Financial Costs of Judicial Inexperience: Evidence from Corporate Bankruptcies

Online Appendix

Variable Definitions

Experience Measures	
Log(MONTHS)	Log number of months from a judge's appointment date to the case filing date.
FIRST_2Y	Indicator variable that takes the value of one if the assigned judge has been on the bench for two years or less as of the case filing date.
Case Outcomes	
DURATION	For the LexisNexis sample: the log number of months from the case filing date until the case is either closed after completing a Chapter 11 restructuring (emergence or liquidation), converted to Chapter 7, or dismissed from court. For the public-firm sample: the log number of months from the filing date to the plan confirmation date or the date the case is converted to a Chapter 7 liquidation.
Log(BANKRUPTCY_FEES)	The log number of total bankruptcy fees plus one ($ Mils).
FAMILY_RECOVERY(%)	The enterprise value of the corporate family relative to its total liabilities at default resolution.
EMERGENCE	Indicator variable that takes the value of one if a firm emerges from Chapter 11.
REFILE_3Y	Indicator variable that takes the value of one if a firm refiles for Chapter 11 within 3 years after emergence.
Δ_SALES	Change in sales dollar amount relative to the sales dollar amount at filing.
ROA_POST	Income before extraordinary items (Compustat variable IB) scaled by total assets (Compustat variable AT). Taken from the first year for which post-bankruptcy financial statements are available. Winsorized at ±100%.
Log(NUM_MOTIONS)	The log number of motions filed in a case.
AVE_DAYS_RULING	The average days from the motion filing date to the passing of a corresponding order. Excludes all first-day motions.
NUM_PLANS	The number of reorganization/liquidation plans filed during bankruptcy proceedings for cases not converted to a Chapter 7 liquidation.
D(HIGH_PLANS)	Indicator variable that takes the value of one if the number of plans filed is greater than three.
Case Characteristics	
Log(ASSETS)	Log of assets' dollar value at filing (in 2016 dollars).
Log(NUM_FILINGS)	Log number of subsidiaries associated with a case at filing.
LEVERAGE_FILING	$\frac{liabilities}{Assets}$ at filing.
ROA_FILING	$\frac{NetIncome}{Assets}$ at filing.
PREPACK_PRENEG	Indicator variable that takes the value of one if the bankruptcy filing is pre-packaged or pre-negotiated. A case is prepackaged if the debtor drafts a plan, negotiates it with impaired creditor classes, and obtains their acceptance before filing. The case is pre-negotiated if the debtor has obtained a supporting agreement from its key creditors or stakeholders before filing.
DEBT_CONCENTRATION	The Herfindahl index of different types of debt upon filing, including creditor revolver, term loans, secured bonds and notes, capital leases, other secured debt, and unsecured bonds and notes.
DIVERSITY_INDUSTRY	The reciprocal of the Herfindahl index of establishments across two-digit SIC industries.
DIVERSITY_SIZE	The reciprocal of the Herfindahl index of establishments across buckets of 1-4, 5-9, 10-19, 20-49, 50-99, 100-249, 250-499, 500-999, and 1000+ employees.
DELAWARE	Indicator variable that takes the value of one if the case was filed in Delaware.
NYSD	Indicator variable that takes the value of one if the case was filed in the Southern District of New York.

Table 1 Court Random Assignment

This table summarizes judge-assignment procedures for 81 courts that either responded to our inquiries or stated case-assignment policies on their websites. Courts marked "Single Judge" employ only one judge for the entire district. Courts marked "By location" have multiple judges, but each judge is given cases from only a specific geographic area within a court's boundaries. The Eastern District of Wisconsin is the only district to state that new judges are not assigned Chapter 11 cases for "a few months." Accordingly, cases from this district are removed from the sample.

Court	Assignment Method	No. Lexis Nexis Cases	No. Large Cases	Source	Court	Assignment Method	No. Lexis Nexis Cases	No. Large Cases	Source
AK	Single Judge	201	1	-	NC, E	Random	864	5	Local rules
AL, M	Random	223	3	Phone call to court	NC, W	Random	684	0	Phone call to court
AL, N	Random	979	2	Email from Clerk	ND	Single Judge	51	0	-
AL, S	Random	342	1	Email from Clerk	NE	Random	368	1	Email from Clerk
AR, E	Random	350	2	Local rules	NH	Single Judge	443	2	-
AR, W	By location	260	0	Local rules	NJ	Random	4996	37	Local rules
AZ	Random	3587	15	Local rules	NM	Random	531	0	Email from Clerk
CA, C	Random	7499	62	Phone call to court	NV	Random	2102	17	Email from Clerk
CA, E	Random	1555	2	Email from Clerk	NY, E	Random	3500	6	Local rules
CA, N	Random	2816	39	Email from Clerk	NY, N	By location	700	2	Email from Clerk
CA, S	Random	1062	7	Email from Clerk	NY, S	Random	5352	237	Local rules
CO	Random	1358	15	Local rules	NY, W	Random	853	3	Local rules
CT	Random	1381	5	Local rules	OH, N	Random	973	15	Local rules
DC	Single Judge	593	2	-	OH, S	Random	961	15	Email from Clerk
DE	Random	2160	383	Judge Shannon	OK, E	Single Judge	108	0	-
FL, M	Random	4353	21	News article	OK, N	Random	159	0	Phone call to court
FL, N	Single Judge	332	0	Email from Clerk	OK, W	Random	443	6	Local rules
FL, S	Random	3371	32	Local rules	OR	Random	534	4	Email from Clerk
GA, M	Random	473	1	Email from Clerk	PA, E	Random	2307	1	Local rules
GA, S	By location	477	4	Email from Clerk	PA, M	Random	864	2	Local rules
HI	Single Judge	327	2	-	PA, W	Random	1637	5	Local rules
IA, N	Single Judge	127	0	-	RI	Single Judge	294	1	-
IA, S	Random	186	0	Email from Clerk	SC	By location	804	4	Local rules
ID	Random	450	1	Local rules	SD	Single Judge	91	1	-
IL, C	By location	334	0	Email from Clerk	TN, M	Random	1048	6	Email from Clerk
IL, N	Random	1828	40	Local rules	TN, W	Random	717	2	Email from Clerk
IN, S	Random	1136	8	Email from Clerk	TX, E	Random	788	3	Email from Clerk
KS	By location	556	3	Local rules	TX, N	Random	3356	57	Phone call to court
KY, E	Random	324	3	Local rules	TX, S	Random	3581	46	Phone call to court
LA, M	Single Judge	257	1	-	TX, W	Random	2012	19	Email from Clerk
LA, W	By location	585	5	Email from Clerk	UT	Random	855	4	Email from Clerk
MA	Random	2816	22	Email from Clerk	VA, E	Random	2141	15	Email from Clerk
MD	Random	2417	13	Local rules	VA, W	Random	416	2	Email from Clerk
MI, E	Random	2255	16	Local rules	VT	Single Judge	123	1	-
MI, W	Random	691	4	Local rules	WA, E	By location	402	2	Local rules
MN	Random	914	4	Local rules	WA, W	Random	2302	7	Local rules
MO, E	Random	460	13	Email from Clerk	WI, E	Non-random	345	6	Email from Clerk
MO, W	Random	654	5	Local rules	WV, N	Single Judge	223	1	-
MS, N	By location	264	0	Local rules	WV, S	Single Judge	388	1	-
MS, S	By location	469	3	Email from Clerk	WY	Single Judge	156	0	-
MT	Single Judge	204	1	-					

Table 2 Robustness Check: Bankruptcy Duration and Judicial Experience

In this table we present robustness tests of the effects of judicial experience on case duration. In Panel A we remove cases with more than one filing in the LexisNexis sample (columns 1–2) and those that comprise the largest 20% of cases based on asset values for the public-firm sample (columns 3 –4). In Panel B we remove all cases filed in NYSD and in Panel C we remove all cases filed in DE. In Panel D we include only cases filed during a judge's first term and in Panel E we exclude courts that employ only one judge or courts that assign cases by location, as listed in Table A1. We estimate the regressions provided below and report the results, where DURATION_i is the log number of months case i spends under Chapter 11. We measure judicial experience using Log(MONTHS) and FIRST_2Y. In columns 1–2 we include a control for Log(NUM_FILINGS) (except in Panel A) as well as judge and division-year fixed effects, and in columns 3–4 we include controls for Log(NUM_FILINGS), Log(ASSETS), LEVERAGE_FILING, ROA_FILING, and PREPACK_PRENEG as well as judge, industry, and division-decade fixed effects. Detailed variable definitions are provided in Appendix A. Standard errors (clustered by court division) are reported in parentheses, and *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

$$\text{LN Sample: } \text{Log}(\text{DURATION}_i) = \alpha + \beta \cdot \text{JUDGE\_EXP}_{i,j} + \gamma \cdot \text{Controls}_i + \delta_j + \theta_{Division \times Year} + \epsilon_i$$

$$\text{Public Sample: } \text{Log}(\text{DURATION}_i) = \alpha + \beta \cdot \text{JUDGE\_EXP}_{i,j} + \gamma \cdot \text{Controls}_i + \delta_j + \theta_{Division \times Decade} + \rho_{Industry} + \epsilon_i$$

	LexisNexis Sample		Public Firm Sample	
	1 Log(MONTHS)	2 FIRST_2Y	3 Log(MONTHS)	4 FIRST_2Y
Panel A: Removing the Largest Cases				
Experience Measure	-0.068***	0.063**	-0.153***	0.242**
	(0.012)	(0.029)	(0.037)	(0.107)
Panel B: No NYSD				
Experience Measure	-0.072***	0.077***	-0.120***	0.123*
	(0.011)	(0.028)	(0.035)	(0.066)
Panel C: No DE				
Experience Measure	-0.064***	0.060**	-0.144***	0.322***
	(0.012)	(0.029)	(0.049)	(0.116)
Panel D: First-Term Judges				
Experience Measure	-0.080***	0.041	-0.127***	0.188**
	(0.015)	(0.033)	(0.021)	(0.077)
Panel E: Remove Small Courts				
Experience Measure	-0.067***	0.067**	-0.128***	0.178**
	(0.012)	(0.028)	(0.026)	(0.085)
Panel E: Remove Prepack Cases				
Experience Measure			-0.127***	0.115***
			(0.039)	(0.041)
Controls	Yes	Yes	Yes	Yes
Division-Time FE	Yes	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes	Yes
Industry FE	No	No	Yes	Yes

Table 3 Robustness Check: Alternative Duration Measures

In this table we analyze the relation between judicial experience and different case-duration measures based on confirmation dates (columns 1–2), effective dates (columns 3–4), and resolution dates (columns 5–6) for a subset of firms in the public-firm sample for which all three variables are a vailable. We measure judicial experience using Log(MONTHS) and FIRST_2Y. Division-decade, industry, and judge fixed effects are included in each regression, and additional case controls include Log(ASSETS), Log(NUM_FILINGS), LEVERAGE_FILING, ROA_FILING, and PREPACK_PRENEG. Detailed variable definitions are provided in Appendix A. Standard errors (clustered by court division) are reported in parentheses, and *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

$$\text{Log(DURATION}_i) \quad = \quad \alpha + \beta_1 \text{JUDGE\_EXP}_{i,j} + \gamma \cdot \text{Controls}_i + \delta_j + \theta_{Division \times Decade} + \rho_{Industry} + \epsilon_i$$

	Confirmation Date		Effective Date		Resolution Date	
	1 Log(MONTHS)	2 FIRST_2Y	3 Log(MONTHS)	4 FIRST_2Y	5 Log(MONTHS)	6 FIRST_2Y
Experience Measure	-0.096*	0.209**	-0.109**	0.186**	-0.169***	0.259***
	(0.053)	(0.095)	(0.048)	(0.077)	(0.050)	(0.063)
Log(ASSETS)	0.043*	0.044**	0.042**	0.042**	0.056**	0.056**
	(0.022)	(0.022)	(0.017)	(0.017)	(0.023)	(0.022)
Log(NUM_FILINGS)	0.067***	0.066***	0.070***	0.068***	-0.037	-0.040
	(0.020)	(0.019)	(0.019)	(0.019)	(0.025)	(0.025)
LEVERAGE_FILING	-0.080	-0.081	-0.071	-0.071	-0.112	-0.111
	(0.072)	(0.072)	(0.075)	(0.074)	(0.078)	(0.080)
ROA_FILING	-0.048	-0.048	-0.040	-0.040	-0.187*	-0.187
	(0.068)	(0.068)	(0.079)	(0.080)	(0.110)	(0.112)
PREPACK_PRENEG	-1.190***	-1.193***	-1.090***	-1.095***	-0.559***	-0.567***
	(0.069)	(0.069)	(0.060)	(0.059)	(0.061)	(0.060)
Observations	617	617	617	617	617	617
R^2	0.54	0.54	0.53	0.53	0.46	0.46
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Division-Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Judge Fixed Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Case Controls	Yes	Yes	Yes	Yes	Yes	Yes

Table 4 Robustness Check: Judicial Case Experience

In this table we analyze the relation between judicial experience and corporate bankruptcy duration using cumulative counts of previous Chapter 11 filings to measure judicial experience. The main explanatory variable is one of two measures of judicial experience as of the case filing date: the log number of total business Chapter 11 cases previously assigned to the judge per LexisNexis (Log(LN)) or the log number of public firm cases previously assigned to a given judge (Log(PUBLIC)). In columns 1–2 (LexisNexis sample) we include a control for Log(NUM_FILINGS) as well as judge and division-year fixed effects, and in columns 3–4 (Public Firm Sample) we include controls for Log(NUM_FILINGS), Log(ASSETS), LEVERAGE_FILING, ROA_FILING, and PREPACK_PRENEG as well as judge, industry, and division-decade fixed effects. Standard errors (clustered by court division) are reported in parentheses, and *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

$$\text{LN Sample: } \text{Log}(\text{DURATION}_i) = \alpha + \beta \cdot \text{JUDGE\_EXP}_{i,j} + \gamma \cdot \text{Controls}_i + \delta_j + \theta_{Division \times Year} + \epsilon_i$$

$$\text{Public Sample: } \text{Log}(\text{DURATION}_i) = \alpha + \beta \cdot \text{JUDGE\_EXP}_{i,j} + \gamma \cdot \text{Controls}_i + \delta_j + \theta_{Division \times Decade} + \rho_{Industry} + \epsilon_i$$

	LexisNexis Sample		Public Firm Sample	
	1 Log(LN)	2 Log(PUBLIC)	3 Log(LN)	4 Log(PUBLIC)
Experience Measure	-0.091***	-0.088	-0.102***	-0.100**
	(0.033)	(0.072)	(0.029)	(0.039)
Log(NUM_FILINGS)	0.302***	0.303***	0.084***	0.082***
	(0.050)	(0.049)	(0.025)	(0.026)
Log(ASSETS)			0.052**	0.044
			(0.020)	(0.030)
LEVERAGE_FILING			-0.004	-0.015
			(0.042)	(0.071)
ROA_FILING			0.078	0.064
			(0.047)	(0.074)
PREPACK_PRENEG			-1.098***	-1.085***
			(0.047)	(0.060)
Observations	45,676	45,676	671	536
R^2	0.17	0.17	0.49	0.50
Division-Time FE	Yes	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes	Yes
Industry FE	No	No	Yes	Yes

Table 5 Robustness Check: Debt Concentration

In this table we examine the robustness of our public-firm s ample r esults a gainst t he a dditional c ontrol o f a debt-concentration measure. DEBT_CONCENTRATION is calculated as the Herfindahl index across various debt types in Capital IQ. We measure judicial experience using Log(MONTHS) and FIRST_2Y. Division-decade, industry, and judge fixed effects are included in each regression, and additional case controls include Log(ASSETS), Log(NUM_FILINGS), LEVERAGE_FILING, ROA_FILING, and PREPACK_PRENEG. Detailed variable definitions are provided in Appendix A. Standard errors (clustered by court division) are reported in parentheses, and *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

$$\text{Outcome}_i = \alpha + \beta_1 \text{JUDGE\_EXP}_{i,j} + \gamma \cdot \text{Controls}_i + \delta_j + \theta_{Division \times Decade} + \rho_{Industry} + \epsilon_i$$

	DURATION		BANKRUPTCY_FEES		FAMILY_RECOVERY(%)	
	1	2	3	4	5	6
	Log(MONTHS)	FIRST_2Y	Log(MONTHS)	FIRST_2Y	Log(MONTHS)	FIRST_2Y
Experience Measure	-0.167***	0.255*	-0.257***	0.377***	6.973***	-12.586***
	(0.060)	(0.131)	(0.065)	(0.090)	(1.447)	(3.055)
Log(ASSETS)	0.089***	0.085***	0.531***	0.535***	0.054	0.044
	(0.024)	(0.024)	(0.040)	(0.043)	(1.362)	(1.468)
Log(NUM_FILINGS)	0.032	0.033*	0.200***	0.194***	-4.193	-3.979
	(0.021)	(0.020)	(0.033)	(0.030)	(3.434)	(3.458)
LEVERAGE_FILING	-0.039	-0.037	-0.023	-0.020	2.049	2.155
	(0.060)	(0.061)	(0.054)	(0.057)	(2.132)	(2.021)
ROA_FILING	-0.028	-0.028	0.143	0.133	9.200	7.994
	(0.066)	(0.068)	(0.142)	(0.143)	(15.878)	(16.532)
PREPACK_PRENEG	-1.079***	-1.087***	-0.336***	-0.337***	5.024	5.669
	(0.085)	(0.083)	(0.065)	(0.068)	(3.446)	(3.438)
Debt Concentration	0.052	0.040	0.009	0.009	-7.368	-7.445
	(0.165)	(0.164)	(0.214)	(0.182)	(7.319)	(8.548)
Observations	733	733	173	173	242	242
R^2	0.46	0.46	0.81	0.80	0.28	0.27
Division-Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 6 Bankruptcy Fees for Private Firms Filing in NYSD

In this table we analyze the relation between judicial experience and corporate bankruptcy fees for private firms filed in the NYSD for which we were able to obtain bankruptcy-fee information from court dockets. We measure judicial experience using Log(MONTHS) and FIRST_2Y. Judge fixed effects are included in each regression, and year fixed effects are included in columns 2 and 4. Case controls include Log(NUM_FILINGS). Detailed variable definitions are provided in Appendix A. Standard errors (clustered by court division) are reported in parentheses, and *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

$$\text{BANKRUPTCY\_FEES}_i = \alpha + \beta_1 \text{JUDGE\_EXP}_{i,j} + \gamma \cdot \text{Controls}_i + \delta_j + \theta_{Time} + \rho_{Industry} + \epsilon_i$$

	Log(MONTHS)		FIRST_2Y	
	1	2	3	4
Experience Measure	-0.110	-0.018	0.140**	0.001
	(0.057)	(0.102)	(0.025)	(0.260)
Log(NUM_FILINGS)	1.032*	1.014*	1.028*	1.014*
	(0.261)	(0.244)	(0.246)	(0.243)
Observations	563	563	563	563
R^2	0.12	0.13	0.12	0.13
Year FE	No	Yes	No	Yes
Judge FE	Yes	Yes	Yes	Yes

Table 7 Correlation between Duration and Bankruptcy costs

In this table we demonstrate the effects of lengthier duration on bankruptcy costs. In columns 1–2 we analyze bankruptcy costs using the log number of professional and legal fees (BANKRUPTCY_FEES) and in columns 3–4 we analyze overall bankruptcy costs using family recovery rates (FAMILY_RECOVERY). Detailed variable definitions are provided in Appendix A. Standard errors (clustered by court division) are reported in parentheses, and *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

$$\text{Outcome}_i = \alpha + \beta \cdot \text{DURATION}_{i,j} + \theta_{Division \times Decade} + \rho_{Industry} + \epsilon_i$$

	BANKRUPTCY_FEES		FAMILY_RECOVERY(%)	
	1	2	3	4
DURATION	0.315***	0.474***	-4.116***	-4.967***
	(0.118)	(0.061)	(1.060)	(1.100)
Observations	350	283	422	352
R^2	0.04	0.55	0.02	0.21
Industry FE	No	Yes	No	Yes
Division-Period FE	No	Yes	No	Yes

Table 8 Decomposition of the Motion and Number of Plans Channel

In this table we decompose the effects of average days of ruling (AVE_DAYS_RULING) and number of plans (NUM_PLANS) on bankruptcy duration. Independent variables are standardized for ease of interpretation. Detailed variable definitions are provided in Appendix A. Standard errors (clustered by court division) are reported in parentheses, and *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

$$\text{Log(DURATION}_i) \quad = \quad \alpha + \beta \cdot \text{AVE\_DAYS\_RULING}_i + \gamma \cdot \text{NUM\_PLANS}_i + \theta_{Division \times Decade} + \rho_{Industry} + \epsilon_i$$

	1 Log(DURATION)	2 Log(DURATION)	3 Log(DURATION)
AVE_DAYS_RULING	0.331***	0.321***	0.386***
	(0.030)	(0.030)	(0.041)
NUM_PLANS	0.241***	0.245***	0.250***
	(0.026)	(0.027)	(0.022)
Observations	522	522	477
R^2	0.206	0.248	0.344
Industry FE	No	Yes	Yes
Division-Period FE	No	No	Yes