPECIALIST variables: (i) REVOLVER is a binary variable while SEC_SPECIALIST is a count variable; and (ii) REVOLVER is non-zero for all lawyers who leave the SEC to join a law firm, while SEC_SPECIALIST is non-zero for only lawyers who leave the SEC to join a law firm that appears at least once as a defense firm in our sample.¹⁶

Appendix A illustrates the data collection process for one litigation release against Oliver Transportation Inc. and its employees, filed on 17th of December, 1998. The case docket from Bloomberg Law identifies Leonatti and Baker PC as one of the defense firms in the civil case. We also identify four

¹⁵ As the SEC_SPECIALIST variable is constructed using only accounting civil cases, rather than all administrative and civil cases, a concern is that it might be a biased measure of a law firm's SEC relevance. We argue that although the SEC_SPECIALIST variable used is noisy, the measure is unbiased. The first concern is that the measure excludes administrative proceedings. As law firms that defend clients in civil litigation are also likely to defend them in administrative proceedings, using only civil cases leads to an unbiased proxy that captures the relative SEC relevance. The second concern is that we use only accounting civil cases and are not able to use other types of cases, such as defending insider trading allegations. If law firms specialize in practice areas, then lawyers with experience in accounting violation cases are likely to be attractive to defense law firms defending accounting cases, making a SEC_SPECIALIST variable, constructed from accounting cases, appropriate for our sample of accounting violations. However, if law firms are generalists then as long as the generalist law firm's distribution of market share across different practice areas is not related to their hiring of SEC lawyers, the SEC_SPECIALIST measure, based on any one practice area, is an unbiased proxy that captures relative SEC relevance to the hiring law firm. Exploratory and untabulated analyses using data from all civil litigation initiated in 2003 indicates that defense law firms tend to specialize. For instance, 331 of the 398 law firms in 2003 defend only one type of case. However, a few large defense firms operate across most areas. In particular, 11 law firms defended cases in four or more areas. As a robustness test (discussed in Section 6.7.2), we use the industry rank of the law firm to capture these large firms as an alternate proxy for SEC_SPECIALIST.

¹⁶ Note, that we do not scale the SEC_SPECIALIST variable by the size of the law firm. It might be argued that the same value of SEC_SPECIALIST, say defending three cases against the SEC might be more important for small firms as opposed to big law firms with many lawyers or diverse practices. Based on our understanding of the legal industry, the strongest incentives for sourcing business lies with individual partners at the law firm, and is usually specialized at that partner level. Moreover, these partners typically have specialized teams of more junior lawyers. Hiring one or two key lawyers into these teams is likely important to the team's success and prospects, regardless of whether these lawyers constitute a significant proportion of the overall law firm's staff. Still, untabulated tests that scale SEC_SPECIALIST by an estimate of the law firm size (where available from American Lawyer magazine) produce results that are qualitatively unchanged from those using unscaled SEC_SPECIALIST.

lawyers representing the SEC. One of the SEC lawyers is Mr. William R. Baker III, based in Washington DC. The Martindale-Hubble Law directory states that Mr. Baker now works for the law firm of Latham & Watkins LLP. The directory also states that Mr. Baker obtained his J.D. in 1983 from Georgetown University. Additional information from his website profile reveals that Mr. Baker worked at the SEC for 15 years prior to joining Latham & Watkins. Linking back to our database, we could identify that Mr. Baker's current employer, Latham & Watkins LLP, was involved in six cases defending a client in a SEC-related case. However, note that Mr. Baker is not identified as the lawyer on those cases. For Mr. Baker, the REVOLVER indicator variable is set to "1" and the SEC_SPECIALIST variable is set to "6."

3.2 Measuring enforcement outcomes

The first enforcement outcome we rely on is the amount of monetary damages collected by the SEC. The SEC considers two main factors in deciding whether or not to seek monetary damages: (i) whether the corporation directly benefited from the violation; and (ii) the degree to which the penalty would further harm innocent shareholders.¹⁷ Thus, in cases where the shareholders are the victims of violations perpetuated by management, the SEC may not pursue monetary penalties from the firm. Further, the SEC is less likely to seek monetary penalties when the firm is bankrupt and cannot pay, or when the firm is near bankruptcy and driving the firm to bankruptcy will harm innocent creditors. If it decides to do so, the SEC can seek two types of damages in civil cases: disgorgement of ill-gotten gains and civil penalties. The amount of civil penalties is guided by a tiered system with penalty limits for each infraction (Levine et al. 2010). SEC lawyers can seek to increase total penalties by subdividing one broad infraction into multiple specific violations. Thus, larger damages likely represent tougher enforcement and also enhance the publicity value of enforcement cases and attention to a lawyer's prosecutorial efforts.¹⁸

¹⁷ <http://www.sec.gov/news/press/2006-4.htm>. Accessed June 2014.

¹⁸ As noted, the SEC may choose not to pursue damages because doing so would harm existing shareholders. Thus, despite that large damages are likely evidence of tough enforcement, a weakness of DAMAGES is that low or zero damages does not necessarily imply lax enforcement. As discussed in Section 4, we attempt to address this concern by modeling zero-damages cases and also by separately analyzing the subset of cases with non-zero damages.

Under the human capital (rent seeking) hypothesis, we expect revolver SEC lawyers to be associated with higher (lower) DAMAGES in the cases they prosecuted while at the SEC. As seen in Table 2, the mean (median) DAMAGES collected by the SEC are \$5,809 thousand (\$84 thousand).¹⁹ The skewed damages statistic is not surprising as 25% of the lawyer-case observations have no damages and, unlike class action lawsuits, the SEC does not have the mandate to recover investor losses. Minor damages are consistent with Jackson's (2007) observation that monetary sanctions imposed by the SEC are small relative to that extracted by private litigation. Results in Panel C of Table 2 indicate that the SEC is more likely to extract non-zero damages for larger firms and firms with more severe violations (i.e., firms with more negative returns around the infraction trigger date, TRIGGER_CAR) and cases with more media attention around the litigation release, MEDIA_LR.²⁰

The second measure of enforcement is an indicator variable that takes the value of one when the case involves a criminal proceeding (CRIM_CASE). As discussed before, the SEC has discretion in referring a case to the DOJ for initiating criminal proceedings against the firm.²¹ We predict a higher likelihood of observing a CRIM_CASE under the human capital hypothesis than under the rent seeking hypothesis. In our data, about 45% of the cases are accompanied by criminal proceedings. Criminal proceedings are likely to be seen in more severe violations as captured by longer violation and regulation periods and greater media attention (Panel C of Table 2).

Finally, we code an indicator variable as one if the case named the CEO as a defendant (CEO_CHARGE). Many of the CEOs and other individuals that are named as defendants are barred from working in corporate America, either temporarily or indefinitely. Eviction from industry is a harsh penalty

¹⁹ Note that the number of available observations for DAMAGES is 624 lawyer-cases. Monetary damages are unknown or cannot be found for the remaining 42 observations.

²⁰ The TRIGGER event, as defined by Karpoff et al. (2008a) refers to the public disclosure of some impropriety that has or likely will result in an SEC enforcement action. A non-exhaustive list of trigger events includes firing a key employee, changing the firm's auditor, delaying required filings with the SEC, withdrawing a security offering, default notices, and trading suspensions of the firm's securities. Karpoff et al. (2008a) identify most trigger dates based on subsequent federal filings. See Appendix B for further discussion.

²¹ It is our understanding that the federal securities laws give the SEC the right to bring civil enforcement actions based on "scienter" or the intent and or knowledge of wrongdoing. The DOJ has the right to file criminal charges based on violations of those same sections if the conduct is also "willful." This implies a higher burden of proof in criminal cases.

leading to the increased likelihood that the CEO, and therefore his firm, will fight back harder (Eagelsham 2011). Further, Gadinis (2012) argues that corporate liability helps to deflect sanctions away from managers and employees, which, in turn, provides judges, juries and regulators with the opportunity to castigate misconduct “without sending a real human to jail.” Therefore, naming individual officers, especially the CEO, likely requires a greater burden of proof and enforcement effort. Further, it also risks antagonizing influential people that might impact the revolver lawyer’s future job opportunities. In our data, about 54% of the cases name the CEO as a defendant. Panel C of Table 2, shows that a CEO charge is more likely for smaller, growth firms. This is logical as the CEO of a small firm likely exercises greater influence over reporting practices and hence bears greater responsibility for the accounting violation. Charging the CEO, whether of a small or large firm, increases the SEC’s prosecutorial effort. Consistent with the use of stronger penalties in more severe violations, CEO are more likely to be charged when the amount restated is greater (i.e., more negative) and regulation period is longer.

We do not rely on whether the SEC wins or loses the case as a measure of enforcement outcomes because winning or settling can be subject to multiple interpretations. First, settling can be an efficient outcome for the SEC because its lawyers can then devote scarce enforcement resources to another investigation instead of engaging in a protracted trial. Second, the defendant’s propensity to settle potentially increases with the intensity of the prosecuting lawyer’s efforts, in which case, settling could be indicative of more aggressive enforcement. Third, a settlement can involve outcomes ranging from what resembles the SEC dropping charges to the defendant accepting the full penalties sought by the SEC. It is also worth noting that, consistent with national averages for civil cases, 93% of the cases in our sample end in a settlement.²² Further, while the remaining 7% are classified as a “win,” the final verdict could impose milder penalties than what the SEC sought. Thus, it is unclear whether settlement is evidence of more or less aggressive enforcement.

²² <http://www.nytimes.com/2008/08/08/business/08law.html>

It is worth stressing that, conceptually, the three enforcement outcomes we rely on are not independent of one another. However, the three enforcement outcomes are not necessarily complements, and may even be substitutes for one another. These three measures, when considered together, are likely to present a more complete picture of the enforcement outcomes. As seen in Table 2, Panel B, the correlation between the three enforcement outcomes is small and even negative in some cases.

3.3 Univariate evidence

Panel A of Table 3 details the number of cases that non-revolver and revolver SEC lawyers prosecuted in our sample. The data reveal that 60.2% of revolver lawyers and 57.9% of non-revolver lawyers participated in just one case in our sample, while 23.3% of revolver lawyers and 21.0% of non-revolver lawyers participated in two cases. The remaining lawyers prosecuted up to 15 cases during their SEC employment.²³ Panel B of Table 3 shows that there is significant variation in the nature of post-SEC employment among the revolver lawyers.²⁴ Of the 188 lawyer-case observations involving revolver lawyers, the median SEC lawyer joins a firm that has defended against the SEC once within our sample. About 25% of the revolver lawyer-case observations relate to law firms that have defended at least twice against the SEC within our sample.

We begin by comparing the enforcement outcomes of revolvers with those of non-revolvers. As displayed in comparison group 1 in Panel C of Table 3, CRIM_CASE and CEO_CHARGE are both higher for revolver lawyers. There is no statistical difference between the two groups for DAMAGES. These univariate differences are amplified when we consider revolver lawyers who join law firms that are more likely to defend against the SEC, i.e., when SEC_SPECIALIST is two or more (comparison group 2) and when SEC_SPECIALIST is four or more (comparison group 3). In both these subgroups, we find that

²³ The small number of cases per lawyer likely understates their involvement in enforcement efforts at the SEC. It is hard to estimate the extent of this understatement given that the names of the lawyers involved in SEC administrative actions and other enforcement activities are not publicly available.

²⁴ We do not have the data to ascertain whether the separation of the lawyer from the SEC was forced or voluntary. Neither do we have detailed data on the lawyer's seniority in the SEC.

CRIM_CASE and CEO_CHARGE are higher for the lawyers that join high SEC_SPECIALIST firms relative to others. The differences for DAMAGES are not significant.

Panel C of Table 3 also indicates that cases involving revolvers look different from those related to career SEC lawyers on dimensions other than the enforcement outcomes. Specifically, revolvers tend to be involved with firms that are smaller, more likely to delist, and experience more negative stock price reactions around the trigger date. Moreover, revolver lawyers are much more likely to have Ivy League degrees relative to career SEC lawyers. We control for these characteristics in our regression analyses to follow.

3.4 Estimated models and associated variables

The models we estimate generally contain the same explanatory variables. We use three dependent variables based on the three enforcement outcomes. Our two key treatment variables in our analysis are: (i) REVOLVER, an indicator variable that is set to one if the SEC lawyer on the case left the SEC to work at a law firm; and (ii) SEC_SPECIALIST, which is a count variable that equals the number of times the revolver lawyer's post-SEC law firm shows up as a defense firm (against the SEC) in our sample. SEC_SPECIALIST is logged in the regression analysis. Control variables fall into three categories: (i) the characteristics of the company charged by the SEC; (ii) case characteristics, including those that capture the severity of the violation; and (iii) lawyer characteristics, including those related to his competence. All variables discussed below are further detailed in Appendix B.

We control for the following characteristics of the firm targeted by the SEC: (i) the natural log of total assets (ASSETS); (ii) book-to-market (BTM); (iii) operating performance (ROA); (iv) stock beta (BETA); and (v) FAILED_FIRM, which is an indicator variable set to one if the firm delists before the end of regulation period. All estimations include fixed year effects to control for time trends.²⁵

As the enforcement outcomes are a function of the case and the severity of the violation, it is important to control for case characteristics. To control for the loss in shareholder value arising from the

²⁵ In some logit specifications (e.g., the CRIM_CASE models) there is no variation in the dependent variable in some years. In such cases, we only include indicator variables for years with variation to prevent losing data under the standard year fixed effects model.

violation, we include the three-day abnormal equity return around the initial revelation of the accounting misconduct (TRIGGER_CAR).²⁶ We also include buy-and-hold market-adjusted return for the 11 months ending one month prior to the violation end date (PRE_VIO_END_CAR) to capture anticipation of the accounting misrepresentation and its severity by the equity market. In line with Agrawal and Chadha's (2005) arguments that longer violation periods represent more material violations, we control for the natural log of the length of the violation period (VIO_LENGTH).²⁷ We include the natural log of the length of the regulation period (REG_LENGTH) because more egregious and complex cases are associated with greater regulation periods. Lastly, we control for the press coverage of the case. Increased media attention likely captures both the severity of the case as well as external scrutiny. MEDIA_LR is the logged number of press articles that mention the SEC's litigation release from one month before to one month after the litigation release announcement date. MEDIA_TRIG is the logged number of press articles that mention the firm from one month before to one month after the case trigger date. We anticipate that more complex cases likely require larger teams of SEC lawyers, and it is possible that revolving door incentives manifest differently in smaller versus larger teams. Thus, we also control for the size of the SEC lawyer team in all regressions (TEAM_SIZE). Finally, we also include accounting-based measures of the severity of the violation: an indicator variable for whether the violation is accompanied by a restatement (RESTATE); the cumulative net income impact of the restatement scaled by assets (RESTATE_AMT); and an indicator for whether the restatement affects revenue (RESTATE_REV). Violations that involve a restatement are more likely to have a detrimental impact on shareholders. Further, the severity of the restatement is likely increasing with restatement size and whether revenue accounts are affected.

²⁶ We note that TRIGGER_CAR is positive for 38 of the 284 cases. 61% of these cases with positive CARs have significantly negative CAR calculated over the six-week period surrounding the trigger date, suggesting that information about the accounting misconduct was leaked to the market ahead of time, or that the full extent of the misconduct was not revealed on the trigger date. Untabulated results show that the remaining cases with positive TRIGGER_CAR have smaller restatements, restatements that do not involve revenue, and smaller damages awarded, indicating that these violations have less serious negative implications for shareholders.

²⁷ Karpoff et al. (2008a) refer to the violation period as the interval over which the violation occurred. This period is disclosed in the public releases or the court documents associated with the proceedings. The regulation period spans the time between the first and last regulatory proceeding event, conducted either by the SEC or the DOJ. See Appendix B for further discussion of all variables.

We also consider two variables for the lawyer’s background. First, we include an indicator variable IVY, if the lawyer went to an Ivy League Law School. Second, we account for the lawyer’s SEC experience by introducing EXPERIENCE, the logged number of SEC cases the lawyer worked on up to and including the current case.

4.0 Analysis of Revolver and SEC Specialist Lawyers

In subsections 4.1 through 4.3 we discuss our main tests of whether REVOLVER or SEC_SPECIALIST lawyers are associated with more or less aggressive regulatory enforcement outcomes. In subsection 4.4 we discuss cross-sectional analysis of five scenarios in which revolving door incentives are potentially strongest.

4.1 Damages

As discussed, roughly 25% of the DAMAGES observations have a zero value, and the non-zero values are also highly skewed. The SEC’s decision process about pursuing damages involves two steps: first deciding whether to pursue any damages, and then deciding on the amount of damages. To capture this complex process, we estimate three different models of damages: (i) a Tobit regression of logged damages using the full sample; (ii) a logit to model the likelihood of seeking non-zero monetary damages; and (iii) an OLS model of damages using the subsample of observations with non-zero damages.²⁸ We cluster all standard errors by case because each observation is measured at the lawyer-case level, and there is more than one SEC lawyer per case.

The results from the first model are displayed in column 1 of Panel A of Table 4. The coefficient of REVOLVER is not significant. In column 2 we estimate a logistic regression of the decision to seek damages. The dependent variable in this estimation is a dummy that takes the value of one when damages are positive and zero otherwise. The results indicate that monetary penalties are less likely for bankrupt firms (as

²⁸ The results are robust to using either Tobit or OLS in the first and third models. There is some concern that Tobit and log-linear models can produce biased results when the dependent variable is skewed and has a high concentration of zeros. Estimating a negative binomial specification with unlogged DAMAGES produces similar results.

indicated by the negative FAILED_FIRM coefficient), more likely in severe cases (as indicated by the negative TRIGGER_CAR coefficient), more likely in high profile cases (as indicated by the positive MEDIA_LR coefficient), and more likely for firms with more positive restatement amounts.²⁹ REVOLVER in column 2 is not significant, which indicates that the decision to seek monetary penalties is not impacted by revolving door incentives. Lastly, in column 3, we model the level of monetary penalties in the sample with positive damages. In this subsample, the amount of damages is increasing with firm size and again decreasing for bankrupt firms. Damages are also increasing with the severity of the violation, as indicated by the positive coefficients on VIO_LENGTH and MEDIA_LR. Damages are also lower among firms that file a restatement. The coefficient of REVOLVER is positive and significant, suggesting that, in cases that permit positive damages, revolving door lawyers are associated with greater damages.

The results in columns 4 through 6 of Panel A test hypothesis H2 using SEC_SPECIALIST instead of REVOLVER, and are largely unchanged from the results in columns 1 through 3. The SEC_SPECIALIST coefficient in column 6 is significantly positive and indicates that a one-unit increase (or moving from roughly the 50th to 75th percentile) in SEC_SPECIALIST is associated with a 28% increase in damages, so the results are also economically significant. Thus, the evidence in Table 4 is consistent with aggressive enforcement and the human capital hypothesis.

4.2 Criminal proceedings

The second enforcement outcome CRIM_CASE, takes the value of one if the SEC civil litigation is accompanied by criminal proceedings against the target firm. Table 4, Panel B presents the results of the logistic estimation for this case outcome. The coefficient on REVOLVER is insignificant (see model 1). However, the coefficient on SEC_SPECIALIST is positive and significant (z-statistic = 2.26 in model 2). Thus, the likelihood of criminal charges is higher for revolver lawyers that later join SEC_SPECIALIST firms. Untabulated results show that an increase in SEC_SPECIALIST from the 50th to 75th percentile, evaluated at sample averages, increases the likelihood of criminal proceedings by 6.8%.

²⁹ A chi squared test, displayed at the bottom of the table, shows that proxies for the severity of the violation are jointly significant.

The likelihood of criminal charges is increasing in the length of the regulation period, *MEDIA_LR*, *EXPERIENCE*, and *TEAM_SIZE*. As a longer regulation period and greater press coverage are both associated with a higher likelihood of criminal proceedings, our overall results suggest that severe cases are more likely to be associated with criminal proceedings.

4.3 CEO named as a defendant

Finally, we evaluate whether revolver lawyers are more likely to file charges against the CEO of the target firm (*CEO_CHARGE*). Consistent with the prior result, the coefficient on *REVOLVER* is not significant and that on *SEC_SPECIALIST* is positive and significant in Panel C of Table 4 (z-statistic = 1.88). Thus, the data are again consistent with the hypothesis that SEC lawyers who later join *SEC_SPECIALIST* firms are more aggressive in filing criminal charges against the CEO. Untabulated results show that the marginal effect of an increase in *SEC_SPECIALIST* evaluated at sample averages increases the likelihood of naming the CEO as a defendant by 7.4%.

Firm characteristics are important in the likelihood of a CEO being named. CEOs of smaller firms and firms with higher valuations are more likely to be charged. Moreover, CEOs are more likely to be charged when the misconduct is more severe, as proxied by longer violation period. Once again, there is no evidence to suggest that lawyer education or experience explains whether the CEO is charged or not.

Taken together, the collection of results in Table 4 provides minimal evidence that enforcement outcomes of *REVOLVER* lawyers differ in general from those that stay at the SEC or join employers that are not law firms (i.e., only the result for *DAMAGES* is significantly positive). However, this evidence changes systematically when we examine the nature of the law firm that the revolvers eventually join. In particular, the three enforcement outcomes point towards aggressive enforcement by SEC lawyers that quit the agency and later join law firms that frequently defend against the SEC. Overall, the results are consistent with the human capital hypothesis.

4.4 Cross-sectional tests

In this section, we discuss five cross-sectional tests where the revolving doors incentives are likely to be the strongest. In most of these cases, stronger revolving door incentives could lead to either rent seeking or human capital behaviors.

4.4.1 Local defendants

SEC lawyers are potentially more likely to seek outside opportunities in the geographic neighborhood of their SEC office (Kedia and Rajgopal 2009). Although their future employers, private law firms, are likely to have an office in all major cities, the clients of these law firms are likely to be local companies. Therefore, a potential implication of the rent seeking hypothesis could be that SEC lawyers have an incentive to go easier on local target companies. It is also plausible that SEC lawyers are the most aggressive when prosecuting local firms, hoping to signal their talent to local law firms. We create a variable LOCAL that takes the value of one if the SEC lawyer and the target defendant company are located in the same metropolitan statistical area (MSA), respectively. We include LOCAL and its interaction with SEC_SPECIALIST in our models. As seen in the partial results in Panel A of Table 5, the coefficient on LOCAL is not significant for any enforcement outcome. The interaction of LOCAL with SEC_SPECIALIST is significant and positive only when the dependent variable is CRIM_CASE. As the coefficient is positive, the evidence suggests stronger enforcement against local targets, which is consistent with the human capital hypothesis.³⁰

4.4.2 Washington DC based lawyer

As the SEC's headquarters is located in Washington DC, most public firms, government agencies and private law firms that deal with the SEC are likely to have a presence in Washington DC. This will lead to greater external opportunities for SEC lawyers that are employed in the Washington DC office. Further, the potential to lobby and build social and political networks through which influence can be exercised is

³⁰ We note that the main effect of SEC_SPECIALIST is no longer significant in Panel A, column 2 of Table 5. Untabulated results show that the SEC_SPECIALIST variable is significant when just the indicator LOCAL is included, but loses significance once the LOCAL x SEC_SPECIALIST is included. Similar analysis is performed for all cross-sectional tests discussed herein.

likely also greater if the SEC lawyer is located in Washington DC. If such access to SEC decision makers facilitates rent seeking, then lawyers located in the DC office should be associated with less aggressive enforcement outcomes. At the same time, lawyers in Washington DC may have an extra strong incentive to signal their talent via aggressive enforcement. We examine this issue by including the WASHDC indicator variable and its interaction with SEC_SPECIALIST.

As seen in Table 5, panel B, the coefficient on the interaction of the WASHDC indicator variable with SEC_SPECIALIST is negative and significant for CRIM_CASE, which provides some evidence of rent seeking behavior. However, there is no difference in the other enforcement outcomes. The results suggest some partial support for rent seeking behavior among WASHDC lawyers.

4.4.3 Younger lawyers

Although all SEC lawyers are likely to be aware of whether the external labor market values competence or lobbying potential, lawyers are likely to invest in these skills to varying degrees depending on how actively they seek to advance their external job opportunities. In particular, young (mature) SEC lawyers are more (less) likely to be responsive to external job market pressures. We would ideally like to test this conjecture using data on lawyer age, but we were able to locate birthdays for only a small fraction of lawyers. Consequently, we rely on a proxy for age based on the year the lawyer took the Bar exam. The sample size is reduced as we cannot identify the year of Bar exam passage for several lawyers. In our sample, the median difference between the year the revolver lawyer left the SEC and the year he cleared the bar exam is 17 years. The binary variable MATURE takes the value of one if the revolver leaves in greater than 17 years. As seen in Panel C of Table 5, none of the case outcomes differ between younger and more mature lawyers.

4.4.4 Last year in office

Cornaggia et al. (2013) find that analysts that leave credit rating agencies to join the firm they rated tend to be tough raters, except in the last year prior to leaving. The lawyer's last year of employment at the SEC is likely to be associated with magnified conflicts of interest and associated with reduced enforcement

efforts under both the human capital and rent seeking hypotheses.³¹ To study such horizon effects, a binary variable, *LAST_YEAR*, is set to one for cases that conclude within one year of a revolver lawyer leaving the SEC. Sample sizes are reduced as we do not have data on the last year of office for all lawyers. As shown in Panel D of Table 5, the coefficient on *LAST_YEAR* is significant for one of our enforcement variables. Revolvers in their last year at the SEC have *lower* *CEO_CHARGE*, providing some evidence of laxer enforcement immediately prior to leaving the SEC.

Ideally, to understand the role of horizon we would like to compare a given lawyer's enforcement outcomes in his early cases versus those immediately prior to leaving the SEC. Only 39.8% of the revolver lawyers and 42.1% of the non-revolver lawyers participated in more than one case in our sample (see Table 3). Of these, only 15 revolver lawyers, related to 54 cases, are involved with at least one case during their last year with the SEC and also in at least one case earlier in their career at the SEC. In untabulated analysis we find no statistically discernible within-lawyer differences in enforcement outcomes between the last year and earlier years at the SEC.

4.4.5 Joining a co-defendant law firm

One possible incentive for “rent seeking” is for an SEC lawyer to be lenient towards a defendant in exchange for a job with the defense firm involved in the case. We investigate this incentive for rent seeking and find no instances where an SEC lawyer joins a law firm that he prosecuted against. However, it is important to recognize that a lawyer likely does not know for certain which law firm he will end up joining down the road. Hence, the lawyer's incentives to go easy may not be limited to the clients of the law firm that he eventually joins. Consequently, we look for other potential channels via which rent seeking might occur. Perhaps, instead of joining the law firm they prosecuted against, the lawyer joins another law firm that is closely connected with the law firm he prosecuted against. We capture such “friendly” law firms as those that have co-defended a case against the SEC in our dataset of enforcement actions. In our sample, we

³¹ In the last year, SEC lawyers may already be in advanced talks with the future employer. Alternatively, if they have decided to leave their enforcement record in prior cases, rather than the unknown outcome of the ongoing case, is likely to have a stronger impact on employment potential. Consequently, even under human capital hypothesis, lax enforcement is likely seen in the last year for at least some revolvers.

find only four cases where a SEC lawyer joined such a “friendly” law firm. Further, in three of these four cases, the evidence of friendship between law firms, i.e., being co-defendants, occurs after the SEC lawyer leaves. Overall, there is no evidence that SEC lawyers go and join law firms that are “friendly” to the law firm that they prosecuted against.³²

5. Role of SEC Alumni

Next, we examine the possibility that the influence exercised by SEC lawyers occurs after they leave the SEC rather than while they work at the SEC. SEC alumni are plausibly able to exert influence over friends and colleagues still at the SEC. If this were so, defendant law firms that employ more SEC alumni should be able to obtain milder enforcement outcomes against their clients.

To examine this conjecture, we first construct a proxy for the number of SEC alumni working at the defense firms involved with the case. This proxy, labeled SEC_ALUMNI is the log of the number of SEC lawyers from within our sample that are hired by the defense firm.³³ In cases where the case has more than one defense firm, we use that maximum number of SEC_ALUMNI at any of the defense firms. We include the logarithm of the number of defense firms as a control variable (NUMBER_DEF_FIRMS). As seen in Panel A of Table 6, the variable SEC_ALUMNI is significantly negative for DAMAGES in column (1) but insignificant for CRIM_CASE and CEO_CHARGE. The coefficient is positive for NUMBER_DEF_FIRMS for the likelihood of charging the CEO. This is not surprising as the CEO often retains his own defense firm when charged. The coefficients on SEC_SPECIALIST are largely unchanged.

We next construct more detailed variables to better capture specific, personal connections between current SEC lawyers working on the case and former SEC lawyers working on the defense team. The binary variable OFFICE_ALUMNI_CONNECTION is equal to one if any SEC lawyer on the case previously

³² We considered two additional cross-sectional characteristics (untabulated). The first is the size of the SEC’s prosecuting team. As individual lawyers have more influence in smaller teams, the revolving door incentives are likely stronger. The second is whether the target firm is a S&P 500 firm, as high profile cases sharpen revolving door incentives. We did not find any effect.

³³ The SEC Alumni measure is constructed from within our dataset. Therefore, this measure is not able to account for SEC lawyers with no civil enforcement, or civil enforcement but in non-accounting cases, or those that left the SEC prior to 1990. Therefore, the SEC alumni measure likely underestimates lawyers with prior SEC employment.

worked in the same SEC office with an SEC alumni who is currently employed by one of the case defense firms. The substantive difference between SEC_ALUMNI and OFFICE_ALUMNI_CONNECTION is that the former is intended to be a general proxy for the extent to which a defense firm hires SEC alumni, while the latter is intended to be a specific proxy for likely personal connections between SEC and defense lawyers. Similarly, TEAM_ALUMNI_CONNECTION is a binary variable equal to one if any SEC lawyer on the current case previously worked on the same SEC prosecution team as an SEC alumni who is currently employed by one of the case defense firms.

As seen in Panel B of Table 6, the variable OFFICE_ALUMNI_CONNECTION is insignificant in all models while the other results are largely unchanged. Panel C of Table 6, shows that the results are also insignificant for TEAM_ALUMNI_CONNECTION. However, SEC_ALUMNI is now significantly negative for both DAMAGES and CRIM_CASE, providing stronger evidence of more lenient outcomes when the defense firm hires more SEC alumni.³⁴

In summary, there is some evidence that defense firms hiring more SEC alumni are able to obtain lower damages and fewer criminal charges for their clients. However, this laxer enforcement appears not be due to personal connections between SEC alumni and current SEC prosecutors.³⁵

6. Additional Analyses and Robustness Tests

In this section we examine whether (i) the results are robust to endogeneizing a lawyer's decision to leave the SEC; and (ii) rent seeking incentives are reflected not in enforcement outcomes, but in the unobservable choice of which cases to pursue.

6.1 Who leaves the SEC?

³⁴ The results are similar if we use count instead of binary variables, and if we include in the estimation both OFFICE_ALUMNI_CONNECTION and TEAM_ALUMNI_CONNECTION.

³⁵ SEC alumni are likely to have unique training and insider knowledge about the SEC functioning. This may make SEC alumni more effective in defending against the SEC than the average defense lawyer. The result of laxer enforcement in the presence of SEC alumni is also consistent with this "more effective" SEC alumni hypothesis.

Thus far, we have treated the likelihood of a lawyer leaving the SEC as exogenous and then examined whether the lawyer's enforcement effort is aimed at maximizing his outside opportunities. However, the lawyer voluntarily chooses whether or not to leave the SEC, and his decision is likely a function of his prospects. We perform additional analyses to account for the lawyer's propensity to leave the SEC, which is modeled as a function of the lawyer's background, the case and target firm characteristics he worked on, his job prospects within the SEC, and the nature of outside opportunities. We then control for the likelihood of leaving the SEC in our analysis.

To predict the likelihood of leaving the SEC, we use a logistic regression where the dependent variable, QUIT, is an indicator variable that takes the value of one if the lawyer leaves the SEC. The unit of observation in this regression is the individual lawyer, resulting in a total of 336 lawyer observations. The independent variables include all case and target firm characteristics that were used as control variables in our previous analyses. For lawyers involved with more than one case, we include the average of the case and target firm characteristics across all cases which involve that lawyer. Averaged variables are designated with the suffix “_AVG.” To control for lawyer's background we include: (i) an indicator variable for an Ivy League education; (ii) years of experience at the SEC; and (iii) the number of years elapsed since the lawyer cleared the Bar exam.³⁶

The likelihood of leaving the SEC will also depend on the demand for the lawyers' services in the external job market. As discussed before, SEC lawyers employed in the Washington DC office are likely to have greater external opportunities. We also expect SEC lawyers to have a preference for local outside opportunities. Therefore, we include indicator variables WASHDC and LOCAL, discussed earlier, in our estimation. Lastly, we control for the internal job prospects of the SEC lawyer and the effect of such prospects on his likelihood of leaving the SEC. More competent lawyers are likely to get promoted within the SEC and consequently have less incentive to seek outside opportunities. The internal stature of a lawyer is likely to be function of his enforcement outcomes. We therefore include the average enforcement

³⁶ Lawyers with missing data on the date of their Bar exam have been included and identified with an indicator variable YEAR_MISSING. This was done to reduce lost observations.

outcomes obtained by the lawyer during his time at the SEC.³⁷ The SEC lawyer's role in the enforcement actions – specifically if he is designated as the “Lead” lawyer also suggests higher stature within the SEC and hence a lower likelihood of leaving. We include the variable, LEAD_AVG, which is the fraction of all cases in which he was designated as a lead lawyer.

The results, displayed in model 1 of Table 7, suggest an important role for external opportunities in the likelihood of leaving the SEC. Lawyers in the Washington office are significantly more likely to leave. There is no evidence suggesting the importance of internal job prospects, as captured by enforcement outcomes.³⁸ If the effect of internal job prospects is non-linear, such that SEC lawyers with very successful enforcement records, referred to as “Stars,” as well as, SEC lawyers with poor enforcement outcomes, referred to as “Lemons,” are less likely to leave the SEC. Lawyers with enforcement outcomes above (below) the average for all enforcement outcomes are identified as “Star (Lemon)” lawyers.³⁹ About 14% of lawyers are classified as “Stars” and 10% are classified as “Lemons.” Including the STAR and LEMON does not have a material impact on the results (see model 2 in Table 7), and neither variable is significant. We compute the fitted value for the likelihood of leaving the SEC from the above mentioned models and include it as a control variable in our main regressions. The partial results displayed in Table 8, show that the lawyers' propensity to leave the SEC has little impact on his enforcement outcomes. The propensity to leave the SEC is positively related to DAMAGES in Panel A, but not significant in the other models and does not impact the coefficient of SEC_SPECIALIST.

6.2 Rent seeking in case selection?

³⁷ DAMAGES is not available for all observations. To maintain the full sample, we set DAMAGES to zero when it is missing and identify such observations with an indicator variable DAMAGES_MISSING.

³⁸ This result is consistent with the previous finding of no significant difference in enforcement outcomes between non-revolvers and revolvers generally. What impacts aggressive enforcement outcomes is not whether the lawyer leaves the SEC but whether the future employer values the SEC experience i.e., is a high SEC_SPECIALIST firm.

³⁹ In creating the variable “Star” and “Lemon” lawyers, for the continuous variable of DAMAGES, we use the median to identify stars and lemons. For the binary variables CRIM_CASE and CEO_CHARGE, we use the mean to identify stars and lemons.

Laxity in the SEC enforcement process can occur at several stages. For instance, it is likely that rent seeking manifests in the choice of which cases to initiate regulatory action against. If this were correct, clients of law firms that hire revolvers are less likely to be investigated or, if investigated, are less likely to be charged. Because the SEC does not disclose details of the cases they decided not to investigate or cases they informally investigated and decide to drop, it is impossible for us to directly examine this potential bias.

However, we attempt to investigate this conjecture in an indirect fashion. Although SEC employees likely have discretion in their choice of enforcement targets, we identify cases when this discretion might be low. For example, when a case generates a lot of public attention, the SEC may have little choice, due to political considerations, but to investigate and charge the target firm. In such cases, the revolver's laxity might be reflected, not in the choice of the target, but in milder enforcement outcomes.⁴⁰ To test this conjecture, we collect data on the number of news stories appearing during the two months around the trigger date. The variable `MEDIA_TRIG_HIGH` takes the value of one if the media attention is in the top quartile of cases, calculated by year. We include the interaction of `MEDIA_TRIG_HIGH` with `SEC_SPECIALIST` to capture the higher likelihood of finding lenient enforcement by lawyers that seek future opportunities.

As seen in Panel A of Table 9, misconduct cases that attract a lot of media attention around the trigger date are not associated with different enforcement outcomes. The `SEC_SPECIALIST` main effect remains significant in the `DAMAGES` and `CEO_CHARGE` regressions.⁴¹ The results are materially unchanged when we use the top decile of media attention to categorize high media coverage (Panel B). Overall, these indirect tests do not provide evidence of discretion in case selection.

6.3 Robustness tests

⁴⁰ There is also a possibility that if the violation generates a lot of media attention, the SEC is forced to take it even though it is a weak case. Milder enforcement in this case is due to it being a weak case rather than SEC lawyers showing laxity.

⁴¹ `SEC_SPECIALIST` is no longer significant in the `CRIM_CASE` regression, but tests confirm that the sum of `SEC_SPECIALIST` and the interaction term is significant at the 5% level. Tests also confirm that the main effect of `SEC_SPECIALIST` is significant when `MEDIA_TRIG_HIGH` is included in the model without the interaction with `SEC_SPECIALIST`. These tests are not tabulated for brevity.

In this section, we perform several robustness tests to check the sensitivity of our results. Several of these tests require data that is unavailable for all lawyers and cases, thereby reducing our sample sizes.

6.3.1 Quality of the defense firm

The aggressiveness of SEC enforcement outcomes is likely to decrease with the skill and competence of the defending law firm. Following Rider (2011), we proxy for the quality of the defense firms using “prestige scores” assigned by Vault.com, with higher scores representing highly regarded law firms.⁴² Vault prestige scores are based on an annual survey of 16,000 U.S. attorneys. When a case has more than one defense law firm, we compute the average prestige score, referred to as SCORE_DEFENSE, and also control for the number of defending firms (NUMBER_DEF_FIRMS). The results, displayed in Panel A of Table 10, are unchanged for SEC_SPECIALIST. The quality of the defense team is insignificant in all models.

6.3.2 Capturing relevance of SEC expertise

We create an alternate proxy for the relevance of the revolver lawyer’s SEC experience to the hiring law firm. A potential limitation of the SEC_SPECIALIST measure is that it only captures the extent to which the post-SEC employing law firm is involved with civil litigation in our sample of accounting violation cases. A lawyer’s SEC experience is also potentially valuable in other dealings with the SEC, especially in SEC’s informal investigations and inquiries that are not publicly disclosed. Thus, SEC_SPECIALIST may not adequately capture all potential law firms that practice before the SEC.

The alternate proxy is based on the expectation that companies that are being investigated by the SEC are likely to hire large, prestigious law firms. The rank of the law firm not only captures the market share of the firm in providing legal services, but also the desirability of the firm as a future employer. Thus, we use a law firm’s “prestige” rank from Vault.com to create a variable HIRINGFIRM_RANK that takes a value of zero for unranked law firms, 1 for law firms with a rank from 100 (being the lowest ranked firm) to 21, and a value of 2 for top-20 law firms.

⁴² Available at <http://www.vault.com/company-rankings/law/vault-law-100/?sRankID=2&rYear=2007>. Last accessed in February 2014.

As seen in Panel B of Table 10, our results are mostly unchanged when SEC_SPECIALIST is replaced with HIRINGFIRM_RANK, except that the coefficient for DAMAGES is no longer significant. These findings substantiate the results that sought after employers value the lawyers' prosecutorial experience at the SEC, i.e., his human capital.

6.3.3 Sarbanes Oxley Act (SOX)

As a final robustness test, we replace year fixed effects with a SOX indicator variable for the models estimated in Table 4. Though the SOX coefficient is not significant by itself, its introduction reduces the significance for the coefficient of SEC_SPECIALIST for DAMAGES but is unchanged for the other two outcomes (See Table 10, Panel C).

7. Inbound Revolvers

In this section, we analyze the data related to the "inbound" revolving door, that is, lawyers hired by the SEC from defense law firms. The rent seeking hypothesis implies that these inbound revolver lawyers, due to their prior experience at defense law firms, are likely to be sympathetic to industry and are therefore associated with less aggressive enforcement efforts. Under the human capital hypothesis, inbound revolvers will use their understanding and knowledge of private practice to the SEC's benefit and hence be associated with aggressive enforcement efforts.

Similar to our prior analysis, we focus both on: (i) INBOUND_REVOLVER lawyers that worked for any law firm before the SEC; as well as (ii) INBOUND_SEC_SPECIALIST lawyers that previously worked at law firms that frequently defend clients before the SEC. In particular, INBOUND_REVOLVER is an indicator variable set to one if the lawyer came to the SEC from a private law firm. Analogous to the SEC_SPECIALIST variable used for outbound revolvers, INBOUND_SEC_SPECIALIST is a count variable for the number of times the lawyer's pre-SEC employer appears as a defense firm in our sample. For instance, the law firm Latham & Watkins appears as a defense firm six times in our sample, so any lawyer joining the SEC after working at Latham & Watkins would have an INBOUND_SEC_SPECIALIST variable

equal to “6.” Under the rent seeking (human capital) hypothesis, we expect enforcement outcomes to be decreasing (increasing) in INBOUND_REVOLVER and/or INBOUND_SEC_SPECIALIST.

The data on the prior experience of lawyers is not available for many lawyers, yielding a much smaller sample of 195 lawyer-cases. To check whether this smaller sample is representative, we compare these sample cases to the remaining 471 cases for which we could not obtain data on the prior experience of the lawyer. In untabulated results we find no significant difference between the two groups in case characteristics, target firm characteristics and enforcement outcomes. The differences are observed in lawyer characteristics – the sample with data availability has lawyers more likely to come from Ivy League institutions and have more experience at the SEC. We control for these characteristics in the multivariate analysis.

Among the 195 lawyer cases with data, 54 lawyer cases relate to lawyers that were hired by the SEC from places other than law firms (e.g., directly from law school). The remaining 141 lawyers (72% of sample) are designated as INBOUND_REVOLVER revolvers. Of the 141 inbound revolvers, 100 lawyers were from law firms that practice at least once before the SEC.

We begin by presenting univariate evidence on the subsequent enforcement outcomes of non-revolvers, INBOUND_REVOLVERs, and the lawyers that are from INBOUND_SEC_SPECIALIST firms. As can be seen in Table 11, INBOUND_REVOLVERs do not differ from non-revolvers in their subsequent enforcement outcomes (comparison group 1). Moreover, there is no difference in the subsequent enforcement outcomes of non-revolvers and inbound revolvers from SEC specialist firms that have defended at least twice before the SEC (comparison group 2), or from SEC_SPECIALIST firms that have defended at least four times (comparison group 3). INBOUND_REVOLVERs that worked at a SEC specialist firm tend to be associated with cases that involve lower abnormal returns around the trigger date and are less likely to have an Ivy League background.

As shown in Table 12, similar results are seen in regression analysis that includes the standard set of firm, case, and lawyer level controls. INBOUND_SEC_SPECIALIST is logged in regression analysis. The coefficient of INBOUND_SEC_SPECIALIST is not significant for any of the enforcement outcomes. These

data suggest that reverse revolving doors for lawyers are not materially associated with their enforcement efforts during their tenure at the SEC.⁴³

8. Conclusions

Influential critics, including members of Congress, have expressed concerns that the SEC's enforcement outcomes are compromised by the revolving door phenomenon whereby lawyers move freely between working at the SEC as a prosecutor and working at private law firms that defend clients before the SEC. An alternate possibility is that lucrative future career prospects motivate SEC lawyers to exert higher enforcement effort to develop expertise while at the SEC and/or signal their high ability via tougher enforcement outcomes. To bring empirical evidence to bear on these competing hypotheses, we investigate the association between enforcement outcomes and career opportunities of SEC trial lawyers in civil cases involving accounting misrepresentation.

We collect data on the career paths of SEC lawyers and outcomes of civil litigation of accounting cases while these lawyers work for the SEC. We find minimal differences in the enforcement outcomes for “revolving door” lawyers that eventually leave the SEC to join law firms relative to other lawyers. However, the lawyers that leave to join law firms that specialize in defending clients against the SEC are associated with *stronger* enforcement effort, as proxied by higher damages collected, a higher likelihood of criminal proceedings, and a higher likelihood of charging the CEO. Cross-sectional tests find little evidence of consistently compromised enforcement outcomes in cases where the revolving door incentives to undermine enforcement are likely to be the strongest, although some evidence of rent seeking behavior is observed for revolver lawyers located in Washington DC and when defense firms have numerous former SEC lawyers on staff. We fail to find evidence that “inbound” revolving door lawyers that are hired to the SEC from private law firms have different enforcement outcomes relative to other lawyers.

⁴³ For brevity, we do not report results that rely on INBOUND_REVOLVER because the inferences from that specification are very similar to the ones reported using INBOUND_SEC_SPECIALIST. There is little evidence that target or case characteristics matter systematically across all enforcement outcomes.

Overall, the evidence suggests that, on average, revolving door incentives do not appear to undermine the prosecution of civil cases against accounting misrepresentations. The data are generally consistent with future career prospects motivating SEC prosecutors to be more aggressive during their time at the SEC, but we do find some evidence of rent seeking behavior in the cross-section. However, we reiterate that the results are applicable to a small slice of revolving door issues. Our study examines only accounting misrepresentations, and within accounting misrepresentation only civil litigation after charges have been filed. It is also focused on revolving door incentives for trial lawyers and does not speak to other lawyers, accountants and senior leadership at the SEC. Further due to data restrictions, we examine enforcement outcomes only among cases that SEC lawyers have chosen to pursue and prosecute. Should the data become available, examining revolving door effects on SEC lawyers' choices of which cases to pursue would be an interesting avenue for future research. Other avenues for future research include examining revolving door incentives and effects for other types of securities law violations or for SEC rulemaking. Such examinations are beyond the scope of the current study.

Subject to the caveats and limitations discussed in the introduction and in this section, these results provide preliminary input to the discussion among the press, policy makers, and Congress about whether revolving doors are detrimental to the SEC's regulatory efforts. In our particular setting, future job prospects, on average, appear to make SEC lawyers increase their enforcement efforts in trying civil cases. These results, along with a consideration of other factors such as the degree of financial constraints, the ability to replace the talent that rotates through the revolving doors, and the social and political cost of potential compromise in regulatory effort arising from the lure of future jobs, can potentially inform the SEC's policy on revolving doors.

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Appendix A: Example of the Data Collection Process

Enforcement Action: Against Oliver Transportation and employees beginning 12/17/1998.

Step 1: SEC Litigation Release from SEC Website

SECURITIES AND EXCHANGE COMMISSION
LITIGATION Release No. 16003
1998 SEC LEXIS 2724
December 17, 1998

The Securities and Exchange Commission yesterday filed an enforcement action in the Eastern District of Missouri charging eight individuals with perpetrating a financial fraud at **Oliver Transportation, Inc. (OTI)**, a now defunct trucking company formerly headquartered in Mexico, Missouri.

The complaint alleges that: From the time OTI went public in 1993 until it ceased operations in August 1995, OTI's senior management and other employees unlawfully inflated OTI's financial results by fabricating phony customer orders, and in turn accounts receivable, for trucking services. As a result of the recording of phony receivables, OTI's financial statements and other disclosures in its June 1993 registration statement and subsequent periodic reports filed with the Commission contained materially false and misleading information. By the time the fraud was uncovered in August 1995, nearly half of OTI's reported receivables were based on phony customer orders.

As to the roles played by each of the defendants, the complaint alleges, among other things, that.

. John F. "Pete" Oliver (OTI's founder and chairman) devised and initiated the fraud to obtain funds under a bank loan secured by the company's [*2] accounts receivable. In addition, Oliver sold 32,000 shares of OTI common stock, receiving proceeds of \$ 129,869, when he knew that OTI's financial statements and periodic reports contained materially false and misleading information.

. Willard A. "Tony" Meador (OTI's president until October 1994) directed the entry of the phony customer orders into OTI's books and records. While aware that OTI's financial statements and other disclosures were materially false and misleading, Meador also sold 100,500 OTI shares, receiving proceeds of \$ 288,637.

. Wayne M. Sampson (the company's initial chief financial officer and later Meador's successor as president), James R. Gehringer (the director of operations), and Julie McNabb-Meador and Patrick M. Jacobi (both billing supervisors), each assisted in the entry and tracking of the phony orders in OTI's books and records.

. Steven M. Gross (Sampson's successor as chief financial officer) and Michael W. Roberts (controller), both certified public accountants, knowingly reported the phony accounts receivable in OTI's financial statements included in periodic filings with the Commission.

In addition to civil money penalties, the complaint seeks to [*3] permanently enjoin the defendants from violating the antifraud, books and records, and internal accounting control provisions of the federal securities laws. The Commission also requested that the court order Oliver and Meador to disgorge their ill-gotten gains from their insider trading and permanently bar each from serving as an officer or director of any public company.

Simultaneously with the filing of the complaint, without admitting or denying the complaint's allegations, Oliver, Sampson, Gehringer, Roberts, and Gross each agreed to settle the charges against them by consenting to final judgments. The final judgments against Oliver and Sampson prohibit each from violating Section 17(a) of the Securities Act of 1933, and Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 and Rules 10b-5, 13b2-1, and 13b2-2 thereunder. The judgment against Oliver also bars him from serving as an officer or director of a public company under Section 21(d)(2) of the Exchange Act. The judgment against Gehringer prohibits him from violating Section 17(a) of the Securities Act and Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5 and 13b2-1 thereunder. Gross and Roberts [*4] consented to judgments enjoining them from violating Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5, 13b2-1, and 13b2-2 thereunder. As part of their

settlements, Gross and Roberts have agreed to the entry of Commission orders barring each from appearing or practicing before the Commission as accountants.

The Commission agreed not to seek imposition of civil money penalties against the settling defendants based on their demonstrated inability to pay. For the same reason, the Commission also agreed to waive the payment of disgorgement by Oliver.

The charges filed against Meador, McNabb-Meador, and Jacobi are pending before the court.

Step 2: Docket Information regarding the case from Bloomberg Law

**U.S. District Court
Eastern District of Missouri (LIVE) (Hannibal)
CIVIL DOCKET FOR CASE #: 2:98-cv-00075-DJS**

SEC v. Oliver, et al
Assigned to: Honorable Donald J. Stohr
Demand: \$0
Cause: 15:77 Securities Fraud

Date Filed: 12/16/1998
Jury Demand: Defendant
Nature of Suit: 850 Securities/Commodities
Jurisdiction: U.S. Government Plaintiff

Plaintiff

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Step 3: Information on former SEC Lawyer William R. Baker III from Marindale-Hubble Law Directory

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Step 4: Additional Information on former SEC Lawyer William R. Baker III from Internet Search:

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William R. Baker III is a partner in the Washington, D.C. office of Latham & Watkins. Mr. Baker's practice includes a broad range of business regulatory and corporate governance matters, including representing corporations, auditing and other professional firms, investment banks and other financial institutions in US Securities and Exchange Commission (SEC) and other regulatory enforcement proceedings. In addition, Mr. Baker conducts internal investigations on behalf of management and boards of directors. He regularly counsels clients on SEC reporting, disclosure, compliance and corporate governance requirements.

Prior to joining Latham, Mr. Baker was Associate Director of the Division of Enforcement at the SEC, where he worked for 15 years. In that capacity, he was responsible for supervising all types of SEC enforcement activities, including Investigations involving issuer accounting fraud and other disclosure violations, insider trading, market manipulation and broker-dealer misconduct. During his tenure as Associate Director, Mr. Baker lead numerous high-profile investigations that resulted in several landmark enforcement actions, including the global settlement in

2000 involving the Commission, Department of Treasury, Department of Justice, Internal Revenue Service, National Association of Securities Dealers and 21 securities firms that resulted in those firms paying a total of US\$195 million to resolve claims that the firms charged excessive markups on government securities, and the Commission's action against WorldCom Inc., involving one of the largest financial frauds in history. While at the Commission, he was a recipient of the SEC's Stanley Sporkin Award, awarded by the Chairman of the SEC in recognition of outstanding contributions to the Enforcement program, and of the Commission's Law and Policy Award.

Mr. Baker has been recognized as a leading securities litigation lawyer by *Chambers USA* and *The Legal 500 US*. He is the co-author of "Corporate Internal Investigations after Sarbanes-Oxley" published in Volume II of *The Practitioner's Guide to the Sarbanes-Oxley Act* (American Bar Association 2005) and is a contributor to *Securities Law Techniques* (Matthew Bender).

He is Co-chair of the Sub-Committee on SEC Enforcement and Civil Litigation of the American Bar Association Business Law Section and serves on the Advisory Council of the SEC Historical Society. From 2001-2004, Mr. Baker was an adjunct professor at George Washington University Law School, where he taught Securities Regulation. He is a frequent speaker and panelist on securities law issues at programs organized by a wide variety of groups, including the American Bar Association, the District of Columbia Bar Association, the Association of the Bar of the City of New York, the Securities Industry Association, The Bond Market Association, the Justice Department's National Advocacy Center, the Practicing Law Institute, Georgetown University Law Center and Stanford Law School.

After graduating from law school, Mr. Baker clerked for Judge Douglas W. Hillman, United States District Judge for the Western District of Michigan.

Appendix B – Variable Definitions

The first panel lists variables derived from data collected by Gerald Martin and used in Karpoff et al. (2008a, 2008b). The second panel lists variables based on data manually collected as described in Appendix A. The third panel lists variables based on additional data available via Compustat and CRSP. All accounting data is as of the fiscal year-end preceding the violation end date. Continuous variables are winsorized at 1% and 99% unless otherwise noted.

Variables Based on the Karpoff, Lee, and Martin (KLM) Dataset

CRIM_CASE	Binary variable equal to one if a criminal case is filed.
FAILED_FIRM	Binary variable equal to one if the firm delists before the end of the regulation period
REG_END_DATE	Filing date of the concluding regulatory proceeding, which is typically a court filing indicating that the case has concluded.
REG_LENGTH	Natural logarithm of the length of the regulation period, in days. The regulation period begins on the date of the first regulatory proceeding, which is typically a court filing or SEC litigation release.
TRIGGER_DATE	The date that the public learned of a potential SEC violation. As defined by Karpoff et al. (2008a, p198), trigger events are “conspicuous announcements related to the firm that draws the SEC’s scrutiny.” A non-exhaustive list of trigger events includes firing a key employee, changing the firm’s auditor, delaying required filings with the SEC, withdrawing a security offering, default notices, and trading suspensions of the firm’s securities.
VIO_END_DATE	End of the SEC infraction violation period, identified based on case filings. The violation period is defined as the period in which the firm is alleged to have violated securities laws.
VIO_LENGTH	Natural logarithm of the length of the violation period, in days. The violation period begins on the first date that the firm is alleged to have begun violating securities laws.

Manually-Collected Data

CEO_CHARGE	Binary variable equal to one if the firm's CEO is personally charged by the SEC
DAMAGES	Monetary damages, rounded to thousands.
EXPERIENCE	Log of the total number of cases worked by the SEC lawyer up to and including the current case
HIRINGFIRM_RANK	Vault.com prestige score of the revolver’s post-SEC law firm
INBOUND_REVOLVER	Binary variable equal to one for lawyers who join the SEC after working at law firm
INBOUND_SEC_SPECIALIST	Count variable for the number of times the lawyer's pre-SEC employer law firm appears in our sample as a defending law firm. This variable is set to zero if the lawyer does not work for a private law firm prior to joining the SEC, or for lawyers that worked at a law firm that has not defended clients against the SEC at least one time in our sample. In regression analysis, INBOUND_SEC_SPECIALIST is logged.
IVY	Binary variable equal to one for lawyers who graduated from an “Ivy” or similarly prestigious school, as used in Zawel (2005) and Chidambaram, Kedia and Prabhala (2011): Harvard, Cornell, Yale, Princeton, Columbia, Brown, Dartmouth, MIT, Stanford, University of Chicago, or University of Pennsylvania. However, we note that Brown, Princeton, and Dartmouth have no law school.
LAST_YEAR	Binary variable equal to one if the case concludes within one year of the lawyer leaving the SEC
LEAD	Binary variable equal to one if the SEC attorney is identified as a lead lawyer in the case docket.
LOCAL	Binary variable takes the value of one if the SEC lawyer and the target firm are located in the same metropolitan statistical area (MSA). LOCAL is set equal to zero for international firms. If the SEC lawyer is located in an MSA with no SEC office, LOCAL is assigned a value of one if the lawyer and target firm are in the same state.
MATURE	Binary variable takes the value 1 if the lawyer’s time from the entering the bar to leaving the SEC is above the median (17 years).
MEDIA_LR	Natural log of 1 + the number of press articles identified in the LexisNexis Academic database for the period from one month before to one month after the SEC’s litigation release. The search involved variations of the following terms: (i) company name; (ii) “SEC;” and (iii) “law.”
MEDIA_TRIG	Natural log of 1 + the number of press articles identified in the LexisNexis Academic database for the period from one month before to one month after the case trigger date. The search involved variations of the following terms: (i) company name; (ii) “accounting;” and (iii) “error” or “fraud” or “problem” or “irregular” or “adjust” or “revise” or “restate” or “understate” or “overstate.”
MEDIA_TRIG_HIGH	Binary variable equal to one for cases in the top quantile of press articles identified in Lexis Nexis for the period from one month before to one month after the case trigger date.
NUMBER_DEF_FIRMS	Log of the number of law firms that comprise the defense team
OFFICE_ALUMNI_CONNECT ION	Binary variable equal to one if one of the case’s SEC prosecutors previously worked in the same SEC office with a former SEC lawyer now employed by one of the case defense firms.
RESTATE_AMT	Cumulative impact of the restatement on net income, if any, scaled by total assets. If missing, RESTATE_AMT is estimated as in Files (2012). Restatement data are obtained from the following sources: i) The Karpoff et al. (2008a, 2008b) dataset, ii) Audit Analytics, iii) SEC filings on

	EDGAR; iv) company press releases; v) SEC Litigation Releases; vi) media articles; or vii) data kindly provided by Rebecca Files (as used in Files 2012).
RESTATE_REV	Binary variable equal to one if the firm has a restatement that affects revenue. Data are sourced from the same sources as RESTATE_AMT.
RESTATE	Binary variable equal to one if the firm files restated financial statements
REVOLVER	Binary variable equal to one for lawyers who leave the SEC to work at a law firm
SCORE_DEFENDANT	Average of the defendant law firms' Vault.com prestige scores
SEC_ALUMNI	Log of the number of SEC lawyers hired by the defense law firms in our sample. If there is more than one defense firm, this is the maximum value across all defense firms involved.
SEC_SPECIALIST	Count variable for the number of times the lawyer's post-SEC employer law firm appears in our sample as a defending law firm. This variable is set to zero if the lawyer does not quit the SEC or does not join a law firm that has defended clients against the SEC at least one time in our sample. SEC_SPECIALIST is not winsorized. In regression analysis, SEC_SPECIALIST is logged.
S&P500	Binary variable equal to one if the firm is on the S&P 500 list prior to the violation end date
TEAM_ALUMNI_CONNECTION	Binary variable equal to one if one of the case's SEC prosecutors previously worked on a prosecution team with a former SEC lawyer now employed by one of the case defense firms.
TEAM_SIZE	Natural log of the total number of SEC lawyers working on the case.
MEDIA_TRIG_HIGH	Binary variable equal to one for cases in the top quantile of press articles identified in Lexis Nexis for the period from one month before to one month after the case trigger date.
WASHDC	Binary variable equal to one if the SEC attorney is based in Washington DC.
WIN	Binary variable equal to one if the case is won. Equal to zero if the case is settled.
YEARS_AS_LAWYER	Difference between the year of the case and the year that SEC lawyer passed the Bar Exam
<u>Variables Based on Compustat / CRSP</u>	
ASSETS	Natural log of total assets
BETA	Market model beta. Calculated using value weighted market returns over the 11- month period ending one month prior to the violation end date, as defined above.
BTM	book value / market value
PRE_VIO_END_CAR	Buy-and-hold, market-adjusted returns for the 11-month period ending one month prior to the violation end date, as defined above.
ROA	Income before extraordinary items / total assets
SOX	Binary variable equal to one if the REG_END_DATE is after 2002
TRIGGER_CAR	Three-day buy-and-hold market-adjusted returns around the trigger date, as defined above.
TRIGGER_LOSS	Loss of market value in the three days around the trigger date. Calculated as the market value of equity two days prior to the trigger date multiplied by TRIGGER_CAR, as defined above.

Table 1 – Sample Refinement

The original sample is based on the population of SEC enforcement actions used by Karpoff, Lee and Martin (2008a, 2008b). The complete sample includes 865 regulatory enforcement actions initiated by the SEC from 1979 – 2007. The enforcement actions arise from violations of the Securities Exchange Act of 1934, as amended by the Foreign Corrupt Practices Act of 1977. See Appendix A for a detailed description of the data collection process. *Untabulated analysis shows that the litigated cases tend to have larger trigger date losses than the unlitigated cases (-21% versus -16%) and have a higher likelihood of failing before the end of the regulation period (36% versus 21%). Differences in size, return on assets, book-to-market, stock beta, and length of the violation period are insignificant. **Untabulated analysis shows that the log of the violation period length is slightly longer for firms for which dockets are available (6.38 versus 6.60). ***Untabulated analysis shows no significant differences in the aforementioned variables between the cases for which we have and do not have lawyer data.

Total Karpoff, Lee, and Martin (KLM) Sample	865	
Less: Cases beginning before 1990	-160	
Cases post-1990	705	
Less: Firms not on CRSP & Compustat	-121	
	584	
Less: Non-Litigated Cases	-121	
Litigated Cases	463	*
Less: Docket Unavailable	-79	
Litigated Cases with Docket	384	**
Less: Firms without an identified trigger date	-60	
Less: firms without 3-day returns surrounding the trigger date	-9	
Less: Firms without sufficient CRSP & Compustat data for the basic models	-14	
Final Sample For Data Collection	301	
Less: Cases for which no lawyer information can be obtained	-17	
Final Sample of Cases for Analysis	284	***
Number of Individual Lawyers Identified	336	
Final Sample of Lawyer-Cases	666	

Table 2 – Sample Summary Information

The sample contains information for 284 SEC enforcement cases and 336 individual SEC lawyers, for a total of 666 lawyer-cases. All variables are defined in Appendix B. Panel A contains summary statistics. Panel B presents correlation coefficients. Panel C presents differences in control variable means depending on the case outcomes.

Panel A: Summary Statistics

	<u>N</u>	<u>Mean</u>	<u>p25</u>	<u>Median</u>	<u>p75</u>	<u>Std. Dev.</u>
<u>Firm Characteristics</u>						
ASSETS	666	5.700	3.935	5.612	7.238	2.431
BTM	666	0.532	0.206	0.395	0.685	0.496
ROA	666	-0.126	-0.151	0.000	0.042	0.342
BETA	666	1.041	0.479	0.934	1.561	0.757
FAILED_FIRM	666	0.330	0.000	0.000	1.000	0.471
<u>Lawyer Characteristics</u>						
EXPERIENCE	666	0.591	0.000	0.000	1.099	0.711
IVY	666	0.228	0.000	0.000	0.000	0.420
LAST_YEAR	616	0.138	0.000	0.000	0.000	0.345
REVOLVER	666	0.282	0.000	0.000	1.000	0.450
SEC_SPECIALIST	666	0.435	0.000	0.000	0.000	1.204
<u>Case Characteristics</u>						
PRE_VIO_END_CAR	666	-0.047	-0.597	-0.201	0.163	0.824
TRIGGER_CAR	666	-0.204	-0.389	-0.126	-0.022	0.223
VIO_LENGTH	666	6.576	6.118	6.596	7.079	0.837
REG_LENGTH	666	5.071	3.584	6.263	7.086	2.748
MEDIA_LR	666	1.526	0.693	1.609	2.303	0.959
MEDIA_TRIG	666	2.019	0.693	2.197	3.091	1.457
TEAM_SIZE	666	1.179	0.693	1.386	1.609	0.634
RESTATE	666	0.812	1.000	1.000	1.000	0.391
RESTATE_AMT	666	-0.094	-0.096	-0.015	0.000	0.194
RESTATE_REV	666	0.480	0.000	0.000	1.000	0.500
<u>Enforcement Outcomes</u>						
DAMAGES	624	5,809	0	84	502	25,936
WIN	666	0.074	0.000	0.000	0.000	0.261
CRIM_CASE	666	0.447	0.000	0.000	1.000	0.498
CEO_CHARGE	666	0.542	0.000	1.000	1.000	0.499

Panel B: Pearson correlation coefficients

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. DAMAGES	1.00													
2. WIN	-0.05	1.00												
3. CRIM_CASE	0.11**	-0.05	1.00											
4. CEO_CHARGE	-0.00	-0.04	0.15***	1.00										
5. PRE_VIO_END_CAR	0.21***	-0.08*	0.01	-0.04	1.00									
6. TRIGGER_CAR	0.04	-0.02	-0.02	-0.10*	0.03	1.00								
7. VIO_LENGTH	0.16***	-0.03	0.14***	0.09*	-0.18***	0.21***	1.00							
8. REG_LENGTH	0.08*	0.09*	0.49***	0.14***	-0.07	-0.19***	0.03	1.00						
9. MEDIA_LR	0.21***	-0.10*	0.29***	0.07	0.08*	-0.10**	0.21***	0.12**	1.00					
10. RESTATE	-0.03	-0.23***	-0.02	0.02	-0.01	-0.10**	-0.01	-0.12**	0.25***	1.00				
11. RESTATE_AMT	-0.05	-0.04	-0.06	-0.22***	-0.02	0.28***	0.00	-0.09*	-0.13**	-0.23***	1.00			
12. RESTATE_REV	0.04	-0.09*	-0.00	0.10**	-0.03	-0.17***	-0.17***	0.03	0.09*	0.46***	-0.23***	1.00		
13. REVOLVER	0.04	0.00	0.08*	0.07	0.02	-0.10**	-0.01	0.08	-0.01	-0.08*	-0.01	0.00	1.00	
14. SEC_SPECIALIST	0.02	-0.04	0.07	0.11**	-0.01	-0.03	-0.06	0.00	-0.03	0.01	-0.03	0.05	0.68***	1.00

Panel C: Differences in means by case outcome

	DAMAGES			CRIM_CASE			CEO_CHARGE		
	= 0	> 0	t-stat of difference	= 0	= 1	t-stat of difference	= 0	= 1	t-stat of difference
ASSETS	5.13	5.85	[1.87]*	5.49	5.95	[1.36]	6.22	5.25	[-2.88]***
BTM	0.56	0.52	[-0.47]	0.58	0.47	[-1.66]*	0.68	0.41	[-4.28]***
ROA	-0.11	-0.13	[-0.43]	-0.13	-0.11	[0.39]	-0.13	-0.12	[0.27]
STOCK BETA	1.08	1.02	[-0.41]	0.92	1.18	[2.29]**	0.95	1.11	[1.48]
FAILED_FIRM	0.40	0.32	[-0.93]	0.29	0.38	[1.27]	0.27	0.38	[1.61]
EXPERIENCE	0.57	0.60	[0.40]	0.54	0.66	[1.73]*	0.59	0.59	[0.03]
IVY	0.20	0.24	[1.21]	0.24	0.22	[-0.53]	0.20	0.25	[1.54]
PRE_VIO_END_CAR	-0.02	-0.03	[-0.07]	-0.05	-0.04	[0.13]	-0.01	-0.07	[-0.55]
TRIGGER_CAR	-0.15	-0.22	[-2.12]**	-0.20	-0.21	[-0.23]	-0.18	-0.22	[-1.37]
VIO_LENGTH	6.66	6.53	[-1.03]	6.47	6.71	[2.02]**	6.49	6.64	[1.28]
REG_LENGTH	4.93	5.07	[0.27]	3.86	6.57	[8.73]***	4.66	5.41	[1.88]*
MEDIA_LR	1.16	1.62	[2.94]***	1.28	1.83	[3.95]***	1.46	1.59	[0.94]
MEDIA_TRIG	1.88	2.04	[0.65]	1.85	2.23	[1.76]*	1.95	2.08	[0.63]
TEAM_SIZE	1.22	1.16	[-0.63]	1.08	1.3	[2.59]**	0.99	1.34	[4.28]***
RESTATE	0.71	0.83	[1.58]	0.82	0.81	[-0.23]	0.80	0.82	[0.31]
RESTATE_AMT	-0.10	-0.08	[0.47]	-0.08	-0.1	[-0.75]	-0.05	-0.14	[-3.08]***
RESTATE_REV	0.36	0.49	[1.61]	0.48	0.48	[-0.02]	0.43	0.53	[1.41]

Table 3 – Lawyer Information

Panel A: Distribution of cases litigated

This panel details the total number of cases litigated by each of the 336 individual SEC lawyers. “Revolver” lawyers are those that left the SEC to work at a law firm. “Non-Revolver” lawyers are those that are still with the SEC or left the SEC for employment other than with a law firm. ^^Indicates that the difference in means between revolvers and non-revolvers is insignificant at 10%.

<u>Cases Litigated</u>	<u>Non-Revolvers</u>		<u>Revolvers</u>		<u>Total</u>
	<u>Number of Lawyers</u>	<u>Percentage of Total</u>	<u>Number of Lawyers</u>	<u>Percentage of Total</u>	
1	135	57.9%	62	60.2%	197
2	49	21.0%	24	23.3%	73
3	20	8.6%	10	9.7%	30
4	9	3.9%	1	1.0%	10
5	8	3.4%	2	1.9%	10
6	3	1.3%	2	1.9%	5
7	1	0.4%	1	1.0%	2
8	3	1.3%	0	0.0%	3
10	2	0.9%	0	0.0%	2
12	1	0.4%	0	0.0%	1
14	2	0.9%	0	0.0%	2
15	0	0.0%	1	1.0%	1
Total Lawyers	233		103		336
Mean Cases Per Lawyer	2.05		1.83	^^	
Median Cases Per Lawyer	1		1		

Panel B: SEC Lawyer Employment Information & SEC SPECIALIST Summary Information

The sample in this panel contains information for 284 SEC enforcement cases and 336 individual SEC lawyers related to a total of 666 lawyer-cases. The first table provides detail on whether SEC lawyers are still with the SEC, left for a non-law firm, or left to a law firm. Lawyers who leave the SEC to join any law firm are classified as “revolver” lawyers and are identified by a binary variable REVOLVER = 1. The second table provides additional detail on the “revolver” lawyers who leave to join “SEC Specialist” law firms. As detailed in Section 3.1, “SEC specialist” lawyers are a subset of “revolver” lawyers. _SPECIALIST is calculated as the number of times the lawyer’s post-SEC law firm appears as a defense firm in our sample of cases. Thus, this data is meant to give the reader an indication of the frequency with which the typical SEC_SPECIALIST law firm actively defends clients against the SEC in our sample.

Lawyer-cases for lawyers still with the SEC	389
Lawyer-cases for lawyers that quit to join a non-law firm	89
Lawyer-cases for lawyers that quit to a law firm (“Revolvers”)	188
Total	666

SEC_SPECIALIST count variable distribution	<u>N</u>	<u>Mean</u>	<u>Min</u>	<u>p25</u>	<u>Median</u>	<u>p75</u>	<u>Max</u>
Among all lawyer-cases	666	0.45	0	0	0	0	8
Among only REVOLVER = 1 lawyer-cases	188	1.5	0	0	1	2	8

Panel C: Differences between revolvers and non-revolvers

The sample in this panel contains information for a total of 666 lawyer-cases. “Non-Revolver” lawyers are those that are either still with the SEC or have left the SEC for a non-law firm. “Revolver” lawyers are those that left the SEC to work at a law firm. “SEC_SPECIALIST 2+” lawyers are those that left the SEC to work at a law firm that shows up at least twice as a defense firm in our sample. “SEC_SPECIALIST 4+” lawyers are those that left the SEC to work at a law firm that shows up at least four times as a defense firm in our sample. The “t-stat of difference” columns show the results of a t-test that the comparison group mean differs from the Non-Revolver group. All other variables are as described in Appendix B. Standard errors for the t-statistics of differences in means are clustered by case. *** Indicates the difference is significant at 1%; ** at 5%; and * at 10%, two-tailed.

	Comparison Group 1			Comparison Group 2		Comparison Group 3	
	A	B	(B – A)	C	(C – A)	D	(D – A)
	<u>Non-Revolver</u> (n=478)	<u>Revolver</u> (n=188)	<u>t-stat of difference</u>	<u>SEC SPECIALIST 2+</u> (n=59)	<u>t-stat of difference</u>	<u>SEC SPECIALIST 4+</u> (n=33)	<u>t-stat of difference</u>
<i>Firm Characteristics</i>							
ASSETS	5.81	5.41	[-1.84]*	4.95	[-2.57]**	5.06	[-1.92]*
BTM	0.55	0.50	[-0.90]	0.43	[-1.85]*	0.42	[-1.59]
ROA	-0.13	-0.13	[-0.01]	-0.19	[-1.11]	-0.22	[-1.16]
STOCK BETA	1.06	1.00	[-0.93]	0.94	[-1.06]	1.17	[0.72]
FAILED_FIRM	0.30	0.40	[2.07]**	0.44	[1.81]*	0.45	[1.67]*
<i>Lawyer Characteristics</i>							
EXPERIENCE	0.62	0.51	[-1.76]*	0.50	[-1.41]	0.34	[-3.50]***
IVY	0.17	0.36	[4.51]***	0.27	[1.50]	0.42	[2.76]***
<i>Case Characteristics</i>							
PRE_VIO_END_CAR	-0.06	-0.03	[0.37]	-0.09	[-0.27]	-0.11	[-0.34]
TRIGGER_CAR	-0.19	-0.24	[-2.38]**	-0.21	[-0.67]	-0.23	[-0.96]
VIO_LENGTH	6.58	6.56	[-0.31]	6.46	[-0.87]	6.39	[-1.09]
REG_LENGTH	4.94	5.40	[1.74]*	5.22	[0.69]	5.19	[0.50]
MEDIA_LR	1.53	1.51	[-0.26]	1.42	[-0.76]	1.60	[0.43]
MEDIA_TRIG	2.02	2.03	[0.08]	2.17	[0.66]	2.21	[0.71]
TEAM_SIZE	1.16	1.23	[1.25]	1.38	[2.53]**	1.40	[2.34]**
RESTATE	0.83	0.76	[-1.89]*	0.84	[0.29]	0.85	[0.26]
RESTATE_AMT	-0.09	-0.09	[-0.18]	-0.13	[-1.41]	-0.13	[-1.14]
RESTATE_REV	0.48	0.48	[0.11]	0.58	[1.28]	0.55	[0.73]
<i>Enforcement Outcomes</i>							
DAMAGES (logged)	9.48	9.34	[-0.24]	9.47	[-0.01]	9.66	[0.20]
CRIM_CASE	0.42	0.51	[1.88]*	0.56	[1.83]*	0.63	[2.52]**
CEO_CHARGE	0.52	0.60	[1.78]*	0.73	[3.13]***	0.82	[4.25]***

Table 4 – Analysis of Revolver and SEC Specialist Lawyers

The sample contains 666 lawyer-cases. Panel A below reports results for the dependent variable DAMAGES. Column (1) is a Tobit model with logged damages as the dependent variable; column (2) is a logit model with a binary for non-zero damages as the dependent variable; and column (3) is an OLS model with non-zero logged damages as the dependent variable. Columns (4) through (6) repeat (1) through (3) but with SEC_SPECIALIST instead of REVOLVER as the regressor of interest. Panel B reports logit estimation where the dependent variable, CRIM_CASE, is a binary variable equal to one if a criminal case is filed. Panel C reports a logit estimation where the dependent variable, CEO_CHARGE, is a binary variable equal to one if the SEC also charges the CEO of the targeted firm. Year fixed effects are untabulated. All variables are as listed in Appendix B. T- or Z-statistics in brackets are based on standard errors that are clustered by case. At the bottom of each panel are the results of an F-test or chi-squared test that the case characteristics are jointly significant. *** indicates significance at 1%; ** at 5%; * at 10%.

Panel A: DAMAGES	1	2	3	4	5	6
	Log(Damages) All Obs.	BINARY All Obs.	Log(Damages) Damages > 0	Log(Damages) All Obs.	BINARY All Obs.	Log(Damages) Damages > 0
<u>Firm Characteristics</u>						
ASSETS	0.352 [1.32]	0.107 [1.09]	0.182 [1.73]*	0.350 [1.31]	0.105 [1.07]	0.182 [1.72]*
BTM	-0.820 [-0.70]	-0.324 [-0.84]	-0.262 [-0.81]	-0.814 [-0.69]	-0.322 [-0.84]	-0.268 [-0.82]
ROA	-1.696 [-1.18]	-0.643 [-1.02]	0.016 [0.03]	-1.681 [-1.17]	-0.642 [-1.01]	0.015 [0.03]
BETA	-1.127 [-1.48]	-0.425 [-1.53]	-0.022 [-0.08]	-1.107 [-1.45]	-0.418 [-1.51]	-0.037 [-0.14]
FAILED_FIRM	-2.732 [-2.37]**	-0.722 [-1.81]*	-0.664 [-1.87]*	-2.749 [-2.39]**	-0.729 [-1.84]*	-0.660 [-1.84]*
<u>Case Characteristics</u>						
PRE_VIO_END_CAR	-0.069 [-0.09]	-0.067 [-0.28]	0.201 [0.78]	-0.079 [-0.10]	-0.074 [-0.31]	0.206 [0.79]
TRIGGER_CAR	-5.510 [-1.94]*	-2.242 [-2.41]**	0.869 [0.86]	-5.436 [-1.92]*	-2.213 [-2.38]**	0.808 [0.80]
VIO_LENGTH	-0.658 [-0.88]	-0.389 [-1.26]	0.448 [1.82]*	-0.677 [-0.91]	-0.401 [-1.31]	0.455 [1.84]*
REG_LENGTH	-0.036 [-0.17]	0.017 [0.22]	0.018 [0.27]	-0.038 [-0.18]	0.016 [0.20]	0.023 [0.35]
MEDIA_LR	2.253 [3.42]***	0.741 [2.76]***	0.336 [1.69]*	2.242 [3.41]***	0.741 [2.75]***	0.358 [1.80]*
MEDIA_TRIG	-0.619 [-1.47]	-0.266 [-1.67]*	0.145 [0.93]	-0.620 [-1.48]	-0.266 [-1.68]*	0.143 [0.91]
TEAM_SIZE	-0.790 [-1.01]	-0.233 [-0.81]	0.024 [0.08]	-0.793 [-1.02]	-0.241 [-0.84]	0.020 [0.07]
RESTATE	0.366 [0.19]	0.994 [1.60]	-2.128 [-3.36]***	0.430 [0.22]	1.021 [1.65]*	-2.166 [-3.38]***
RESTATE_AMT	4.968 [1.38]	2.089 [1.85]*	-0.077 [-0.04]	4.963 [1.37]	2.090 [1.84]*	-0.072 [-0.04]
RESTATE_REV	1.370 [1.23]	0.665 [1.50]	0.144 [0.39]	1.358 [1.22]	0.651 [1.47]	0.140 [0.37]
<u>Lawyer Characteristics</u>						
EXPERIENCE	-0.114 [-0.25]	0.024 [0.13]	0.038 [0.29]	-0.105 [-0.23]	0.027 [0.15]	0.031 [0.23]
IVY	1.032 [1.62]	0.258 [1.10]	0.328 [1.72]*	0.925 [1.46]	0.208 [0.90]	0.391 [2.07]**
REVOLVER	-0.544 [-0.89]	-0.218 [-0.95]	0.443 [2.35]**			
SEC_SPECIALIST				-0.133 [-0.25]	-0.026 [-0.13]	0.279 [2.14]**
Observations	624	624	467	624	624	467
Pseudo or Adjusted R ²	0.049	0.207	0.374	0.049	0.206	0.371
Regression Type	Tobit	Logit	OLS	Tobit	Logit	OLS
Case Char. Sig. Chi-Sq or F	[1.69]*	[21.75]**	[2.97]***	[1.68]*	[21.65]**	[3.05]***

	Panel B: CRIM_CASE		Panel C: CEO_CHARGE	
	Model 1	Model 2	Model 1	Model 2
<u>Firm Characteristics</u>				
ASSETS	0.001 [0.02]	0.003 [0.03]	-0.319 [-2.81]***	-0.318 [-2.81]***
BTM	-0.177 [-0.47]	-0.153 [-0.41]	-1.368 [-3.05]***	-1.347 [-3.06]***
ROA	0.413 [0.89]	0.439 [0.94]	0.857 [1.56]	0.886 [1.59]
BETA	0.289 [1.12]	0.302 [1.17]	0.034 [0.13]	0.044 [0.16]
FAILED_FIRM	0.225 [0.54]	0.214 [0.52]	0.375 [0.95]	0.363 [0.91]
<u>Case Characteristics</u>				
PRE_VIO_END_CAR	0.120 [0.49]	0.128 [0.52]	-0.302 [-1.27]	-0.299 [-1.25]
TRIGGER_CAR	1.636 [1.91]*	1.610 [1.87]*	-0.145 [-0.16]	-0.175 [-0.19]
VIO_LENGTH	0.108 [0.43]	0.120 [0.48]	0.605 [2.19]**	0.618 [2.21]**
REG_LENGTH	0.589 [5.68]***	0.595 [5.84]***	-0.004 [-0.06]	0.001 [0.02]
MEDIA_LR	0.566 [2.54]**	0.583 [2.59]***	0.335 [1.47]	0.338 [1.49]
MEDIA_TRIG	0.148 [1.08]	0.139 [1.01]	0.046 [0.31]	0.037 [0.25]
TEAM_SIZE	0.541 [2.02]**	0.554 [2.05]**	0.821 [3.00]***	0.830 [3.01]***
RESTATE	-0.609 [-0.91]	-0.599 [-0.90]	0.240 [0.33]	0.261 [0.36]
RESTATE_AMT	-0.398 [-0.42]	-0.385 [-0.40]	-0.349 [-0.23]	-0.334 [-0.22]
RESTATE_REV	-0.401 [-0.99]	-0.428 [-1.06]	0.445 [1.21]	0.427 [1.15]
<u>Lawyer Characteristics</u>				
EXPERIENCE	0.303 [1.88]*	0.304 [1.87]*	0.042 [0.28]	0.044 [0.30]
IVY	-0.228 [-0.93]	-0.273 [-1.11]	0.118 [0.53]	0.061 [0.28]
REVOLVER	0.213 [0.96]		0.076 [0.34]	
SEC_SPECIALIST		0.467 [2.26]**		0.421 [1.88]*
Observations	666	666	666	666
Pseudo R ²	0.346	0.349	0.235	0.238
Case Characteristics Test Joint Sig.	[54.17]***	[55.94]***	[21.34]**	[21.25]**

Table 5: Cross-Sectional Analysis of SEC Specialist Lawyers

This table presents partial results from models similar to those in Table 4. Column (1) is an OLS model with non-zero logged damages as the dependent variable. Column (2) is a logit model where the dependent variable, CRIM_CASE, is a binary variable equal to one if a criminal case is filed. Column (3) is a logit model where the dependent variable, CEO_CHARGE, is a binary variable equal to one if the SEC also charges the CEO of the targeted firm. Only partial results are reported. In Panel A, the binary LOCAL variable takes the value of one if the SEC lawyer and the target firm are located in the same metropolitan statistical area (MSA). In Panel B, the WASHDC indicator takes the value one if the SEC lawyer is located in Washington DC. In Panel C, a MATURE binary variable takes the value 1 if the lawyer's time from the entering the bar to leaving the SEC is above the median (17 years). In Panel D, LAST_YEAR is a binary variable equal to one if the case concludes within one year of the lawyer leaving the SEC. Other variables, included but not tabulated are similar to those in Table 4 and are defined in Appendix B. T- or Z-statistics in brackets are based on standard errors that are clustered by case. *** Indicates significance at 1%; ** at 5%; * at 10%, based on two-tailed tests.

Panel A: Enforcement against local targets (partial results)

	(1) DAMAGES > 0	(2) CRIM_CASE	(3) CEO_CHARGE
SEC_SPECIALIST	0.250 [1.71]*	0.290 [1.17]	0.504 [2.17]**
LOCAL	0.249 [0.81]	0.580 [1.55]	0.064 [0.18]
SEC_SPECIALIST x LOCAL	0.089 [0.52]	0.393 [1.93]*	-0.134 [-0.53]
Observations	467	666	666
Adjusted or Pseudo R ²	0.370	0.361	0.239

Panel B: Enforcement by SEC lawyers in Washington DC (partial results)

	(1) DAMAGES > 0	(2) CRIM_CASE	(3) CEO_CHARGE
SEC_SPECIALIST	0.166 [0.97]	0.888 [3.21]***	0.318 [1.04]
WASHDC	0.714 [2.34]**	-0.109 [-0.33]	0.425 [1.26]
SEC_SPECIALIST x WASHDC	0.144 [0.51]	-0.929 [-2.21]**	0.142 [0.32]
Observations	467	666	666
Adjusted or Pseudo R ²	0.385	0.354	0.243

Panel C: Role of lawyer age (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM CASE</u>	(3) <u>CEO CHARGE</u>
SEC_SPECIALIST	0.164 [0.94]	0.510 [1.62]	0.735 [2.27]**
MATURE	-0.134 [-0.51]	0.433 [1.39]	0.327 [1.01]
SEC_SPECIALIST x MATURE	0.356 [0.98]	-0.665 [-1.35]	-0.569 [-1.03]
Observations	429	607	607
Adjusted or Pseudo R ²	0.356	0.358	0.244

Panel D: Last year at the SEC (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM CASE</u>	(3) <u>CEO CHARGE</u>
SEC_SPECIALIST	0.280 [1.46]	0.425 [1.50]	0.988 [3.69]***
LAST_YEAR	-0.009 [-0.03]	-0.242 [-0.68]	-0.981 [-2.70]***
Observations	434	616	616
Adjusted or Pseudo R ²	0.369	0.360	0.251

Table 6: SEC Alumni on the Defense Team

This table presents partial results from models similar to those estimated in Table 4. Column (1) is an OLS model with non-zero logged damages as the dependent variable. Column (2) is a logit model where the dependent variable, CRIM_CASE, is a binary variable equal to one if a criminal case is filed. Column (3) is a logit model where the dependent variable, CEO_CHARGE, is a binary variable equal to one if the SEC also charges the CEO of the targeted firm. In Panel A, SEC_ALUMNI is the maximum number of SEC lawyers hired by any of the defendant law firms in the case, and NUMBER_DEF_FIRMS is the log of the number of law firms that comprise the defense team. In Panel B, OFFICE_ALUMNI_CONNECTION is a binary variable equal to one if any of the SEC lawyers previously worked in the same SEC office at the same time as a lawyer currently employed by one of the defense firms. In Panel C, TEAM_ALUMNI_CONNECTION is a binary variable equal to one if any of the SEC lawyers previously worked on the same SEC prosecution team as a lawyer currently employed by one of the defense firms. Other variables included in the estimation but not reported are similar to Table 4 and defined in Appendix B. T- or Z-statistics in brackets are based on standard errors that are clustered by case. *** Indicates significance at 1%; ** at 5%; * at 10%, based on two-tailed tests.

Panel A: Influence of SEC alumni – defense firm hires (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM_CASE</u>	(3) <u>CEO_CHARGE</u>
SEC_SPECIALIST	0.322 [2.06]**	0.573 [2.27]**	0.549 [2.03]**
NUMBER_DEF_FIRMS	0.731 [1.91]*	0.008 [0.02]	0.799 [2.04]**
SEC_ALUMNI	-1.344 [-3.35]***	-0.686 [-1.59]	0.102 [0.19]
Observations	304	434	434
Adjusted or Pseudo R ²	0.498	0.386	0.240

Panel B: Influence of SEC alumni – defense firm hires and former office coworkers (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM_CASE</u>	(3) <u>CEO_CHARGE</u>
SEC_SPECIALIST	0.314 [2.03]**	0.587 [2.26]**	0.569 [2.14]**
NUMBER_DEF_FIRMS	0.755 [1.99]**	-0.013 [-0.03]	0.758 [1.92]*
SEC_ALUMNI	-1.304 [-3.20]***	-0.657 [-1.38]	-0.231 [-0.39]
OFFICE_ALUMNI_CONNECTION	-0.151 [-0.28]	-0.074 [-0.10]	1.103 [1.36]
Observations	302	431	431
Adjusted or Pseudo R ²	0.495	0.393	0.258

Panel C: Influence of SEC alumni – defense firm hires and former team coworkers (partial results)

	(1)	(2)	(3)
	<u>DAMAGES > 0</u>	<u>CRIM_CASE</u>	<u>CEO_CHARGE</u>
SEC_SPECIALIST	0.320 [2.05]**	0.580 [2.35]**	0.554 [2.02]**
NUMBER_DEF_FIRMS	0.745 [1.97]*	0.024 [0.06]	0.890 [2.38]**
SEC_ALUMNI	-1.521 [-3.54]***	-0.788 [-1.72]*	-0.067 [-0.12]
TEAM_ALUMNI_CONNECTION	1.581 [1.39]	0.800 [0.76]	1.469 [1.16]
Observations	304	434	434
Adjusted or Pseudo R ²	0.507	0.387	0.247

Table 7: Likelihood of Leaving the SEC

This table displays logit estimation for the likelihood of leaving the SEC. Analysis is performed on 336 individual lawyer observations. The dependent variable, QUIT, is an indicator variable that takes the value one if the lawyer leaves the SEC to join any outside employer (not necessarily a law firm). Variables ending in the suffix “_AVG” are as described in Appendix B but are averaged across cases for lawyers that prosecute more than one case in our sample. DAMAGES_MISSING is an indicator variable equal to one if the DAMAGES variable is unpopulated, in which cases DAMAGES is set to zero to conserve sample size. The indicator variable, STAR (LEMON) is equal to one if all the lawyer’s enforcement outcomes were above (below) the mean for all lawyers in the sample. In calculating YEARS_AS_LAWYER, in cases where the Bar admittance year is unknown, the observations are coded with a YEAR_MISSING binary variable and the year in which the lawyer’ prosecuted his first case is used instead. *** Indicates significance at 1%; ** at 5%; * at 10%, based on two-tailed tests.

	Model 1		Model 2	
	Estimate	Pr > ChiSq	Estimate	Pr > ChiSq
<i>Firm Characteristics</i>				
ASSETS_AVG	-0.251	0.024**	-0.238	0.029**
BTM_AVG	-0.060	0.841	-0.043	0.888
ROA_AVG	1.160	0.026**	1.059	0.037**
STOCK BETA_AVG	0.112	0.622	0.151	0.491
FAILED_FIRM_AVG	0.085	0.799	0.144	0.667
SP500_AVG	0.506	0.380	0.547	0.340
<i>Case Characteristics</i>				
PRE_VIO_END_CAR_AVG	-0.152	0.464	-0.123	0.553
TRIGGER_CAR_AVG	-0.492	0.517	-0.355	0.643
VIO_LENGTH_AVG	-0.440	0.051*	-0.395	0.070*
REG_LENGTH_AVG	0.015	0.814	0.043	0.477
MEDIA_LR_AVG	0.123	0.513	0.138	0.461
MEDIA_TRIG_AVG	0.079	0.536	0.082	0.517
TEAM_SIZE_AVG	0.224	0.463	0.249	0.406
RESTATE_AMT_AVG	1.040	0.228	1.030	0.233
RESTATE_AVG	-0.660	0.176	-0.728	0.132
RESTATE_REV_AVG	0.007	0.984	0.036	0.916
<i>Lawyer Characteristics</i>				
EXPERIENCE	-0.173	0.412	-0.147	0.486
IVY	0.812	0.008***	0.783	0.010***
YEARS_AS_LAWYER	-0.006	0.725	-0.005	0.777
YEAR_MISSING	1.942	0.006***	1.911	0.007***
WASHDC	0.902	0.008***	0.909	0.006***
LOCAL_AVG	0.206	0.578	0.275	0.446
<i>Internal Job Prospects</i>				
LEAD_AVG	0.339	0.315	0.393	0.236
CRIM_CASE_AVG	-0.071	0.226		
CEO_CHARGE_AVG	0.002	0.835		
DAMAGES_AVG	-1.008	0.725		
DAMAGES_MISSING	0.339	0.164	-0.912	0.197
LEMON			-0.120	0.791
STAR			0.121	0.737
Observations	336		336	
Pseudo R ²	0.214		0.209	

Table 8: Controlling for the Likelihood of Leaving the SEC

This table repeats the analysis of enforcement outcomes from Table 4 while including an additional control for the likelihood of the lawyer leaving the SEC. Column (1) is an OLS model with non-zero logged damages as the dependent variable. Column (2) is a logit model where the dependent variable, CRIM_CASE, is a binary variable equal to one if a criminal case is filed. Column (3) is a logit model where the dependent variable, CEO_CHARGE, is a binary variable equal to one if the SEC also charges the CEO of the targeted firm. Only partial results are reported. In Panel A, the probability of leaving the SEC, PROBQUIT1, is the fitted value from Model 1 of Table 6. In Panel B, the probability of leaving the SEC, PROBQUIT2, is the fitted value from Model 2 of Table 6. All other variables are described in Appendix B. Z-statistics in brackets are based on standard errors that are clustered by case. *** Indicates significance at 1%; ** at 5%; * at 10%, based on two-tailed tests.

Panel A: PROBQUIT1 as predicted by Model 1 of Table 7 (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM CASE</u>	(3) <u>CEO CHARGE</u>
SEC_SPECIALIST	0.238 [1.84]*	0.403 [1.89]*	0.433 [1.96]**
PROBQUIT1	1.372 [1.76]*	1.217 [1.46]	-0.247 [-0.36]
Observations	467	666	666
Adjusted or Pseudo R ²	0.375	0.351	0.239

Panel B: PROBQUIT2 as predicted by Model 2 of Table 7 (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM CASE</u>	(3) <u>CEO CHARGE</u>
SEC_SPECIALIST	0.250 [1.90]*	0.508 [2.43]**	0.393 [1.77]*
PROBQUIT2	1.139 [1.41]	-0.823 [-1.02]	0.635 [0.86]
Observations	467	666	666
Adjusted or Pseudo R ²	0.373	0.350	0.239

Table 9: Enforcement Effort in Cases With Less Discretion Over the Filing of Charges

This table presents results from expanded versions of the regression analysis of enforcement outcomes in cases with less discretion over the filing of cases from Table 4. Column (1) is an OLS model with non-zero logged damages as the dependent variable. Column (2) is a logit model where the dependent variable, CRIM_CASE, is a binary variable equal to one if a criminal case is filed. Column (3) is a logit model where the dependent variable, CEO_CHARGE, is a binary variable equal to one if the SEC also charges the CEO of the targeted firm. In Panel A (Panel B), MEDIA_TRIG_HIGH is an indicator variable equal to one for cases that are in the top quartile (decile) of media coverage around the trigger date. Media coverage in MEDIA_TRIG_HIGH is based on the number of news articles on the misconduct in the two-month period centered around the trigger date. The variable MEDIA_LR is the number of articles in the two months around the SEC litigation release, which is usually much later than the trigger date. Only partial results are tabulated. All variables are described in Appendix B. Z-statistics in brackets are based on standard errors that are clustered by case. *** Indicates significance at 1%; ** at 5%; * at 10%, based on two-tailed tests.

Panel A: High Trigger Date Media Coverage – 75% Percentile

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM CASE</u>	(3) <u>CEO CHARGE</u>
MEDIA_LR	0.385 [1.98]**	0.578 [2.57]**	0.326 [1.43]
MEDIA_TRIG	0.052 [0.28]	0.203 [1.14]	0.129 [0.68]
SEC_SPECIALIST	0.398 [2.29]**	0.313 [1.22]	0.628 [2.01]**
MEDIA_TRIG_HIGH	0.488 [0.98]	-0.340 [-0.64]	-0.351 [-0.64]
SEC_SPECIALIST x MEDIA_TRIG_HIGH	-0.270 [-0.85]	0.443 [1.03]	-0.446 [-1.06]
Observations	467	666	666
Adjusted or Pseudo R ²	0.372	0.351	0.242

Panel B: High Trigger Date Media Coverage – 90% Percentile

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM CASE</u>	(3) <u>CEO CHARGE</u>
MEDIA_LR	0.358 [1.80]*	0.587 [2.58]**	0.332 [1.42]
MEDIA_TRIG	0.163 [0.97]	0.216 [1.34]	0.224 [1.40]
SEC_SPECIALIST	0.272 [1.93]*	0.361 [1.56]	0.545 [2.19]**
MEDIA_TRIG_HIGH	-0.166 [-0.25]	-0.645 [-1.12]	-1.440 [-2.30]**
SEC_SPECIALIST x MEDIA_TRIG_HIGH	0.045 [0.10]	0.663 [0.96]	-0.281 [-0.55]
Observations	467	666	666
Adjusted or Pseudo R ²	0.368	0.352	0.261

Table 10: Robustness Tests

This table presents results from modified versions of the regression analysis of enforcement outcomes from Table 4. Column (1) is an OLS model with non-zero logged damages as the dependent variable. Column (2) is a logit model where the dependent variable, CRIM_CASE, is a binary variable equal to one if a criminal case is filed. Column (3) is a logit model where the dependent variable, CEO_CHARGE, is a binary variable equal to one if the SEC also charges the CEO of the targeted firm. Only partial results are reported. In Panel A, NUMBER_DEF_FIRMS is the log of the number of law firms that comprise the defense team, and SCORE_DEFENSE is the average Vault score for defense firms for 2007. In Panel B, HIRINGFIRM_RANK is based on prestige scores for law firms obtained from Vault.com. It takes the value of 2 when revolver joins a law firms with a top 20 rank, a value of 1 if the law firm joined has a rank from 21 to 100 and 0 if the law firm joined is not ranked. In Panel C, SOX is a binary variable for cases that end subsequent to the implementation of Sarbanes Oxley in 2002. Year fixed effects are excluded from the analysis in Panel C. All other variables are as listed in Appendix B. T- or Z-statistics in brackets are based on standard errors that are clustered by case. *** Indicates significance at 1%; ** at 5%; * at 10%, based on two-tailed tests.

Panel A: Controlling for the quality of the defendant law firms (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM_CASE</u>	(3) <u>CEO_CHARGE</u>
SEC_SPECIALIST	0.469 [3.00]***	0.594 [2.41]**	0.527 [1.81]*
NUMBER_DEF_FIRMS	0.307 [0.83]	-0.176 [-0.44]	0.831 [2.09]**
SCORE_DEFENSE	0.104 [0.89]	-0.224 [-1.48]	0.101 [0.89]
Observations	304	434	434
Adjusted or Pseudo R ²	0.449	0.388	0.243

Panel B: Alternate proxy for hiring law firm – HIRINGFIRM_RANK instead of SEC SPECIALIST (partial results)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM_CASE</u>	(3) <u>CEO_CHARGE</u>
SEC_SPECIALIST	omitted	omitted	omitted
HIRINGFIRM_RANK	0.182 [1.32]	0.404 [2.10]**	0.382 [2.05]**
Observations	467	666	666
Adjusted or Pseudo R ²	0.370	0.331	0.229

Panel C: Pre/Post Sarbanes Oxley (partial results, year fixed effects are excluded)

	(1) <u>DAMAGES > 0</u>	(2) <u>CRIM_CASE</u>	(3) <u>CEO_CHARGE</u>
SOX	0.875 [1.63]	0.464 [0.94]	-0.127 [-0.27]
SEC_SPECIALIST	0.042 [0.72]	0.191 [2.14]**	0.173 [1.93]*
Observations	467	666	666
Adjusted or Pseudo R ²	0.331	0.315	0.201

Table 11: Differences Between “Inbound” Revolvers and Non-Revolvers

Inbound Revolvers (Non-Revolvers) lawyers are those that were (not) hired by the SEC from private law firms. All other variables are as described in Appendix B. “SEC_SPECIALIST 2+” lawyers are those that joined the SEC from a law firm that shows up at least twice as a defense firm in our sample. “SEC_SPECIALIST 4+” lawyers joined the SEC from a law firm that shows up at least four times as a defense firm in our sample. The “t-stat of difference” columns show the results of a t-test that the comparison group mean differs from the Non-Revolver group. All other variables are as described in Appendix B. Standard errors for the t-statistics of differences in means are clustered by case. *** Indicates the difference is significant at 1%; ** at 5%; and * at 10%, two-tailed.

	Comparison Group 1			Comparison Group 2		Comparison Group 3	
	A	B	(B – A)	C	(C – A)	D	(D – A)
	Non- INBOUND Revolver (n=54)	INBOUND Revolver (n=141)	t-stat of difference	SEC SPECIALIST 2+ (n=50)	t-stat of difference	SEC SPECIALIST 4+ (n=14)	t-stat of difference
<i>Firm Characteristics</i>							
ASSETS	5.26	5.70	[0.89]	5.58	[0.55]	5.50	[0.28]
BTM	0.50	0.52	[0.19]	0.43	[-0.70]	0.48	[-0.15]
ROA	-0.12	-0.17	[-0.84]	-0.11	[0.08]	-0.02	[1.76]*
STOCK BETA	0.87	1.11	[1.62]	1.42	[3.06]***	0.91	[0.18]
FAILED_FIRM	0.39	0.33	[-0.66]	0.30	[-0.89]	0.50	[0.70]
<i>Lawyer Characteristics</i>							
EXPERIENCE	0.80	0.67	[-0.91]	0.75	[-0.31]	0.35	[-2.58]**
IVY	0.48	0.20	[-3.65]***	0.16	[-3.61]***	0.14	[-2.56]**
<i>Case Characteristics</i>							
PRE_VIO_END_CAR	-0.22	-0.10	[1.13]	-0.06	[1.18]	-0.11	[0.74]
TRIGGER_CAR	-0.24	-0.17	[1.67]*	-0.16	[1.84]*	-0.13	[2.08]**
VIO_LENGTH	6.43	6.65	[1.65]	6.50	[0.39]	6.70	[1.21]
REG_LENGTH	5.27	4.78	[-0.97]	4.81	[-0.71]	4.87	[-0.49]
MEDIA_LR	1.31	1.51	[1.24]	1.70	[1.89]*	1.30	[-0.04]
MEDIA_TRIG	1.71	2.02	[1.22]	2.38	[2.16]**	2.21	[1.40]
TEAM_SIZE	1.22	1.13	[-0.68]	1.38	[1.10]	1.43	[1.17]
RESTATE	0.70	0.77	[0.86]	0.84	[1.49]	0.78	[0.60]
RESTATE_AMT	-0.06	-0.09	[-1.13]	-0.15	[-1.75]*	-0.07	[-0.22]
RESTATE_REV	0.46	0.44	[-0.27]	0.42	[-0.38]	0.28	[-1.10]
<i>Enforcement Outcomes</i>							
DAMAGES (logged)	10.24	9.41	[-0.88]	8.19	[-1.57]	5.79	[-2.20]**
WIN	0.09	0.08	[-0.15]	0.06	[-0.62]	0.14	[0.47]
CRIM_CASE	0.41	0.44	[0.29]	0.54	[1.20]	0.50	[0.58]
CEO_CHARGE	0.65	0.53	[-1.47]	0.58	[-0.64]	0.72	[0.46]

Table 12: Regression Analysis of Enforcement Effort for “Inbound” Specialist Revolvers

This table presents the enforcement effort for “Inbound” specialist revolvers. Column (1) is an OLS model with non-zero logged damages as the dependent variable. Column (2) is a logit model where the dependent variable, CRIM_CASE, is a binary variable equal to one if a criminal case is filed. Column (3) is a logit model where the dependent variable, CEO_CHARGE is a binary variable equal to one if the SEC also charges the CEO of the targeted firm. INBOUND_SEC_SPECIALIST is a count variable for the number of times the lawyer's pre-SEC employer law firm appears in our defense firm sample. All other variables are as listed in Appendix B. Year fixed effects are untabulated. T- or Z-statistics in brackets are based on standard errors that are clustered by case. *** Indicates significance at 1%; ** at 5%; * at 10%, based on two-tailed tests.

	(1) DAMAGES > 0	(2) CRIM CASE	(3) CEO CHARGE
<u>Firm Characteristics</u>			
ASSETS	0.159 [1.13]	0.006 [0.04]	-0.374 [-2.51]**
BTM	-0.532 [-0.89]	-0.242 [-0.47]	-2.563 [-3.42]***
ROA	-0.100 [-0.13]	1.368 [2.08]**	0.984 [1.33]
BETA	0.339 [1.03]	0.596 [1.54]	0.282 [0.81]
FAILED_FIRM	-0.421 [-0.83]	0.471 [0.89]	1.581 [2.60]***
<u>Case Characteristics</u>			
PRE_VIO_END_CAR	0.726 [1.92]*	0.463 [1.12]	-0.329 [-0.87]
TRIGGER_CAR	0.843 [0.72]	0.535 [0.43]	-1.093 [-0.73]
VIO_LENGTH	0.697 [1.65]	0.107 [0.30]	1.146 [2.70]***
REG_LENGTH	0.037 [0.36]	0.451 [3.48]***	-0.253 [-1.95]*
MEDIA_LR	0.280 [0.91]	0.209 [0.62]	0.255 [0.83]
MEDIA_TRIG	0.174 [0.75]	0.165 [0.87]	0.106 [0.53]
TEAM_SIZE	-0.319 [-0.82]	-0.226 [-0.60]	1.376 [3.10]***
RESTATE	-1.073 [-1.40]	-1.678 [-1.53]	1.354 [1.41]
RESTATE_AMT	1.938 [1.01]	-2.271 [-1.85]*	0.552 [0.37]
RESTATE_REV	-0.286 [-0.53]	0.089 [0.18]	0.544 [0.95]
<u>Lawyer Characteristics</u>			
EXPERIENCE	-0.145 [-0.69]	0.152 [0.58]	0.282 [1.00]
IVY	0.773 [2.00]**	-0.272 [-0.54]	-0.308 [-0.56]
INBOUND_SEC_SPECIALIST	-0.167 [-0.52]	0.068 [0.18]	-0.274 [-0.77]
Observations	141	195	195
Adjusted or Pseudo R ²	0.352	0.335	0.389