Auditors' Public Offering Experience and Lawsuits

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Abstract

Prior literature suggests that public offering clients of Big 4 auditing firms are more likely to get sued due to their "deep pockets" which might trigger the filing of lawsuits. However, it is not clear whether variation in auditor knowledge and experience among Big 4 audit offices might affect the litigation risk. In this paper, I examine whether auditor experience in public offerings measured at the audit office level is associated with lawsuit incidence related to initial and secondary public offerings. Using a sample of U.S. IPOs and SEOs audited by Big 4 audit firms, I find that IPO clients of the auditors with higher IPO experience are less likely to get sued. Similarly, I find that SEOs audited by Big 4 offices with higher SEO experience are associated with lower lawsuit incidence. I also investigate whether auditors might use their SEO and IPO experience to mitigate litigation risk interchangeably for IPO and SEO audits, respectively. I find that SEO experience is negatively associated with lawsuit incidence in the IPO sample, but that association disappears after controlling for auditor IPO experience. However, I do not find any association between auditor IPO experience and SEO-related lawsuits. I also examine the effect of auditor IPO and SEO experiences on dismissal rate among lawsuits related to IPOs and SEOs, respectively. My results suggest that the IPO experience of auditors has a positive impact on the dismissal rate of lawsuits related to IPOs. However, I do not find a significant association between the SEO experience of auditors and the dismissal rate of SEO-related lawsuits.

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DEDICATION

I would like to dedicate this dissertation to my husband and my parents for their love, support, and encouragement. I owe this dissertation to you!

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CHAPTER 1. INTRODUCTION

Legal threats are a big concern for the management and the external advisors of issuing firms due to the strict and risky regulatory environment around public offerings associated with the Securities Act of 1933 (Venkataraman et al., 2008). Auditors are one of three key external experts in the public offering process, with the other two being underwriters and legal counsels. The legal framework mandates that firms can be sued when both following conditions are met. First, the investors must have undergone financial losses related to their investment in a public offering. Second, investors should provide evidence that registration statements contain material omissions, reliance on which led to their investment decision and subsequent losses. Existing studies suggest that issuing firms might reduce their litigation risk by providing enhanced disclosure that ensures the absence of material omissions and indicates more risk factors in the registration statements (Hanley and Hoberg, 2012). Since auditors play a key role in ensuring that information in registration statements is complete and accurate and are legally responsible "for any material omissions in the audited financial statements of the registration statements", their knowledge and experience might affect litigation outcomes of the offering firms (Beatty and Welch, 1996)[1].

In this paper, I examine whether variation in auditor experience related to public offerings among Big 4 audit offices is associated with fewer lawsuits related to public offerings by the auditor's clients. Auditors' public offering experience is measured at the office level because audit quality might vary across offices despite centralized trainings and audit methodologies of Big 4 firms (Francis and Michas, 2013; Francis and Yu, 2009). More experienced auditors might use

[1] Section 11 states, ''In case any part of the registration statement … omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring such security … may, either at law or in equity, in any court of competent jurisdiction, sue every person who signed the registration statement''

better monitoring mechanisms to ensure that the issuing firms do not report false or misleading information. Moreover, they might ensure that managers disclose all material information in the registration statements (Hanley and Hoberg, 2012). Donovan et al. (2014) argue that one of the most important tasks of auditors is to "guide clients through the complex of regulations." They suggest that auditors who provide guidance in a strongly regulated legal environment improve audit quality and gain an advantage over competitors.

Prior literature finds that the clients of Big 4 firms are more likely to get sued since the deep pockets of Big 4 firms incentivize lawsuit filings during public offerings (DuCharme et al., 2004; Dye, 1993). In this regard, Johnstone and Bedard (2004, 2003a) provide evidence that due to reputational and financial damages Big 4 companies might self-select into less risky firms. Assuming this latter finding, I limit my sample to Big 4 companies to partially eliminate potential self-selection bias. However, the endogeneity issue remains as one of the major limitations of this study, since more experienced Big 4 offices might also self-select into less risky IPOs and SEOs. The audit offices with higher IPO and SEO experience might be better at assessing risk and plan audits accordingly.

I examine whether audit offices with a greater number of engagements or audit fees related to public offerings acquire superior experience and knowledge about initial public offerings (IPOs) and seasoned equity offerings (SEOs) and lower lawsuit incidence. I proxy for auditor IPO (SEO)

experience by calculating the total number of IPO (SEO) engagements for each Big 4 audit office at city level[2] for the past 3 years[3].

Using samples of 1,602 IPOs and 5,741 SEOs in the period from 2002 to 2017, I find that there is a negative association between auditor SEO and IPO experience and lawsuit incidence in SEOs and IPOs, respectively. Probit regression of lawsuit incidence on IPO experience and SEO experience, shows that audit offices with IPO (SEO) experience higher than the median auditor IPO (SEO) experience in the IPO (SEO) sample measured based on the number of engagements decreases lawsuit incidence by around 5%[4] (2.5%[5]). For robustness, I also calculate the IPO (SEO) experience of audit offices based on audit fees by summing up all audit fees paid to the auditor office by all IPO (SEO) firms during 3 years before the issue date of the offering firm. IPO experience, measured based on the sum of total audit fees, is not significantly associated with lawsuit incidence in IPO setting, whereas I find a significant association between SEO experience, calculated based on audit fees, and the probability of a lawsuit in the SEO sample.

In addition, I examine whether auditors use their experience in SEOs and IPOs interchangeably. I separately test the effect of SEO experience on lawsuit incidence in IPO sample and vice versa. I find that lawsuit incidence in the IPO sample is negatively associated with auditor SEO experience. However, this association becomes insignificant after auditor IPO experience is

[2] Audit Analytics does not provide exact office addresses of auditors, but city- and state-level information. I checked the locations of Big 4 audit offices across the United States on their official websites and find that most cities have just one audit office per Big 4 audit firm. In rare cases when a Big 4 audit firm has more than one location in a specific city, all these locations are within 10 miles distance and might belong to one office split across two buildings. For instance, EY has 2 locations that are less than mile away from each other in Dallas and Boston, respectively. Building on this finding, I use city-level data of auditors to proxy for office-level information.

[3] In untabulated tests, I reestimate the auditor IPO and SEO experience, respectively, based on 2-year span. I find similar results.

[4] Table 4, Panel A, column 1. The number is based on the marginal effects, i.e. predicted probability ("margins" command in STATA)

[5] Table 4, Panel B, column 1. The number is based on the marginal effects, i.e. predicted probability ("margins" command in STATA)

controlled for in the regression. I do not detect significant association between IPO experience and lawsuits in the SEO sample, meaning that auditors' knowledge gained from IPOs is irrelevant when auditing SEOs. I also find that the lawsuits related to IPOs are more likely to be dismissed when the auditor of the issuing firm has more IPO experience, whereas the SEO experience of auditors is not associated with the probability of dismissal in the SEO sample.

My paper has several contributions to the literature. Prior literature typically measures auditor experience using industry specialization and audit-firm size. Several recent papers examine auditor experience in other areas such as tax (Christensen et al., 2015; McGuire et al., 2012), information technology (Haislip et al., 2015), and fair value assessment (Ahn et al., 2019). This paper analyzes another task-specific auditor experience, i.e. public offering experience. Francis and Yu (2009) suggest that audit quality level is not the same across audit offices since experience and knowledge sharing are more likely to occur at the office level rather than at a national level. Big 4 audit offices have considerable autonomy in making most of their decisions, such as attracting and contracting clients, issuing the audit reports, signing audit opinions, and providing comfort letters to investors during public offerings (Ferguson et al., 2003; Venkataraman et al., 2008b). Francis and Yu (2009) argue that "decentralized office structure reduces information asymmetry and enables Big 4 auditors to develop better knowledge of existing and potential clients in a particular location". My study shows that auditors' task-specific experience at office level affects the litigation risk of stock offering firms.

Prior literature argues that there is a positive relationship between Big N companies and lawsuits incidence due to deep pockets of Big N companies. In this paper, I find that variation in auditor's knowledge and experience matters and that clients of the auditors with greater public

offering experience are less likely to get sued. This evidence suggests that audit offices learn from their experience and provide better audit quality in the context of public offerings.

CHAPTER 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Legal environment around stock issuing firms

IPOs and SEOs are complicated processes in the lifecycle of firms. Public offerings involve top management of the firm and external advisers such as underwriters, legal counsels, and auditors. Research suggests that IPO and SEO firms, and their external advisors, face intense regulatory scrutiny. Generally, when investors sue public firms, they do so under section 10b-5 of the Securities Exchange Act of 1934 (Kim and Skinner, 2012). Under this section, the plaintiff must prove that not only the reported information in the registration statements was incorrect, but that it was also intentionally distorted, and that investors experienced losses by relying on this information. Investors might find it difficult to prevail under section 10b-5 because the lawsuits might be dismissed due to the lack of scienter[6] (Choi, 2007; Choi et al., 2009). However, public offering firms can also be sued under Section 11 of the 1933 Act which requires investors to show: 1) proof of the financial loss related to the purchase of stocks from the SEC-registered offering and 2) proof of misleading information in the relevant registration statements. Investors are required neither to prove the fact that the material omission in these registration statements was intentional nor to provide evidence that they relied on that information (Drake and Vetsuypens, 1993). Such legal environment creates additional risk for both IPO and SEO firms.

One might argue that it might be harder to allege a Section 11 claim during SEOs since, under the Act of 1933, the investors must provide proof that he or she purchased shares that were

[6] Legal definition of *scienter*:

1. : knowledge of the nature of one's act or omission or of the nature of something in one's possession that is often a necessary element of an offense
   also: intent to engage in particular especially criminal conduct
2. : a mental state in fraud (as securities fraud) that is characterized by an intent to deceive, manipulate, or defraud

Source: Merriam-Webster's Dictionary of Law, 1996. https://www.merriam-webster.com/legal/scienter

registered under the misleading registration statement and SEOs have pre-existing shares traded in the market (Apton, 2017). During an IPO it is not difficult to prove that the stocks were coming from the IPO registration statements. The investors can "trace" their shares to misleading registration statements by showing that they obtained those shares before any non-IPO shares were sold in the market. Different courts treat SEO cases differently. Some courts hold that "to establish standing under Section 11 at the motion to dismiss stage, Plaintiffs need only assert that they purchased shares ". . . issued pursuant to, or traceable to the public offerings"[7]. Whereas some other courts hold that plaintiffs must allege that they obtained stocks directly from the issuing firm during the SEO or, if obtained on the exchange market, provide evidence that the shares were purchased on the SEO issue date and at the SEO offering price. To ensure that IPOs and SEOs face a similar legal environment, I check the Stanford Securities Class Action Clearinghouse database and find that there are SEOs sued under Section 11. Thus, there is a riskier legal environment around both IPOs and SEOs than around stocks traded on exchange markets which can be sued only under Section 10b-5.

The auditors of IPO and SEO firms also face high litigation risk due to reputational damages and potential litigation losses that might result from lawsuit settlement expenses in case they are named as co-defendants[8] (Spehr et al., 2006; Venkataraman et al., 2008b). Moreover, the responsibilities of auditors are greater during public offerings. First, auditors must certify the prospectus of the issuing firms for a longer period, which usually includes audited statements of financial position for the most recent two years and income statements for the most recent three years (EY, 2018).

[7] In re Bioscrip, Inc. Sec. Litig., 95 F. Supp. 3d 711 (S.D.N.Y. 2015))
[8] For instance, DuCharme et al. (2004) mention that 93% of lawsuits that alleged "earnings management" had auditors as codefendants.

Second, during public offerings the responsibility of auditors extends to auditing information included in the registration statement ". . . outside of the financial statements, as well as events subsequent to the auditor's report date" (PwC, 2017). In many cases, underwriters request "comfort letters" from auditors that assure accuracy of the information in the registration statements, which is not included in the audited financial reports. Another auditor responsibility under the 1933 Act is the "keeping current" procedure, which requires the auditors ensure that the registration statements include any changes related to the financial position of the issuing firms until the effective date of the registration statement when those changes have material effects on the audited financial statements. Venkataraman et al. (2008) suggest that this last reason "requires an auditor to prove they acted with due diligence, whereas under the 1934 Act they must only prove they acted in good faith (i.e., not grossly negligent, fraudulent or constructively fraudulent)". They argue that this additional risk burden might improve the audit quality around public offerings. Venkataraman et al. (2008) suggest that for all years in their sample the ratio of IPO-related lawsuits to the total number of IPO audits is greater than the ratio of auditor lawsuits that relate to 10-k audits to the total number of 10-k audits.

Lastly, the Securities and Exchange Commission (SEC) provides firms with in-depth review comments on their IPO and SEO registration statements. Westenberg (2013) and Xiao (2018) suggest that auditors assist the issuing firms with resolution of these comments. The resolution of these comments is a time-sensitive factor for the issuing firms since a lengthy review process and delay of public offering might negatively impact the valuation of the firm (De La Merced, 2011; Xiao, 2018). All these responsibilities create a more complex and demanding environment around IPOs and SEOs, which might require more specialized auditor knowledge and experience.

2.2 Auditor quality in public offerings and legal consequences

Increased regulatory scrutiny and information asymmetry between managers of the issuing firms and investors make the role of auditors essential during IPOs and SEOs (Weber and Willenborg, 2003). One of the main tasks of auditors in this process is to ensure that information in registrations statements is complete and accurate. Hanley and Hoberg (2012) argue that firms that fail to disclose material information and substantial risk factors in the financial reports included in the registration statements are more likely to get sued subsequently. DuCharme et al. (2004) show that one of the most common (around 90%) lawsuit allegations in public offerings are " . . . false/misleading statements including failure to disclose material information". In this regard, conditional on auditors' independence, the role of auditors might extend to the guidance of clients with the preparation of financial statements, i.e. identifying important financial information that needs to be disclosed and ensuring that no information is withheld from investors during the offering process (Westenberg 2014; Deloitte 2020, SEC 2016). Wesley Bricker, as then Chief Accountant of the SEC, suggests that auditors' direction and feedback on complex financial reporting issues could improve audit and financial reporting quality (SEC 2016).

Another important role of auditors is to provide better monitoring mechanisms that improve audit quality by preventing aggressive accounting choices. For instance, Johnson et al. (2007) argue that restatements lead to a higher probability of a lawsuit and a lawsuit settlement. DuCharme et al. (2004) and Billings and Lewis-Western (2016) find that IPOs and SEOs with high abnormal accruals are more likely to be subsequently sued and settle those lawsuits at larger amounts. This evidence suggests opportunistic management behavior during public offerings, and it also emphasizes the importance of a legal system to punish such behavior. In this regard, proper monitoring by auditors could help to constrain aggressive accounting choices of issuing firms

through better monitoring and screening mechanisms. Prior literature suggests that there is an association between auditor quality and legal consequences around public offerings. For instance, Venkataraman et al. (2008) provide evidence that audit quality is higher for pre-IPO audits than post-IPO audits, consistent with the hypothesis that auditors want to reduce their litigation risk in the strict regime of the 1933 Act.

2.3 Auditor public offering experience and lawsuit incidence

In this paper, I examine whether auditor experience in public offerings at the office (i.e. city) level is associated with the incidence of lawsuits. I suggest that IPO and SEO audits are different from regular 10-k audits due to the varying legal environment and additional responsibilities of auditors mentioned in section 2.1 of this paper. I expect that auditors of public offerings might develop unique knowledge about complex legal and technical environment around stock offerings through prior experience with a significant effect on the legal outcomes of the issuing firms. For instance, auditors might develop more effective monitoring and guiding mechanisms for the managers of the issuing firms to avoid the potential fraudulent and misleading activities of the managers. I also argue that, despite the fact that all Big 4 audit firms claim expert direction and feedback in staging successful IPOs and SEOs as part of their services, their experience in this area might vary across different offices. Ferguson et al. (2003) and Reichelt and Wang (2010) suggest that due to the autonomy of Big 4 audit offices, there is substantial variation in audit quality across the audit offices.

There are also several reasons why auditors' public offering experience might not matter or might be positively associated with the incidence of lawsuits. First, extant prior literature argues that lawsuit filings related to stock issues are frivolous and are driven by deep pockets of the issuers

and their external advisors (Bohn and Choi, 1996, DuCharme et al., 2004; Johnson et al., 2007). As such, if the merits of the case do not matter and public offering firms are sued due to deep pockets, then Big 4 audit offices with higher IPO and SEO experience should not be associated with lawsuit incidence rate.

Second, prior literature suggests that one of the main goals of auditors is to maximize their returns at an acceptable level of risk based on which they make client acceptance and continuance decisions (Johnstone, 2000; Johnstone and Bedard, 2004). Johnstone and Bedard (2003) argue that audit firms might use specialist personnel for complex and risky clients to ". . . moderate the effect of risk on client acceptance decisions, thereby assisting auditors in bringing prospective client relationships to acceptable risk/return levels". They find that industry specialist auditors adjust the risk-compensation level to an extent that allows the audit firms to accept some clients that non-specialist auditors would avoid. This finding is consistent with the risk-compensation theory by Peltzman (1975) who suggests that "as individuals perceive the level of risk to decrease, they seek to increase their level of risk exposure and vice versa"[9]. Peltzman (1975) suggests that mandatory seat belt law had low effect on car accident fatalities because the increase in safety induced more reckless car driving behavior. Wilde (1982) explains that tendency of individuals to increase their risk exposure is because they seek their desired level of risk. Similarly, as auditors' experience in IPO and SEO processes increases, their perception of risk might decrease leading to higher number of IPO and SEO firm acceptance and continuance decisions. In this case, the higher IPO and SEO experience might not necessarily be associated with lower lawsuit incidence.

Third, due to risky legal environment around offering firms, there might be a general improvement in audit quality during IPOs and SEOs, which might lead to lower variation in audit

[9] Duhadway et al., 2018

quality across all audit offices regardless of their experience with IPOs and SEOs (Venkataraman et al. 2008; Ball and Shivakumar 2008). Also, office-level variation in audit quality might be low since national offices might provide more centralized training and monitoring mechanisms for audit engagements related to public offerings to ensure the national level of audit quality. For instance, PwC has an SEC services group that reviews all securities-related processes[10]. Xiao (2018) suggests that ". . . conversations with Big 4 partners confirm that each Big 4 firm has a function in the national office similar to the SEC services group described in PwC's SEC Volume. Although firm policies vary in terms of mandatory versus voluntary consultation, the partners all indicate that the national office or the national network provides strong support to the local engagement team in IPOs."

However, I believe that there is variation in audit quality related to public offerings among audit offices since the engagement teams at the office level might develop specialized experience due to substantial autonomy and responsibilities (Ferguson et al., 2003).

Research Question 1: Is there an association between auditor IPO (SEO) experience at office-level and lawsuit incidence related to IPO (SEO) sample?

As mentioned in section 2.1, firms go through a similar process during IPOs and SEOs and can be sued under the 1933 Act during both these events. However, IPO and SEO firms might vary substantially due to firm and offer characteristics. For instance, IPOs are surrounded by higher information asymmetry because the IPO firms do not have public history (Ritter, 1991; Chemmanur et al., 2010). Unlike public companies, private companies that are going public often

[10] "SEC Volume" (available at: www.viewpoint.pwc.com)

do not have a large presence in news media coverage (Teoh et al, 1998). Therefore, IPOs might require more specific knowledge from auditors that would help them to mitigate the litigation risk. On the other hand, SEO firms are larger and might have more complex operations (DuCharme et al., 2004). In addition, SEO firms are older than IPO firms and have longer relations with auditors.[11] Therefore, auditors with high IPO experience might have insufficient knowledge to mitigate litigation risk in an SEO setting.

As a result, auditors might develop specialized knowledge and experience through their past IPO (SEO) experience that is not transferable to SEO (IPO) engagements.

Research Question 2: Is there an association between auditor IPO (SEO) experience at the office level and lawsuit incidence related to SEO (IPO) sample?

The prior literature argues that the lawsuits related to public offerings might be frivolous due to relaxed legal requirements to sue the issuing firm (Bohn and Choi,1996; Choi et al. 2009). Johnson et al. (2007) suggest that Congress adopted the Private Securities Litigation Reform Act (PSLRA) to discourage such cases. They argue that ". . . the PSLRA erects a series of procedural barriers that have resulted in a higher percentage of securities fraud class actions being dismissed". Lowry and Shu (2002) suggest that ". . . the fact that the lawsuit is dismissed or withdrawn indicates that it should never have been brought". In this regard, I examine whether lawsuits related to public offerings audited by audit offices with higher public offering experience are more likely to be dismissed. I expect that if auditors with higher public offering experience improve the audited

[11] Auditor tenure is higher for SEO firms than for IPO firms in my sample

financial reports included in the registration statements, then they should be associated with a higher dismissal rate.

Research Question 3: Is there an association between auditor IPO (SEO) experience at the office level and the probability of dismissal of the lawsuit related to IPO (SEO) sample?

CHAPTER 3. METHODOLOGY

3.1 Models

To test my hypothesis, I examine the following regression models (1) and (2) for IPO and SEO samples, respectively. I identify control variables based on prior literature (Billings and Lewis-Western, 2016; Hanley and Hoberg, 2012; Kim and Skinner, 2012; Lowry and Shu, 2002):

$$SUED_{it<0,3>}(DISMISSED_{it}) = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW\_RANK_{it} + \alpha_5 VC\_BACKED_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 TECH\_dummy_{it} + \alpha_8 INDUSTRY\_VOL\_PRE_{it<-1,0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \varepsilon_i \quad (1)$$

$$SUED_{it<0,3>}(DISMISSED_{it}) = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC_{SHARES_{it}} + \alpha_4 UW\_RANK_{it} + \alpha_5 SHELF\_REG_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 FPS\_dummy_{it} + \alpha_8 VOL\_PRE\_SEO_{it<-1;0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \alpha_{14} SIZE\_ln_{it} + \varepsilon_{it} \quad (2)$$

Where *i* indicates the public offering firm, *j* indicates the audit office of the public offering firm and *t* is the issue date of the public offering firm. $SUED_{it<0,3>}$ is a dummy variable indicating whether the public offering firm has been sued within three years after the issue date of the offer. I use the Stanford Securities Class Action Clearinghouse database to obtain information on lawsuits. $DISMISSED_{it}$ is a dummy variable that equals 1 if the lawsuit has been dismissed, and 0 if the case was settled. $EXPR_{jt<-3,0>}$ is $IPO\_EXPR_{jt<-3,0>}$ $(SEO\_EXPR_{jt<-3,0>})$ and $IPO\_EXPR\_AF_{jt<-}$

$_{3,0>}$ *(SEO_EXPR_AF*$_{jt<-3,0>}$*)* proxied as the total number of IPO (SEO) engagements conducted by the audit office and total audit fees charged by the audit office for all IPOs (SEOs) during three years prior to the IPO (SEO) issue date, respectively. I create 2 different auditor experience proxies based on *IPO_EXPR*$_{jt<-3,0>}$ and *SEO_EXPR*$_{jt<-3,0>}$ for my regression models:

1) *IPO_EXPR_ln*$_{jt<-3,0>}$ (*SEO_EXPR_ln*$_{jt<-3,0>}$*)* is natural logarithm of auditor IPO (SEO) experience;

2) *IPO_EXPR_dummy*$_{jt<-3,0>}$ (*SEO_EXPR_dummy*$_{jt<-3,0>}$) is a dummy variable which is 1 if the number of IPO (SEO) engagements at the auditor office level is above median and 0 otherwise, respectively.

I also create 2 auditor experience proxies based on *IPO_EXPR_AF*$_{jt<-3,0>}$ and *SEO_EXPR_AF*$_{jt<-3,0>}$ for my regression models: 1) *IPO_EXPR_AF_ln*$_{jt<-3,0>}$ (*SEO_EXPR_AF_ln* $_{jt<-3,0>}$*)* is natural logarithm of auditor IPO (SEO) experience measured based on audit fees; 2) *IPO_EXPR_AF_dummy*$_{jt<-3,0>}$ (*SEO_EXPR_AF_dummy* $_{jt<-3,0>}$) is a dummy variable which is 1 if *IPO_EXPR_AF*$_{jt<-3,0>}$ *(SEO_EXPR_AF*$_{jt<-3,0>}$*)* is above median and 0 otherwise, respectively. To determine the audit office, I use the Audit Analytics database to obtain information on the city where the auditor issuing the opinion for the client firm is located.

OFFER_SIZE_ln$_{it}$ is the natural logarithm of the total dollar value for the offer registered with the Securities and Exchange Commission (shares offered multiplied by offer price). DuCharme et al. (2004) suggest that the offer size might also positively affect lawsuit incidence since plaintiffs are unlikely to sue the company if the potential gains from the lawsuit do not overweigh the costs. *SEC_SHARES*$_{it}$ is the percentage of secondary shares sold during the offer. DuCharme et al. (2004) argue that holders of secondary shares frequently control the firm and its public disclosures. They might have an incentive to sell their shares at a higher price and, therefore,

mislead the investors by manipulating the reporting data. As such, investors might be more likely to sue the offering firms when the proportion of secondary shares in the offering is larger. On the other hand, DuCharme et al. (2004) suggest that holders of secondary shares might anticipate litigation risk and be more cautious during IPO and SEO processes. UW_RANK_{it} is the Carter–Manaster rank (Carter and Manaster, 1990) of the firm's underwriter reputation obtained from Jay Ritter's website. DuCharme et al. (2004) argue that although one could expect highly rated underwriters ranking to be sued less often, the evidence shows that highly ranked underwriters are sued more frequently due to their deep pockets. $BHAR_{it<0,3>}$ is the buy-and-hold abnormal (market-adjusted) return measured over 36 months starting with the month following the offer. Ducharme et al. (2004) argue that post-offering abnormal stock returns are negatively associated with the incidence of lawsuits. Prior literature suggests that firms in some industries are more prone to get sued than in others (Francis et al., 1944). Since I follow prior literature to identify the control variables for my regressions, I use different proxies for high-risk industry membership for IPO and SEO samples, respectively. $TECH\_dummy_{it}$ is a dummy variable used in an IPO setting, which equals 1 when the company is in the technology industry as identified in Loughran and Ritter (2004). Hanley and Hoberg (2012) and Billings and Lewis-Western (2016) argue that IPOs in the technology industry are more likely to get sued because investors find it harder to evaluate the growth potential of these firms and rely more on accounting estimates for making investment decisions. FPS_dummy_{it} is a dummy variable used in an SEO setting, which equals 1 if the firm is in the biotechnology, computers, electronics, and retail industries. Prior literature suggests that public firms in some industries are more likely to get sued than others. Francis et al. (1994) and Kim and Skinner (2012) identify the SIC codes that have a higher number of lawsuits over the years. VC_BACKED_{it} is a dummy variable which is 1 if the IPO firm is backed by venture

capitalists and is used only in an IPO setting. Barry et al. (1990) and Lowry et al. (2017) suggest that venture capitalists are "active investors" that are associated with better monitoring services in IPO firms.

$INDUSTRY\_VOL\_PRE_{it<-1,0>}$ is the average standard deviation of daily returns for all firms in the same Fama and French (1997) industry for the year leading up to the firm's IPO. Lowry and Shu (2002) argue that lawsuit probability is increasing in the stock volatility of the firm. Since IPOs are not publicly traded before the issue date, prior literature suggests measuring stock volatility based on the standard deviation of matched firms' returns within the same industry. Since SEO firms are publicly traded before the SEO issue date, I calculate $VOL\_PRE\_SEO_{it<-1,0>}$, which is the average standard deviation of daily returns of the issuing firm for the year leading up to the firm's SEO. $AUD\_TENURE\_ln_{it}$ is the natural logarithm of the number of years the current auditor of the issuing firm has been auditing it. Numerous studies confirm that auditor tenure improves audit quality. Patterson et al. (2019) argue that the probability of fraud going undetected decreases in audit tenure.

I follow prior literature and create a dummy variable $FIRM\_AGE\_dummy_{it}$ that equals 1 if the firm age of the issuing company is higher than the sample median. In the IPO sample, firm age is measured based on the difference between the firms' foundation years and the issue years. In the SEO sample, firm age is the difference between the first year the SEO firm appears in CRSP and the issue year. Prior studies predict that older firms are less risky. $VOL\_POST_{it<0,1>}$ is the average standard deviation of daily returns for the issuing firm for the year after the firm's public offering and, similarly to pre-issue stock return volatility, measures the riskiness of the firm. I follow prior literature to calculate $SIZE\_ln_{it}$, which is the natural logarithm of total assets for the fiscal year before the issue date. Prior studies suggest that litigation risk increases with the firm

size (Jones and Weingram, 1996; Kim and Skinner, 2012). $SIZE\_ln_{it}$ is included only in SEO-related regressions since merging COMPUSTAT with IPO sample generates many missing values and reduces my IPO sample size substantially. Instead, I have calculated the natural logarithm of market capitalization *(*MVE_ln_{it}*)* of IPO firms on the issue date to proxy for the size of IPO firms. However, due to the high correlation between the market capitalization (MVE_ln_{it}) and offer size ($OFFER\_SIZE\_ln_{it}$) of IPO firms at about 7%[12], I have not included MVE_ln_{it} in IPO regressions.

$INITIAL\_RETURN_{it}$ is the difference between the offer price and closing price on the issue date scaled by the offer price. Prior literature argues that there are two channels how the auditors might reduce litigation risk around public offerings: 1) enhanced disclosure, and 2) underpricing (Drake and Vetsuypens, 1993; Field et al. 2005, and Hanley and Hoberg, 2012). Hanley and Hoberg (2012) argue that issuing firms might use these two mechanisms as substitutes since both channels are pricey for the offering firms. On one hand, firms might want to include all material information in the registration statement to avoid litigation risk. However, sometimes the cost of disclosing proprietary information is too high. Hanley and Hoberg (2012) argue that in the case when enhanced disclosure is costlier than the "money left on the table", the issuing firms might use the underpricing mechanism to limit potential damages that might arise in case of a lawsuit. However, underpricing channel is only effective for Section 11 damages of the 1933 Act, whereas enhanced disclosure is an effective mechanism against all types of lawsuits. Under Section 11 of the Act of 1933, the potential damages of the investors are limited to the difference between the offer price and either the purchase price or the stock's price at the time of the lawsuit (Lowry and Shu, 2002). The damages under Section 10b-5 of the Securities Exchange Act of 1934 are based on the purchase price rather than the offer price. Despite the fact that my sample includes all

[12] Table 2, Panel A

lawsuits brought in 3 years after IPO issue date, I still control for underpricing effect in my regressions.

First, I examine the effect of auditor IPO (SEO) experience on lawsuit incidence for IPO (SEO) sample. Next, I test whether auditor public offering experience is interchangeable. In this regard, I examine whether auditors' IPO (SEO) experience is associated with lawsuit incidence in SEO (IPO) sample. I also examine the association of auditor IPO (SEO) experience and the probability of the lawsuit being dismissed. I use probit regression to estimate the model since the dependent variable *SUED* is a binary variable.

3.2 Reduced Models

For robustness, I also examine the following reduced regression models (3) and (4) similar to the one used by DuCharme et al. (2004) for the IPO sample and the SEO sample, respectively:

$$SUED_{it<0,3>}(DISMISSED_{it}) = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW\_RANK_{it} + \alpha_5 BHAR_{it<0,3>} + \alpha_6 TECH\_DUMMY_{it} + \varepsilon_{it} \quad (3)$$

$$SUED_{it<0,3>}(DISMISSED_{it}) = \alpha_0 + \alpha_1 EXPR_{it<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW\_RANK_{it} + \alpha_5 BHAR_{it<0,3>} + \alpha_6 FPS\_DUMMY_{it} + \varepsilon_{it} \quad (4)$$

CHAPTER 4. DATA AND SAMPLE SELECTION

4.1 Sample selection

To obtain data on public and seasoned equity offerings, I use the Securities Data Company (SDC Platinum) New Issue database. Initially, I start with a sample period from 1999 to 2020. I follow prior literature to exclude reverse leverage buyouts (LBOs), unit investment trusts, and rights and standby issues. Next, I merge SDC data with Audit Analytics (AA) to calculate *EXPR* variable. Since Audit Analytics provides Central Index Key (CIK) as a company identifier and SDC provides historical CUSIPs, I, first, use CRSP/Compustat Merged (CCM) database to identify historical CUSIPs related to CIKs through CCM link table. Next, I use CIK-CUSIP linking table provided by WRDS SEC Analytics Suite to identify CUSIPs that have not been matched through the CCM link table. After calculation of $EXPR_{it<-3,0>}$, I drop the missing observations generated as a result of merging Audit Analytics and SDC databases with the Center for Research in Security Prices (CRSP) and Jay Ritter's Underwriter Ranking data. Since I calculate the size of the firm based on the prior year's assets only for the SEO sample, I also drop SEOs with missing Compustat data. As mentioned above, the IPO sample generates many missing values when merged with the prior year's Compustat data, therefore I measure market capitalization of the IPO firm on the issue date to proxy for the firm size. I limit my sample to Big 4 audit companies to control for the reputation effect and self-selection bias associated with Big 4 brand name. To calculate public offering experience of auditors at office level, Audit Analytics data is required 3 years prior to public offering. To calculate buy-and-hold abnormal stock returns, CRSP equally weighted monthly stock returns are required for 36 months after the public offering date. The final sample period is from 2002 to 2017 and consists of 7,343 public offerings, out of which 1,602 observations are IPOs and 5,741 observations are SEOs. There are 210 and 274 unique audit offices in IPO and

SEO samples, respectively. A detailed explanation of the sample selection process is given in Appendix B.

4.2 Descriptive Statistics

Table 1, Panel A demonstrates the descriptive statistics for IPO sample. My sample of 1,602 IPOs indicates that, on average, audit offices had 7 audit IPO engagements during the 3 years prior to IPO's issue date with number of engagements ranging from 1 to 58 (*IPO_EXPR)*. In addition, audit offices on average earn $5.0 million in audit fees from IPO firms in 3 years before the issue date of an IPO (*IPO_EXPR_AF*). However, these two variables are highly skewed with the median *IPO_EXPR* of 3 engagements and median *IPO_EXPR_AF* of $2.3 million. Therefore, I use alternative proxies described in Section 3.1 for regression purposes.

Around 15.7% of IPO firms get sued during 3 years after the issue date. The mean future performance, proxied as buy-and-hold abnormal return (*BHAR*) for 36 months after the issue date, is negative at -4%, in accordance with prior literature (DuCharme et al., 2004). The percentage of secondary shares (*SEC_SHARES*) sold during the offer is about 11.8% and the average total dollar value for the offer (*OFFER_SIZE*) registered with the SEC is $275 million. The average underwriter ranking (*UW_RANK*) of the issuing firms is 8.3, where underwriter ranking scale varies from 2 to 9. This implies that most IPOs have an underwriter with high reputation, which is expected since my sample is restricted only to Big 4 auditors. The IPO firms, on average, are 18 years old and have been audited by their current auditor for 5 years at the time of the public offering. Both *FIRM_AGE* and *AUDIT_TENURE* are skewed with medians at 9 and 3 years, respectively. Therefore, I use *FIRM_AGE_dummy* and *AUDIT_TENURE_ln* for regression purposes. Additionally, 16.6% of the IPOs are classified as high-tech companies and about 40%

of the IPOs are backed by venture capitalists. The mean market capitalization (*MVE*) of IPO firms at the time of the offer is $905 million.

Table 1, Panel B presents the descriptive statistics for the SEO Sample. This sample consists of 5,471 SEO firms-years. The mean number of SEOs audited by audit offices in the SEO sample in the past 3 years is 14 (*SEO_EXPR*). Audit offices on average earn $31.9 million in audit fees from SEO firms in 3 years before the issue date of an SEO (*SEO_EXPR_AF*). Similar to the IPO sample, the last two variables are skewed with the median *SEO_EXPR* of 10 engagements and median *SEO_EXPR_AF* of $13.6 million. Also, around 14.6% of seasoned equity offering firms get sued.

On average, SEOs perform better than IPOs in the post-offering period with the 36-month buy-and-hold abnormal return (*BHAR*) at -0.1%. Consistent with prior literature, SEOs have larger offer size (*OFFER_SIZE*) and portion of offering that is secondary (*SEC_SHARES*) than IPOs at the time of the offering. The average offer size of SEOs 274.3 million dollars, whereas the mean percentage of secondary shares sold during SEOs is about 27.7%. Similar to the IPO sample, SEOs in my sample, on average, hire underwriters with a high underwriter ranking (*UW_RANK*) of 8.2. In addition, 27% of the firms issuing secondary public offerings are in the biotechnology, computers, electronics, and retail industries (*FPS_dummy*) and 62% of the SEOs are shelf-registered (*SHELF_REG*). Consistent with prior literature, the underpricing (*INITIAL_RETURN*) is lower in the SEO sample than in the IPO sample due to higher information asymmetry around IPO firms. The mean initial return (*INITIAL_RETURN*) in the SEO sample is 2.8% whereas the mean initial return in the IPO sample is about 12%. Since the age of the firms in the SEO sample is measured based on the number of years the SEO firm was on CRSP before the issue date, the mean firm age (*FIRM_AGE*) at about 12 years is lower than the mean age in the IPO sample at the

time of the offer. Also, SEO firms have about 12 years of relationship with their current auditor (*AUDIT_TENURE*) at the time of the auditor. The average size of SEO firms is $11,978 million.

[Insert Table 1]

4.3 Correlation Table

Table 2, Panel A and B show the correlation among the variables used in my models (1) and (2), respectively. Table 2, Panel A suggests that out of all proxies for auditor's IPO experience during 3 years prior to IPO's issue date, only *IPO_EXPR_high* is negatively correlated with lawsuits in the IPO sample. Panel B shows that the correlation between the proxies for auditor all SEO experience during 3 years prior to the SEO's issue date proxies besides *SEO_EXPR_high* and *SEO_EXPR_AF_high* are negatively, but not significantly correlated with the lawsuit incidence. *SEO_EXPR_high* and *SEO_EXPR_AF_high* have a negative and significant association with lawsuit incidence in the SEO sample. Other variables except for the proxy for underpricing have expected correlation signs with lawsuit incidence. For instance, indicator variables *VC_backed* and *TECH_dummy* are positively and significantly correlated with the lawsuit incidence in the IPO sample at 14.6% and 13%, respectively. Similarly, the proxy for high-risk industries (*FPS_dummy*) is positively correlated with lawsuit incidence related to SEO firms at 13%.

Consistent with prior literature, Panel A and Panel B of Table 2 shows that clients of highly reputable underwriters are also more likely to get sued due to the deep pockets of top-ranked underwriters. On contrary, the performance of the IPO (SEO) firms during 36 months after the offer date (*BHAR*) is negatively and significantly correlated with the possibility of lawsuits at -13.4% (-14%). Correlation between the total dollar value of the offer registered with the SEC (*OFFER_SIZE_ln*) and litigation is positive and significant for SEO sample at 3.3% but is

insignificant for IPO sample. Consistent with the prior literature, the litigation risk increases with the size of the firm (*SIZE_ln, MVE_ln*) in both IPO and SEO samples. Moreover, both *INDUSTRY_VOL_PRE* and *VOL_PRE_SEO* increase the probability of a lawsuit in IPO and SEO samples, respectively.

INITIAL_RETURN is negatively correlated with lawsuit incidence in the SEO sample but positively correlated with the probability of an IPO firm to get sued in 3 years after the issue date in the IPO sample. As mentioned in Section 3.1, underpricing might be an effective channel against litigation risk associated with Section 11, since the maximum damages in Section 11 go hand in hand with the issuing firm's offer price. However, this is not the case for lawsuits brought under section 10b-5. Since our sample includes all lawsuits, our results might differ from prior literature, which finds a negative association between underpricing and Section 11 lawsuits. Finally, the correlation between proportion of secondary shares (*SEC_SHARES*) and lawsuit incidence (*SUED*) is positive but not significant for both IPO and SEO samples.

[Insert Table 2]

CHAPTER 5. RESULTS

5.1 Auditor Public Offering Experience and Lawsuit Incidence

In this section, I discuss the results of t-test analyses and probit regressions. Table 3, Panel A and B compare sued and non-sued IPOs and SEOs, respectively. The results suggest that, on average, there is no significant difference in means between non-sued and sued IPO firms, whereas compared to non-sued SEOs, sued SEO firms are more likely to engage auditors with higher than the median number of SEO engagements (*SEO_EXPR_high*) and higher total audit fees related to SEO engagements (*SEO_EXPR_AF_high*) during the three years prior to SEO issue date. Also, both sued IPOs and SEOs are more likely to be in high-risk industries (*TECH_dummy, FPS_dummy*) and have higher stock volatility (*VOL_POST*) in the year after the public offering's issue date than non-sued public offerings. On contrary, the performance of both IPO and SEO firms during 36 months after the offer date (*BHAR*) is lower for firms that are subsequently sued than for the non-sued ones.

[Insert Table 3]

Table 4, Panel A reports the results of probit regression of auditors' IPO experience during the past 3 years before the issue date of the public offering on lawsuit incidence for IPO sample. The coefficients on both proxies of auditor IPO experience measured based on the number of engagements (*IPO_EXPR_high* and *IPO_EXPR_ln*) are significantly negative ($p < 0.01$ and $p<0.05$, respectively). For instance, column (1) of Table 4, Panel A suggests that IPO firms who engage audit offices with more than the median IPO engagements in the past 3 years have a 5%[13]

[13] This number is based on the marginal effects, i.e. predicted probability ("margins" command in STATA).

lower probability of being sued than their counterparts. My results suggest that audit fees obtained from IPO engagements in 3 years prior to the issue date of an IPO (*IPO_EXPR_AF_high, IPO_EXPR_AF_ln*) are not significantly related to lawsuit incidence, which means the number of audited IPOs contributes more to the auditor's IPO experience than the IPO-related audit fees earned.

The parameters of other independent variables besides the proxy for IPO underpricing have expected signs, though some coefficients are statistically insignificant. IPO underpricing (*INITIAL_RETURN*) is positively associated with the probability of getting sued ($p < 0.01$). Prior literature suggests that underpricing and litigation risk are negatively associated, however, these studies usually limit the lawsuits to the ones brought under Section 11. As described in Section 3.1, underpricing can reduce litigation risk related only to Section 11 since damages under Section 11 are limited to the difference between the offer price and either the stock's purchase price or the price at the time of the lawsuit (Lowry and Shu, 2002). The damages under Section 10b-5 of the Securities Exchange Act of 1934 are based on the purchase price rather than the offer price. Since my sample includes all lawsuits brought in 3 years after IPO's issue date, the relationship between underpricing and lawsuit incidence might not reflect the actual effect of underpricing on lawsuits incidence.

My results show that high-tech IPOs (*TECH_DUMMY*) and IPOs with highly ranked underwriters (*UW_RANK*) are more likely to get sued ($p<0.01$ and $p<0.1$, respectively). Also, IPO's offer size (*OFFER_SIZE_ln*) and stock volatility for the year after the issue date (*VOL_POST*) are positively associated with lawsuit incidence whereas issuing firm's 36-month performance (*BHAR*) after the issue date is negatively correlated with the probability to get sued, as expected; all three variables are significant at $p<0.01$.

Table 4, Panel B reports the results of regression of auditors' SEO experience during the past 3 years before the issue date of the public offering on lawsuit incidence for SEO sample. Similar to IPO firms, the coefficients on both proxies for auditor SEO experience measured based on the number of engagements (*SEO_EXPR_high* and *SEO_EXPR_ln*) are significantly negative ($p<0.01$ and $p<0.10$, respectively). For instance, column (1) of Table 4, Panel B suggests that audit offices that audit higher than median SEO engagements in the past 3 years (*SEO_EXPR_high*) have 2.6%[14] lower probability of lawsuit incidence than their counterparts. My results also suggest that those audit offices that have earned higher than median total audit fees from SEO engagements in 3 years before the SEO's issue date (*SEO_EXPR_AF_high*) are less likely to get sued ($p<0.01$).

The parameters of other independent variables and their significance are very similar to regression results obtained from the IPO sample. My results show that SEOs in high-risk industries (*FPS_dummy*) and the ones that hire highly ranked underwriters (*UW_RANK*) are more likely to get sued ($p<0.01$ and $p<0.05$, respectively). Also, SEO's offer size (*OFFER_SIZE_ln*) is positively associated with the probability of getting sued ($p<0.01$), whereas issuing firm's 36-month performance after the issue date is negatively correlated with lawsuit incidence ($p<0.01$). In the SEO sample, both pre- and post-issue stock volatilities (*VOL_PRE_SEO* and *VOL_POST*) are associated with higher lawsuit incidence ($p<0.10$ and $p<0.01$, respectively). However, as opposed to the IPO sample, SEO underpricing (INITIAL_RETURN) is not significantly associated with the probability of getting sued.

[Insert Table 4]

[14] This number is based on the marginal effects, i.e. predicted probability ("margins" command in STATA).

Table 5[15] examines whether audit offices can apply their IPO and SEO experience interchangeably. Panel A of Table 5 reports the results of regression of auditor SEO experience on lawsuit incidence in IPO sample. The coefficients on proxies of auditor SEO experience measured based on the number of engagements during 3 years before the issue date are significantly negative when the regressions (1) and (2) do not control for auditor IPO experience. However, when I control for the auditor IPO experience in columns (1) and (2), the significance of coefficients on *SEO_EXPR_ln* and *SEO_EXPR_high* disappears. This might occur due to a moderately high correlation between IPO and SEO experience proxies. IPO experience might contribute more to litigation risk reduction and therefore, the significance of SEO experience might diminish when both IPO and SEO experiences are included in regressions. Neither proxies for IPO experience nor the ones for SEO experience measured based on the audit fees are significantly associated with the lawsuit incidence in IPO sample.

Table 5, Panel B reports the results of the regression of auditors' IPO experience on lawsuit incidence in the SEO sample. I do not find any association between the IPO experience of auditors and lawsuits related to SEOs regardless of whether the auditors' SEO experience is controlled for or not. The coefficients on 3 proxies for auditors' SEO experience (*SEO_EXPR_high, SEO_EXPR_ln, SEO_EXPR_AF_high)* remain significant. As discussed earlier, SEOs are larger and might have less information asymmetry due to publicly available information about SEOs before the issue date. Therefore, experience gained by audit offices based on IPOs might not be applied to an SEO setting.

[Insert Table 5]

[15] I compute variance inflation factors (VIF) for all my regressions. All factors are below 2 except for *SIZE_ln* and *OFFER_SIZE_ln*, which are still below 4 suggesting that collinearity is not a concern in my dissertation.

5.2 Auditor Public Offering Experience and Lawsuit Dismissal

Tables 6 and 7 examine whether the audit offices with higher public offering experience are associated with a dismissal rate of lawsuits related to IPOs and SEOs. Table 6 provides a comparison of dismissed and settled cases. Panel A of Table 6 suggests that around 40% (100 cases out of 252) of the IPO-related lawsuits are dismissed. Auditor's experience measured based on the number of engagements (IPO *IPO_EXPR_ln* and *IPO_EXPR_high*) is higher for the dismissed lawsuits than for the settled ones. Panel B of Table 6 shows that 39% (329 cases out of 841) of the SEO-related lawsuits are dismissed. There is no significant difference in means of proxies for auditor's SEO experience between dismissed and settled cases.

[Insert Table 6]

Panel A of Table 7 reports the regression results of auditor's IPO experience on lawsuit dismissal rate in the IPO sample. Similar to lawsuit incidence regressions, the coefficients on both proxies of auditor's IPO experience measured based on the number of engagements are significantly positive at $p<0.05$, which means that audit offices with higher IPO experience are associated with a higher dismissal rate of lawsuits related to IPOs. Panel B of Table 7 reports the results of the regression of auditor's SEO experience on lawsuit dismissal rate in the SEO sample. Unlike the IPO sample, I do not find any association between the SEO experience of auditors at the office level and the lawsuit dismissal rate.

[Insert Table 7]

In addition, Appendix C shows the results of reduced models, which are similar to the regression models in DuCharme (2004). The results hold when fewer variables are included in the regressions.

CHAPTER 6. LIMITATIONS AND CONCLUDING REMARKS

My dissertation examines whether audit offices learn from their public offering experience and impact the litigation risk of IPOs and SEOs. In this regard, I test the relationship between auditor experience in IPOs and SEOs at office level and the lawsuit incidence related to the public offerings. I find that auditors' IPO experience is negatively associated with the likelihood of the IPO firms' litigation. I also find that SEO experience of auditors negatively affects the lawsuit incidence in the SEO sample. These results suggest that IPO (SEO) clients of Big 4 audit offices with higher IPO (SEO) experience might benefit from the superior knowledge these auditors develop through their prior experience. Additionally, my results show that auditor's SEO experience is significantly associated with lawsuit incidence, however, this association fades off when the IPO experience of auditors is included in the regressions. However, my results suggest that auditors might not apply IPO and SEO experience interchangeably in the SEO setting. I also examine the effect of auditor IPO and SEO experiences on dismissal rate among lawsuits related to IPOs and SEOs, respectively. My results suggest that the IPO experience of auditors has a positive impact on the dismissal rate of lawsuits related to IPOs. However, I do not find a significant association between the SEO experience of auditors and the dismissal rate of SEO-related lawsuits.

One of the main limitations of this study is the endogeneity issue. Johnstone and Bedard (2004) suggest that audit firms get rid of riskier clients in their portfolio and accept less risky new clients than their continuing clients, "consistent with the risk avoidance theory of audit firm portfolio management". Prior literature provides evidence that Big 4 companies are more likely to self-select in less risky firms due to deep pockets. Though I restrict my sample to only Big 4 audit firms, the endogeneity issue still remains in my study since Big 4 audit offices with greater IPO

and SEO experience might self-select in less risky public offerings. Another limitation is that I consider that all lawsuits that were filed during 3 years after the public offering's issue date are related to the offering event.

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Table 1. Panel A: Descriptive Statistics for IPO Sample

	Count	Mean	Sd	Min	P10	P50	P90	Max
SUED	1,602	0.157	0.364	0	0	0	1	1
IPO_EXPR	1,602	6.562	8.651	0	0	3	18	58
IPO_EXPR_ln	1,602	1.495	1.035	0	0	1.386	2.944	4.078
IPO_EXPR_high	1,602	0.498	0.500	0	0	0	1	1
IPO_EXPR_AF	1,586	5.007	6.642	0	0	2.269	13.71	43.68
IPO_EXPR_AF_ln	1,586	1.280	1.006	0	0	1.185	2.689	3.799
IPO_EXPR_AF_high	1,586	0.501	0.500	0	0	1	1	1
SEO_EXPR	1,602	13.39	12.12	0	1	9	32	64
SEO_EXPR_ln	1,602	2.251	0.999	0	0.693	2.303	3.497	4.174
SEO_EXPR_high	1,602	0.482	0.500	0	0	0	1	1
SEO_EXPR_AF	1,586	24.72	53.31	0	0.712	11.27	54.76	599.7
SEO_EXPR_AF_ln	1,586	2.410	1.293	0	0.538	2.507	4.021	6.398
SEO_EXPR_AF_high	1,586	0.498	0.500	0	0	0	1	1
BHAR	1,602	-0.040	1.029	-1.441	-1.044	-0.221	1.102	4.918
OFFER_SIZE	1,602	275.5	684.0	5.850	49.50	126	600	16,006
OFFER_SIZE_ln	1,602	4.999	0.986	1.766	3.902	4.836	6.397	9.681
SEC_SHARES	1,602	0.118	0.247	0	0	0	0.450	1
UW_RANK	1,602	8.343	1.083	2.001	7.001	9.001	9.001	9.001
TECH_dummy	1,602	0.166	0.372	0	0	0	1	1
VC_BACKED	1,602	0.395	0.489	0	0	0	1	1
FIRM_AGE	1,602	17.84	25.69	0	2	9	46	166
FIRM_AGE_dummy	1,602	0.417	0.493	0	0	0	1	1
AUD_TENURE	1,602	5.251	6.189	0	2	3	10	97
AUD_TENURE_ln	1,602	1.614	0.600	0	1.099	1.386	2.398	4.585
INDUSTRY_VOL_PRE	1,602	0.010	0.004	0.004	0.007	0.007	0.015	0.028
INITIAL_RETURN	1,602	0.121	0.208	-0.179	-0.038	0.039	0.399	1.011
MVE	1,602	904.9	2,187.4	105	125.6	412.1	1,741.6	51,285.0
MVE_ln	1,602	13.00	1.097	4.654	11.74	12.93	14.37	17.75
VOL_POST	1,602	0.028	0.0155	0.00409	0.00954	0.0267	0.0475	0.186

All variables are as defined in Appendix B. IPO_EXPR_AF, SEO_EXPR_AF, OFFER_SIZE and MVE numbers are in $ millions.

Table 1. Panel B: Descriptive statistics for SEO Sample

	Count	Mean	Sd	Min	P10	P50	P90	Max
SUED	5,741	0.146	0.354	0	0	0	1	1
SEO_EXPR	5,741	13.69	12.12	0	1	10	32	63
SEO_EXPR_ln	5,741	2.279	0.991	0	0.693	2.398	3.497	4.159
SEO_EXPR_high	5,741	0.500	0.500	0	0	1	1	1
SEO_EXPR_AF	5,690	31.864	66.029	0	0.997	13.569	69.751	682.411
SEO_EXPR_AF_ln	5,690	9.015	2.472	0	6.906	9.516	11.15	13.43
SEO_EXPR_AF_high	5,690	0.500	0.500	0	0	0.500	1	1
IPO_EXPR	5,741	3.993	5.534	0	0	2	10	61
IPO_EXPR_ln	5,741	1.196	0.882	0	0	1.099	2.398	4.127
IPO_EXPR_high	5,741	0.449	0.497	0	0	0	1	1
IPO_EXPR_AF	5,690	4.426	6.227	0	0	1.920	12.636	43.678
IPO_EXPR_AF_ln	5,690	6.241	3.474	0	0	7.561	9.444	10.68
IPO_EXPR_AF_high	5,690	0.499	0.500	0	0	0	1	1
BHAR	5,741	-0.001	0.897	-1.403	-0.942	-0.122	0.922	4.301
OFFER_SIZE	5,741	274.3	655.6	0.217	36.49	132	547.6	18,000
OFFER_SIZE_ln	5,741	4.926	1.109	-1.528	3.597	4.883	6.305	9.798
SEC_SHARES	5,741	0.277	0.432	0	0	0	1	1
UW_RANK	5,741	8.242	1.107	1.001	7.001	8.501	9.001	9.001
FPS_dummy	5,741	0.274	0.446	0	0	0	1	1
FIRM_AGE	5,741	11.56	13.73	1	1	7	27	93
FIRM_AGE_dummy	5,741	0.555	0.497	0	0	1	1	1
AUD_TENURE	5,741	12.03	13.10	0	3	8	23	114
AUD_TENURE_ln	5,741	2.253	0.762	0	1.386	2.197	3.178	4.745
VOL_PRE_SEO	5,741	0.0278	0.0190	0.00636	0.0113	0.0225	0.0503	0.245
INITIAL_RETURN	5,741	0.0280	0.0438	-0.0935	-0.00369	0.0190	0.0750	0.249
SIZE	5,741	11,978.2	86,769.7	1.553	137.2	1,534.0	13,349.4	2,175,052
SIZE_ln	5,741	7.294	1.818	0.937	4.929	7.336	9.499	14.59
VOL_POST	5,741	0.0251	0.0159	0.00466	0.0110	0.0205	0.0436	0.187
SHELF_REG	5,741	0.624	0.484	0	0	1	1	1

All variables are as defined in Appendix B. IPO_EXPR_AF, SEO_EXPR_AF, OFFER_SIZE and SIZE numbers are in million dollars.

Table 2. Panel A: Correlation Coefficients among Key Variables for IPO Sample

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)	SUED	1									
(2)	IPO_EXPR_ln	-0.039	1								
(3)	IPO_EXPR_high	-0.045*	0.837***	1							
(4)	IPO_EXPR_AF_high	0.040	0.590***	0.607***	1						
(5)	IPO_EXPR_AF_ln	0.045	0.736***	0.685***	0.853***	1					
(6)	SEO_EXPR_ln	-0.025	0.613***	0.571***	0.569***	0.672***	1				
(7)	SEO_EXPR_high	-0.022	0.470***	0.482***	0.512***	0.580***	0.812***	1			
(8)	SEO_EXPR_AF_high	-0.012	0.364***	0.371***	0.504***	0.578***	0.716***	0.698***	1		
(9)	SEO_EXPR_AF_ln	-0.002	0.421***	0.419***	0.555***	0.633***	0.850***	0.693***	0.807***	1	
(10)	BHAR	-0.134***	-0.0630**	-0.0237	0.0315	0.0344	-0.0139	0.0126	0.0766***	0.0427*	1
(11)	OFFER_SIZE_ln	0.013	-0.00985	-0.0366	-0.00697	-0.00996	-0.0333	-0.0472*	0.0272	0.0607**	0.0191
(12)	SEC_SHARES	0.035	-0.179***	-0.168***	-0.0936***	-0.128***	-0.114***	-0.111***	-0.0494**	-0.0667***	0.0698***
(13)	UW_RANK	0.069***	0.0633**	0.0904***	0.0849***	0.0800***	0.0411	0.00732	0.0404	0.0770***	0.0766***
(14)	TECH_dummy	0.130***	0.0539**	0.0593**	0.0666***	0.0647***	-0.00697	0.00274	0.00508	-0.0344	-0.00546
(15)	VC_BACKED	0.146***	0.134***	0.175***	0.218***	0.236***	0.207***	0.195***	0.133***	0.127***	0.0440*
(16)	INDUSTRY_VOL_PRE	0.007	-0.0237	-0.0464*	-0.136***	-0.144***	-0.0655***	-0.0806***	-0.0839***	-0.0802***	-0.0804***
(17)	AUD_TENURE_ln	0.065***	-0.202***	-0.151***	0.0123	-0.0260	-0.0364	0.0153	0.0273	0.0118	0.117***
(18)	INITIAL_RETURN	0.158***	0.0124	0.0575**	0.133***	0.118***	0.0620**	0.0544**	0.0560**	0.0725***	0.0890***
(19)	FIRM_AGE_dummy	0.0310	-0.254***	-0.218***	-0.0737***	-0.133***	-0.173***	-0.121***	-0.0710***	-0.0947***	0.113***
(20)	VOL_POST	0.218***	-0.00792	0.0307	0.144***	0.150***	0.0972***	0.108***	0.0998***	0.0728***	-0.0313
(21)	MVE_ln	0.128***	-0.124***	-0.0823***	0.0635**	0.0299	-0.0163	0.0124	0.0807***	0.0908***	0.0810***

		(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
(11)	OFFER_SIZE_ln	1										
(12)	SEC_SHARES	0.196***	1									
(13)	UW_RANK	0.321***	0.102***	1								
(14)	TECH_dummy	-0.187***	0.00964	0.0126	1							
(15)	VC_BACKED	-0.431***	-0.113***	0.0292	0.295***	1						
(16)	INDUSTRY_VOL_PRE	0.0292	0.0525**	0.0367	-0.0122	-0.0854***	1					
(17)	AUD_TENURE_ln	-0.0692***	0.134***	0.00887	0.0996***	0.175***	-0.0731***	1				
(18)	INITIAL_RETURN	-0.0381	0.0701***	0.119***	0.0822***	0.308***	-0.0874***	0.0919***	1			
(19)	FIRM_AGE_dummy	0.0442*	0.252***	0.0144	0.00709	-0.0843***	-0.0321	0.367***	0.0599**	1		
(20)	VOL_POST	-0.458***	-0.0706***	-0.0777***	0.243***	0.591***	-0.125***	0.153***	0.214***	0.0489*	1	
(21)	MVE_ln	0.690***	0.254***	0.348***	-0.00185	-0.0816***	-0.0818***	0.189***	0.309***	0.0420*	-0.0888***	1

* p<0.10, ** p<0.05, *** p<0.010

All variables are as defined in Appendix B. The number of observations for lines (4), (5), (8), (9) is 1,586. The number of observations for all other lines is 1,602.

Table 2. Panel B: Correlation Coefficients among Key Variables for SEO Sample

		(1)	(2)	(4)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)	SUED	1									
(2)	SEO_EXPR_ln	-0.0108	1								
(3)	SEO_EXPR_high	-0.027**	0.824***	1							
(4)	SEO_EXPR_AF_ln	-0.008	0.826***	0.562***	1						
(5)	SEO_EXPR_AF_high	-0.044***	0.714***	0.689***	0.625***	1					
(6)	IPO_EXPR_ln	0.036***	0.657***	0.579***	0.467***	0.465***	1				
(7)	IPO_EXPR_high	0.027**	0.561***	0.512***	0.395***	0.400***	0.831***	1			
(8)	IPO_EXPR_AF_high	0.033**	0.589***	0.506***	0.494***	0.472***	0.823***	0.618***	1		
(9)	IPO_EXPR_AF_ln	0.028**	0.491***	0.433***	0.403***	0.427***	0.702***	0.668***	0.722***	1	
(10)	BHAR	-0.140***	-0.00433	-0.0145	0.0194	0.0293**	-0.0228*	-0.0106	0.0101	0.00280	1
(11)	OFFER_SIZE_ln	0.033**	0.0535***	0.0475***	0.123***	0.147***	-0.00145	-0.00826	0.0677***	0.0730***	0.0216
(12)	SEC_SHARES	0.003	-0.0412***	-0.0612***	0.0279**	0.0226*	0.0182	0.00664	0.0997***	0.0786***	0.0705***
(13)	UW_RANK	0.023*	0.0527***	0.0461***	0.0995***	0.0905***	0.0203	0.0113	0.0545***	0.0435***	0.0872***
(14)	FPS_dummy	0.126***	0.0803***	0.0483***	0.0195	0.0134	0.194***	0.154***	0.166***	0.167***	0.00815
(15)	VOL_PRE_SEO	-0.027**	-0.0908***	-0.0601***	-0.103***	-0.0923***	-0.176***	-0.141***	-0.244***	-0.203***	-0.0156
(16)	AUD_TENURE_ln	0.001	-0.0151	-0.0213	0.0115	0.0208	-0.0702***	-0.0580***	-0.0736***	-0.0312**	-0.0113
(17)	INITIAL_RETURN	0.125***	-0.0351***	-0.0441***	-0.0575***	-0.0602***	0.0575***	0.0502***	-0.00333	-0.00460	-0.0449***
(18)	FIRM_AGE_dummy	0.025*	-0.0393***	-0.0432***	-0.0400***	-0.0283**	0.00761	0.00731	-0.00999	0.0000106	-0.0166
(19)	VOL_POST	-0.045***	-0.00373	0.00682	0.0844***	0.104***	-0.129***	-0.103***	-0.0774***	-0.0450***	0.0320**
(20)	SIZE_ln	0.210***	0.00838	0.00109	-0.0357***	-0.0251*	0.126***	0.0966***	0.0604***	0.0780***	-0.109***
(21)	SHELF_REG	-0.027**	0.0365***	0.0242*	0.0435***	-0.0123	-0.0262**	-0.00199	-0.0640***	-0.0469***	0.00850

		(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
(11)	OFFER_SIZE_ln	1										
(12)	SEC_SHARES	0.209***	1									
(13)	UW_RANK	0.487***	0.177***	1								
(14)	FPS_dummy	-0.209***	0.0118	-0.0873***	1							
(15)	VOL_PRE_SEO	-0.293***	-0.167***	-0.195***	0.385***	1						
(16)	AUD_TENURE_ln	0.150***	-0.0498***	0.0565***	-0.0212	-0.0560***	1					
(17)	INITIAL_RETURN	-0.155***	-0.0731***	-0.159***	0.136***	0.319***	-0.00734	1				
(18)	FIRM_AGE_dummy	-0.010	-0.313***	-0.0506***	-0.145***	-0.0416***	0.367***	0.0144	1			
(19)	VOL_POST	-0.314***	-0.146***	-0.223***	0.403***	0.567***	-0.0667***	0.250***	-0.0831***	1		
(20)	SIZE_ln	0.550***	0.0541***	0.383***	-0.491***	-0.422***	0.221***	-0.181***	0.195***	-0.453***	1	
(21)	SHELF_REG	-0.003	-0.173***	0.0127	-0.162***	-0.0748***	0.0954***	-0.0900***	0.235***	-0.102***	0.143***	1

* p<0.10, ** p<0.05, *** p<0.010

All variables are as defined in Appendix B. The number of observations for lines (4), (5), (8), (9) is 5,741. The number of observations for all other lines is 5,690.

Table 3. Panel A: Comparison of sued and non-sued firms in IPO Sample

	SUED=0		SUED=1			
	Mean	**Sd**	**Mean**	**Sd**	**Diff.**	**T**
IPO_EXPR_ln	1.51	1.05	1.40	0.96	0.11	(1.65)
IPO_EXPR_high	0.50	0.50	0.48	0.50	0.02	(0.60)
IPO_EXPR_AF_ln	1.26	1.00	1.39	1.04	-0.13	(-1.77)
IPO_EXPR_AF_high	0.49	0.50	0.55	0.50	-0.06	(-1.61)
BHAR	0.02	1.05	-0.36	0.86	0.38***	(6.21)
OFFER_SIZE	4.99	1.00	5.03	0.91	-0.04	(-0.56)
SEC_SHARES	0.11	0.25	0.14	0.24	-0.02	(-1.44)
UW_RANK	8.31	1.13	8.52	0.78	-0.21***	(-3.58)
TECH_dummy	0.15	0.35	0.28	0.45	-0.13***	(-4.44)
VC_BACKED	0.36	0.48	0.56	0.50	-0.20***	(-5.77)
INDUSTRY_VOL_PRE	0.01	0.00	0.01	0.00	-0.00	(-0.27)
INITIAL_RETURN	0.11	0.19	0.20	0.25	-0.09***	(-5.34)
FIRM_AGE_dummy	0.41	0.49	0.45	0.50	-0.04	(-1.23)
AUD_TENURE_ln	1.60	0.61	1.71	0.56	-0.11**	(-2.78)
MVE_ln	12.94	1.09	13.33	1.06	-0.39***	(-5.29)
VOL_POST	0.03	0.01	0.04	0.01	-0.01***	(-9.24)
Observations	**1,350**		**252**		**1,602**	

All variables are as defined in Appendix B.

Table 3. Panel B: Comparison of sued and non-sued firms in SEO Sample

	SUED = 0		SUED =1			
	Mean	**Sd**	**Mean**	**Sd**	**Diff.**	**T**
SEO_EXPR_ln	2.28	0.99	2.25	0.97	0.03	(0.84)
SEO_EXPR_high	0.51	0.50	0.47	0.50	0.04*	(2.06)
SEO_EXPR_AF_ln	9.02	2.49	8.96	2.38	0.06	(0.70)
SEO_EXPR_AF_high	0.51	0.50	0.45	0.50	0.06***	(3.40)
BHAR	0.05	0.88	-0.30	0.94	0.35***	(10.18)
OFFER_SIZE_ln	4.91	1.10	5.02	1.15	-0.11*	(-2.47)
SEC_SHARES	0.28	0.43	0.28	0.43	-0.00	(-0.25)
UW_RANK	8.23	1.12	8.31	1.00	-0.07	(-1.96)
FPS_dummy	0.25	0.43	0.41	0.49	-0.16***	(-8.77)
VOL_PRE_SEO	0.03	0.02	0.03	0.02	-0.01***	(-8.21)
INITIAL_RETURN	0.03	0.04	0.03	0.05	-0.00	(-1.83)
FIRM_AGE_dummy	0.56	0.50	0.52	0.50	0.04*	(2.08)
AUD_TENURE_ln	2.25	0.76	2.26	0.77	-0.00	(-0.10)
VOL_POST	0.02	0.01	0.03	0.02	-0.01***	(-12.44)
SIZE_ln	7.33	1.77	7.10	2.08	0.23**	(3.04)
SHELF_REG	0.63	0.48	0.59	0.49	0.04*	(2.03)
Observations	**4,900**		**841**		**5,741**	

All variables are as defined in Appendix B.

Table 4. Panel A: Auditor IPO Experience and Lawsuit Incidence for IPO Sample.

DV=SUED	Pred.	(1)	(2)	(3)	(4)
IPO_EXPR_high	?	-0.254***			
		(-2.94)			
IPO_EXPR_ln	?		-0.0950**		
			(-2.23)		
IPO_EXPR_AF_high	?			-0.051	
				(-0.59)	
IPO_EXPR_AF_ln	?				-0.005
					(-0.11)
BHAR	-	-0.267***	-0.268***	-0.273***	-0.273***
		(-5.62)	(-5.66)	(-5.71)	(-5.71)
OFFER_SIZE_ln	+	0.209***	0.210***	0.210***	0.207***
		(3.91)	(3.93)	(3.90)	(3.85)
SEC_SHARES	+	0.0918	0.102	0.145	0.149
		(0.54)	(0.60)	(0.85)	(0.87)
UW_RANK	+	0.0780*	0.0745*	0.0754*	0.0739
		(1.73)	(1.66)	(1.67)	(1.64)
TECH_dummy	+	0.357***	0.348***	0.350***	0.349***
		(3.50)	(3.42)	(3.43)	(3.42)
VC_BACKED	-	0.173	0.164	0.135	0.126
		(1.57)	(1.49)	(1.23)	(1.15)
INDUSTRY_VOL_PRE	+	7.787	7.223	7.447	8.088
		(0.73)	(0.68)	(0.69)	(0.75)
AUD_TENURE_ln	-	0.0875	0.0921	0.111	0.111
		(1.18)	(1.24)	(1.50)	(1.50)
INITIAL_RETURN	-	0.729***	0.719***	0.730***	0.725***
		(3.92)	(3.87)	(3.92)	(3.90)
FIRM_AGE_dummy	-	0.0607	0.0619	0.0910	0.0914
		(0.68)	(0.69)	(1.01)	(1.01)
VOL_POST	+	20.69***	20.39***	20.98***	20.89***
		(6.60)	(6.50)	(6.65)	(6.62)
_cons		-3.840***	-3.777***	-3.974***	-3.967***
		(-8.30)	(-8.12)	(-8.49)	(-8.48)
chi2(df_m)		177.7(12)	174.0(12)	171.8(12)	171.4(12)
r2_p		0.127	0.125	0.124	0.124
N		1,602	1,602	1,586	1,586

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$SUED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW\_RANK_{it} + \alpha_5 VC\_BACKED_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 TECH\_dummy_{it} + \alpha_8 INDUSTRY\_VOL\_PRE_{it<-1,0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \varepsilon_i$$

Table 4. Panel B: Auditor SEO Experience and Lawsuit Incidence for SEO Sample

DV=SUED	Pred.	(1)	(2)	(3)	(4)
SEO_EXPR_high	?	-0.127***			
		(-2.95)			
SEO_EXPR_ln	?		-0.0409*		
			(-1.88)		
SEO_EXPR_AF_high	?			-0.175***	
				(-4.01)	
SEO_EXPR_AF_ln	?				-0.011
					(-1.23)
BHAR	-	-0.228***	-0.228***	-0.224***	-0.228***
		(-8.84)	(-8.82)	(-8.64)	(-8.80)
OFFER_SIZE_ln	+	0.143***	0.142***	0.143***	0.136***
		(4.49)	(4.44)	(4.45)	(4.24)
SEC_SHARES	+	0.0689	0.0758	0.0891	0.0962*
		(1.24)	(1.36)	(1.59)	(1.72)
UW_RANK	+	0.0555**	0.0546**	0.0569**	0.0562**
		(2.43)	(2.39)	(2.48)	(2.45)
FPS_dummy	+	0.253***	0.251***	0.260***	0.254***
		(4.51)	(4.47)	(4.62)	(4.49)
VOL_PRE_SEO	+	2.242*	2.350*	2.454*	2.601**
		(1.71)	(1.80)	(1.86)	(1.98)
AUD_TENURE_ln	+	-0.00630	-0.00529	0.00772	0.00422
		(-0.20)	(-0.17)	(0.25)	(0.14)
INITIAL_RETURN	-	-0.697	-0.686	-0.679	-0.694
		(-1.40)	(-1.38)	(-1.36)	(-1.40)
FIRM_AGE_dummy	-	0.0168	0.0170	-0.00478	0.00883
		(0.33)	(0.33)	(-0.09)	(0.17)
VOL_POST	+	16.54***	16.48***	16.66***	16.45***
		(10.67)	(10.63)	(10.64)	(10.53)
SIZE_ln	+	-0.00389	-0.00320	0.00167	-0.000193
		(-0.19)	(-0.15)	(0.08)	(-0.01)
SHELF_REG	+	0.0280	0.0283	0.0313	0.0333
		(0.61)	(0.61)	(0.68)	(0.72)
_cons		-2.764***	-2.727***	-2.832***	-2.766***
		(-13.49)	(-13.09)	(-13.77)	(-12.91)
chi2(df_m)		401.7(13)	396.5(13)	406.5(13)	391.8(13)
r2_p		0.0840	0.0829	0.0860	0.0829
N		5741	5741	5690	5690

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$SUED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC_{SHARES_{it}} + \alpha_4 UW\_RANK_{it} + \alpha_5 SHELF\_REG_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 FPS\_dummy_{it} + \alpha_8 VOL\_PRE\_SEO_{it<-1;0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \alpha_{14} SIZE\_ln_{it} + \varepsilon_{it}$$

Table 5. Panel A: Auditor SEO Experience and Lawsuit Incidence for IPO Sample

DV=SUED	Pred.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
SEO_EXPR_high	?	-0.149*	-0.0429						
		(-1.78)	(-0.45)						
IPO_EXPR_high	?		-0.233**						
			(-2.39)						
SEO_EXPR_ln	?			-0.0928**	-0.0550				
				(-2.21)	(-1.00)				
IPO_EXPR_ln	?				-0.0594				
					(-1.07)				
SEO_EXPR_AF_high	?					-0.119	-0.122		
						(-1.42)	(-1.30)		
IPO_EXPR_AF_high	?						0.00740		
							(0.08)		
SEO_EXPR_AF_ln	?							-0.0358	-0.0542
								(-1.07)	(-1.27)
IPO_EXPR_AF_ln	?								0.0377
									(0.70)
BHAR	-	-0.266***	-0.266***	-0.269***	-0.269***	-0.268***	-0.268***	-0.270***	-0.270***
		(-5.62)	(-5.61)	(-5.65)	(-5.66)	(-5.61)	(-5.60)	(-5.66)	(-5.66)
OFFER_SIZE_ln	+	0.208***	0.210***	0.211***	0.212***	0.214***	0.214***	0.213***	0.211***
		(3.93)	(3.93)	(3.97)	(3.97)	(3.98)	(3.98)	(3.95)	(3.92)
SEC_SHARES	+	0.121	0.0899	0.120	0.104	0.145	0.146	0.141	0.147
		(0.71)	(0.53)	(0.71)	(0.61)	(0.85)	(0.86)	(0.82)	(0.86)
UW_RANK	+	0.0717	0.0772*	0.0728	0.0737	0.0733	0.0731	0.0748*	0.0739
		(1.60)	(1.72)	(1.62)	(1.64)	(1.62)	(1.62)	(1.66)	(1.64)
TECH_dummy	+	0.325***	0.352***	0.321***	0.335***	0.344***	0.344***	0.340***	0.334***
		(3.19)	(3.43)	(3.15)	(3.25)	(3.37)	(3.36)	(3.32)	(3.25)
VC_BACKED	-	0.157	0.178	0.171	0.177	0.143	0.142	0.139	0.129
		(1.43)	(1.61)	(1.55)	(1.60)	(1.30)	(1.28)	(1.27)	(1.17)
INDUSTRY_VOL_PRE	+	7.259	7.470	6.962	6.775	7.174	7.263	7.285	8.126
		(0.68)	(0.70)	(0.65)	(0.63)	(0.66)	(0.67)	(0.67)	(0.75)
AUD_TENURE_ln	-	0.114	0.0900	0.109	0.0977	0.113	0.113	0.112	0.115
		(1.54)	(1.21)	(1.48)	(1.31)	(1.53)	(1.53)	(1.51)	(1.54)
INITIAL_RETURN	-	0.717***	0.728***	0.721***	0.721***	0.725***	0.724***	0.729***	0.724***
		(3.86)	(3.92)	(3.88)	(3.88)	(3.89)	(3.88)	(3.92)	(3.89)
FIRM_AGE_dummy	-	0.0772	0.0598	0.0682	0.0598	0.0854	0.0854	0.0862	0.0893
		(0.86)	(0.66)	(0.76)	(0.66)	(0.95)	(0.95)	(0.96)	(0.99)
VOL_POST	+	20.71***	20.70***	20.75***	20.55***	21.21***	21.21***	21.10***	21.01***
		(6.62)	(6.61)	(6.63)	(6.55)	(6.72)	(6.71)	(6.69)	(6.66)
_cons		-3.819***	-3.790***	-3.700***	-3.687***	-3.898***	-3.897***	-3.868***	-3.862***
		(-8.51)	(-8.45)	(-8.15)	(-8.12)	(-8.61)	(-8.60)	(-8.52)	(-8.50)
chi2 (df_m)		172.5 (12)	178.3 (13)	174.2 (12)	175.4 (13)	174.2 (12)	174.2 (13)	173.3 (12)	173.8 (13)
r2_p		0.124	0.128	0.125	0.126	0.126	0.126	0.125	0.126
N		1,602	1,602	1,602	1,602	1,586	1,586	1,586	1,586

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$SUED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW\_RANK_{it} + \alpha_5 VC\_BACKED_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 TECH\_dummy_{it} + \alpha_8 INDUSTRY\_VOL\_PRE_{it<-1,0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \varepsilon_i$$

Table 5. Panel B: Auditor IPO Experience and Lawsuit Incidence for SEO Sample

DV=SUED	Pred.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
IPO_EXPR_high	?	-0.006	0.083						
		(-0.13)	(1.63)						
SEO_EXPR_high	?		-0.170***						
			(-3.36)						
IPO_EXPR_ln	?			-0.008	0.039				
				(-0.33)	(1.20)				
SEO_EXPR_ln	?				-0.064**				
					(-2.21)				
IPO_EXPR_AF_high	?					-0.0113	0.069		
						(-0.25)	(1.43)		
SEO_EXPR_AF_high	?						-0.202***		
							(-4.25)		
IPO_EXPR_AF_ln	?							0.002	0.008
								(0.33)	(1.04)
SEO_EXPR_AF_ln	?								-0.016
									(-1.58)
BHAR	-	-0.227***	-0.229***	-0.227***	-0.228***	-0.228***	-0.224***	-0.228***	-0.228***
		(-8.82)	(-8.84)	(-8.82)	(-8.81)	(-8.80)	(-8.63)	(-8.81)	(-8.80)
OFFER_SIZE_ln	+	0.139***	0.142***	0.139***	0.139***	0.135***	0.140***	0.133***	0.133***
		(4.35)	(4.44)	(4.36)	(4.36)	(4.20)	(4.35)	(4.14)	(4.12)
SEC_SHARES	+	0.0853	0.0679	0.0848	0.0744	0.0982*	0.0882	0.0982*	0.0951*
		(1.54)	(1.22)	(1.53)	(1.34)	(1.76)	(1.58)	(1.76)	(1.70)
UW_RANK	+	0.0537**	0.0552**	0.0539**	0.0542**	0.0554**	0.0569**	0.0552**	0.0562**
		(2.35)	(2.41)	(2.36)	(2.37)	(2.41)	(2.48)	(2.41)	(2.45)
FPS_dummy	+	0.241***	0.245***	0.243***	0.245***	0.251***	0.249***	0.247***	0.247***
		(4.28)	(4.35)	(4.30)	(4.35)	(4.41)	(4.38)	(4.34)	(4.35)
VOL_PRE_SEO	+	2.489*	2.232*	2.475*	2.364*	2.621**	2.580*	2.674**	2.678**
		(1.91)	(1.70)	(1.89)	(1.80)	(1.99)	(1.95)	(2.03)	(2.03)
AUD_TENURE_ln	-	-0.00556	-0.00541	-0.00565	-0.00435	0.00370	0.00705	0.00347	0.00449
		(-0.18)	(-0.18)	(-0.18)	(-0.14)	(0.12)	(0.23)	(0.11)	(0.14)
INITIAL_RETURN	-	-0.672	-0.705	-0.671	-0.695	-0.692	-0.683	-0.693	-0.696
		(-1.36)	(-1.42)	(-1.36)	(-1.40)	(-1.39)	(-1.37)	(-1.40)	(-1.40)
FIRM_AGE_dummy	-	0.0252	0.0240	0.0237	0.0223	0.0137	0.00539	0.0189	0.0167
		(0.49)	(0.47)	(0.46)	(0.44)	(0.26)	(0.10)	(0.36)	(0.32)
VOL_POST	+	16.46***	16.45***	16.49***	16.34***	16.46***	16.54***	16.42***	16.39***
		(10.62)	(10.60)	(10.62)	(10.51)	(10.52)	(10.55)	(10.51)	(10.49)
SIZE_ln	+	-0.00262	-0.00271	-0.00295	-0.00150	-0.00117	0.00273	-0.001	0.00175
		(-0.13)	(-0.13)	(-0.14)	(-0.07)	(-0.06)	(0.13)	(-0.03)	(0.08)
SHELF_REG	+	0.0234	0.0242	0.0238	0.0275	0.0301	0.0292	0.0292	0.0333
		(0.51)	(0.52)	(0.52)	(0.60)	(0.65)	(0.63)	(0.63)	(0.72)
_cons		-2.804***	-2.778***	-2.799***	-2.720***	-2.838***	-2.848***	-2.852***	-2.771***
		(-13.69)	(-13.55)	(-13.61)	(-13.06)	(-13.78)	(-13.83)	(-13.69)	(-12.94)
chi2 (df_m)		393.0 (13)	404.4 (14)	393.1 (13)	397.9 (14)	390.4 (13)	408.6 (14)	390.5 (13)	392.9 (14)
r2_p		0.0822	0.0845	0.0822	0.0832	0.0826	0.0864	0.0826	0.0831
N		5,741	5,741	5,741	5,741	5,690	5,690	5,690	5,690

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$SUED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC_{SHARES_{it}} + \alpha_4 UW\_RANK_{it} + \alpha_5 SHELF\_REG_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 FPS\_dummy_{it} + \alpha_8 VOL\_PRE\_SEO_{it<-1;0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \alpha_{14} SIZE\_ln_{it} + \varepsilon_{it}$$

Table 6. Panel A: Comparison of Dismissed and Settled Cases in IPO Samples

	DISMISSED=0		DISMISSED=1			
	Mean	**Sd**	**Mean**	**Sd**	**Diff.**	**T**
IPO_EXPR_ln	1.32	0.96	1.53	0.94	-0.21*	(-1.75)
IPO_EXPR_high	0.42	0.50	0.57	0.50	-0.15**	(-2.33)
IPO_EXPR_AF_ln	1.35	1.09	1.45	0.95	-0.10	(-0.76)
IPO_EXPR_AF_high	0.51	0.50	0.61	0.49	-0.10	(-1.50)
BHAR	-0.38	0.89	-0.33	0.81	-0.05	(-0.45)
OFFER_SIZE_ln	5.06	0.88	4.98	0.95	0.08	(0.70)
SEC_SHARES	0.14	0.23	0.14	0.26	-0.00	(-0.08)
UW_RANK	8.48	0.82	8.57	0.70	-0.09	(-0.95)
TECH_dummy	0.31	0.46	0.23	0.42	0.08	(1.40)
VC_BACKED	0.53	0.50	0.60	0.49	-0.07	(-1.05)
INDUSTRY_VOL_PRE	0.01	0.00	0.01	0.00	-0.00	(-0.05)
INITIAL_RETURN	0.17	0.24	0.24	0.28	-0.07**	(-2.15)
MVE_ln	13.32	1.09	13.34	1.02	-0.02	(-0.11)
FIRM_AGE_dummy	0.46	0.50	0.44	0.50	0.02	(0.32)
AUD_TENURE_ln	1.66	0.52	1.77	0.61	-0.11	(-1.48)
VOL_POST	0.04	0.01	0.04	0.01	-0.00	(-0.14)
Observations	152		100		252	

All variables are as defined in Appendix B.

Table 6. Panel B: Comparison of Dismissed and Settled Cases in SEO Samples

	DISMISSED=0		DISMISSED=1			
	Mean	**Sd**	**Mean**	**Sd**	**Diff.**	**T**
SEO_EXPR_ln	2.24	0.96	2.28	0.98	-0.04	(-0.60)
SEO_EXPR_high	0.47	0.50	0.47	0.50	0.00	(0.10)
SEO_EXPR_AF_ln	9.02	2.41	8.87	2.34	0.14	(0.86)
SEO_EXPR_AF_high	0.46	0.50	0.42	0.49	0.04	(1.05)
BHAR	-0.28	0.91	-0.33	0.99	0.05	(0.75)
OFFER_SIZE_ln	5.07	1.19	4.93	1.09	0.15*	(1.85)
SEC_SHARES	0.29	0.43	0.27	0.42	0.01	(0.46)
UW_RANK	8.35	0.93	8.24	1.09	0.11	(1.48)
FPS_dummy	0.35	0.48	0.50	0.50	-0.16***	(-4.52)
VOL_PRE_SEO	0.03	0.02	0.04	0.03	-0.00**	(-2.44)
INITIAL_RETURN	0.03	0.05	0.03	0.04	0.00	(1.54)
FIRM_AGE_dummy	0.53	0.50	0.50	0.50	0.03	(0.81)
AUD_TENURE_ln	2.27	0.84	2.23	0.66	0.04	(0.72)
VOL_POST	0.03	0.02	0.03	0.02	0.00	(0.72)
SIZE_ln	7.33	2.20	6.73	1.81	0.61***	(4.35)
SHELF_REG	0.61	0.49	0.57	0.50	0.03	(0.98)
Observations	**512**		**329**		**841**	

All variables are as defined in Appendix B.

Table 7. Panel A: Auditor IPO Experience and Lawsuit Dismissal in IPO Sample with.

DV=DISMISSED	Pred.	(1)	(2)	(3)	(4)
IPO_EXPR_high	?	0.432**			
		(2.43)			
IPO_EXPR_ln	?		0.191**		
			(2.06)		
IPO_EXPR_AF_ln	?			0.268	
				(1.50)	
IPO_EXPR_AF_high	?				0.0721
					(0.85)
BHAR	+	0.00518	0.0150	0.0235	0.0166
		(0.05)	(0.15)	(0.24)	(0.17)
OFFER_SIZE_ln	-	-0.145	-0.157	-0.163	-0.160
		(-1.33)	(-1.44)	(-1.50)	(-1.47)
SEC_SHARES	-	0.172	0.140	0.145	0.139
		(0.46)	(0.38)	(0.39)	(0.37)
UW_RANK	+	0.0993	0.123	0.0773	0.0951
		(0.85)	(1.05)	(0.66)	(0.82)
TECH_dummy	-	-0.362*	-0.367*	-0.323*	-0.324*
		(-1.83)	(-1.86)	(-1.65)	(-1.66)
VC_BACKED	+	-0.0595	-0.0231	-0.0265	0.0109
		(-0.29)	(-0.11)	(-0.13)	(0.05)
INDUSTRY_VOL_PRE	-	4.951	3.270	6.673	4.610
		(0.23)	(0.15)	(0.30)	(0.21)
AUD_TENURE_ln	+	0.268*	0.260*	0.247	0.247
		(1.70)	(1.66)	(1.58)	(1.58)
INITIAL_RETURN	+	0.605*	0.609*	0.645*	0.633*
		(1.76)	(1.78)	(1.88)	(1.85)
FIRM_AGE_dummy	+	-0.0895	-0.0904	-0.137	-0.121
		(-0.50)	(-0.50)	(-0.76)	(-0.67)
VOL_POST	-	-3.301	-4.182	-3.091	-2.628
		(-0.47)	(-0.59)	(-0.43)	(-0.37)
_cons		-0.949	-1.103	-0.603	-0.747
		(-0.93)	(-1.07)	(-0.59)	(-0.73)
chi2(df_m)		17.63(12)	15.93(12)	14.33(12)	12.79(12)
r2_p		0.0521	0.0471	0.0427	0.0381
N		252	252	250	250

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$DISMISSED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW\_RANK_{it} + \alpha_5 VC\_BACKED_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 TECH\_dummy_{it} + \alpha_8 INDUSTRY\_VOL\_PRE_{it<-1,0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \varepsilon_i$$

Table 7. Panel B: Auditor SEO Experience and Lawsuit Dismissal in SEO Sample.

DV=DISMISSED	Pred.	(1)	(2)	(3)	(4)
SEO_EXPR_high	?	-0.0603			
		(-0.66)			
SEO_EXPR_ln	?		0.001		
			(0.00)		
SEO_EXPR_AF_high	?			-0.073	
				(-0.78)	
SEO_EXPR_AF_ln	?				-0.016
					(-0.84)
BHAR	+	-0.0202	-0.0215	-0.0166	-0.0193
		(-0.42)	(-0.45)	(-0.34)	(-0.40)
OFFER_SIZE_ln	-	0.0985	0.0954	0.0884	0.0858
		(1.51)	(1.47)	(1.34)	(1.31)
SEC_SHARES	-	-0.118	-0.110	-0.103	-0.101
		(-0.96)	(-0.90)	(-0.83)	(-0.81)
UW_RANK	-	-0.0581	-0.0586	-0.0518	-0.0524
		(-1.17)	(-1.18)	(-1.04)	(-1.05)
FPS_dummy	-	0.308***	0.295***	0.282**	0.287**
		(2.75)	(2.63)	(2.54)	(2.57)
VOL_PRE_SEO	-	3.185	3.353	3.627	3.679
		(1.33)	(1.40)	(1.50)	(1.53)
AUD_TENURE_ln	+	-0.0140	-0.0130	-0.00943	-0.0136
		(-0.22)	(-0.20)	(-0.14)	(-0.21)
INITIAL_RETURN	+	-2.503**	-2.510**	-2.485**	-2.498**
		(-2.33)	(-2.33)	(-2.30)	(-2.31)
FIRM_AGE_dummy	+	0.0194	0.0238	0.00192	0.00296
		(0.18)	(0.22)	(0.02)	(0.03)
VOL_POST	-	-6.777**	-6.800**	-6.472**	-6.596**
		(-2.53)	(-2.54)	(-2.35)	(-2.39)
SIZE_ln	-	-0.104***	-0.104***	-0.103**	-0.101**
		(-2.59)	(-2.58)	(-2.55)	(-2.51)
SHELF_REG	-	-0.0556	-0.0605	-0.0706	-0.0689
		(-0.57)	(-0.62)	(-0.72)	(-0.70)
_cons		0.618	0.600	0.601	0.727
		(1.39)	(1.32)	(1.35)	(1.55)
chi2(df_m)		43.83(13)	43.40(13)	43.52(13)	43.61(13)
r2_p		0.0389	0.0386	0.0391	0.0392
N		841	841	830	830

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$DISMISSED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC_{SHARES_{it}} + \alpha_4 UW\_RANK_{it} + \alpha_5 SHELF\_REG_{it} + \alpha_6 BHAR_{it<0,3>} + \alpha_7 FPS\_dummy_{it} + \alpha_8 VOL\_PRE\_SEO_{it<-1;0>} + \alpha_9 VOL\_POST_{it<0,1>} + \alpha_{10} AUD\_TENURE\_ln_{it} + \alpha_{11} INITIAL\_RETURN_{it} + \alpha_{12} FIRM\_AGE\_dummy_{it} + \alpha_{14} SIZE\_ln_{it} + \varepsilon_{it}$$

APPENDIX A

Variable	Definition	Data Source
$SUED_{it<0,3>}$	1 if the firm faces a class action lawsuit 3 years after the initial public offering; 0 otherwise.	Stanford's Securities Class Action
$IPO\_EXPR_{jt<-3,0>}$	The total number of IPO engagements conducted by an auditor at the city level during three years prior to the IPO issue date.	SDC, Audit Analytics
$ln\_IPO\_EXPR_{jt<-3,0>}$	The natural logarithm of 1 plus total number of IPO engagements conducted by an auditor at city level during three years prior to the IPO issue date.	SDC, Audit Analytics
$IPO\_EXPR\_high_{jt<-3,0>}$	Dummy variable taking the value of 1 if the total number of IPO engagements conducted by an auditor at city level during three years prior to the IPO issue date is above the median, and 0 otherwise	SDC, Audit Analytics
$IPO\_EXPR\_AF_{jt<-3,0>}$	Sum of all audit fees paid to the auditor office by all IPO firms during 3 years before the issue date of the IPO	SDC, Audit Analytics
$IPO\_EXPR\_AF\_ln_{jt<-3,0>}$	The natural logarithm of IPO_EXPR_AF	SDC, Audit Analytics
$IPO\_EXPR\_AF\_high_{jt<-3,0>}$	Dummy variable taking the value of 1 if IPO_EXPR_AF is above the sample median	SDC, Audit Analytics
$SEO\_EXPR_{jt<-3,0>}$	The total number of SEO engagements conducted by an auditor at the city level during three years prior to the SEO issue date.	SDC, Audit Analytics
$ln\_SEO\_EXPR_{jt<-3,0>}$	The natural logarithm of 1 plus total number of SEO engagements conducted by an auditor at city level during three years prior to the SEO issue date.	SDC, Audit Analytics
$SEO\_EXP\_high_{jt<-3,0>}$	Dummy variable taking the value of 1 if the total number of SEO engagements conducted by an auditor at city level during three years prior to the SEO issue date is above the median, and 0 otherwise	SDC, Audit Analytics
$SEO\_EXPR\_AF_{jt<-3,0>}$	Sum of all audit fees paid to the auditor office by all SEO firms during 3 years before the issue date of the SEO	SDC, Audit Analytics
$SEO\_EXPR\_AF\_ln_{jt<-3,0>}$	The natural logarithm of SEO_EXPR_AF	SDC, Audit Analytics
$SEO\_EXPR\_AF\_high_{jt<-3,0>}$	Dummy variable taking the value of 1 if SEO_EXPR_AF is above the sample median	SDC, Audit Analytics
SEC_SHARES_{it}	The percentage of secondary shares sold during the offer	SDC
$OFFER\_SIZE\_ln_{it}$	The natural logarithm of the total dollar value for the offer registered with the Securities and Exchange Commission (shares offered multiplied by offer price)	SDC

UW_RANK$_{it}$	The Carter–Manaster rank (Carter and Manaster 1990) of the firm's underwriter reputation obtained from Jay Ritter's website	Jay Ritter's website
TECH_dummy$_{it}$	Dummy variables that equals 1 if the firm is in in a technology industry as identified in Loughran and Ritter (2004): SIC codes 3571, 3572, 3575, 3577, 3578 (computer hardware), 3661, 3663, 3669 (communications equipment), 3671, 3672, 3674, 3675, 3677, 3678, 3679 (electronics), 3812 (navigation equipment), 3823, 3825, 3826, 3827, 3829 (measuring and controlling devices), 3841, 3845 (medical instruments), 4812, 4813 (telephone equipment), 4899 (communications services), and 7371, 7372, 7373, 7374, 7375, 7378, and 7379 (software).	SDC
FPS_dummy$_{it}$	Dummy variable that equals 1 if the firm is in the biotech (SIC codes 2833–2836 and 8731–8734), computer (3570–3577 and 7370–7374), electronics (3600–3674), or retail (5200–5961) industries, and 0 otherwise	SDC
BHAR$_{it<0,3>}$	Equally weighted market-adjusted buy-and-hold return on the offering firms' stock measured over 36 months starting with the month following the offer	CRSP, Eventus
INDUSTRY_VOL_PRE$_{it<-1,0>}$	The average standard deviation of daily returns for all firms in the same Fama and French (1997) industry for the year leading up to the firm's IPO.	CRSP
VOL_PRE_SEO$_{it<-1,0>}$	The average standard deviation of daily returns of the issuing firm for the year leading up to the firm's SEO. Data is available only for the SEO sample.	CRSP
INITIAL_RETURN$_{it}$	The initial return (underpricing) calculated as the percentage change in the stock price from the final offer price to the first-day closing price	CRSP, Jay Ritter's website
VC_BACKED$_{it}$	The dummy variable taking the value of 1 if the IPO firm is backed up by venture capitalists; 0 otherwise	SDC, Jay Ritter's website
FIRM_AGE$_{it}$	The firm's age (in years) at the time of the IPO and SEO. In the IPO sample, firm age is the difference between the firms' foundation years and the issue years. In the SEO sample, firm age is the difference between the first year the SEO firm appears on CRSP and the issue year.	Jay Ritter's website, CRSP
FIRM_AGE_dummy$_{it}$	The dummy variable taking the value of 1 if FIRM_AGE is higher than the sample median FIRM_AGE	Jay Ritter's website, CRSP
AUD_TENURE$_{it}$	The difference between the issue year of the public offering and the year in which the current auditor began auditing the public offering.	Audit Analytics
AUD_TENURE_ln$_{it}$	The natural logarithm of AUD_TENURE	Audit Analytics

APPENDIX A (cont.)

VOL_POST$_{it<0,1>}$	The average standard deviation of daily returns for the issuing firm for the year after the firm's public offering	CRSP
SHELF_REG$_{it}$	The dummy variable taking the value of 1 SEO is shelf registered, 0 otherwise	SDC
DISMISSED$_{it}$	The dummy variable taking the value of 1 if the lawsuit was dismissed	Stanford's Securities Class Action
MVE_ln$_{it}$	The natural logarithm of the market capitalization of the IPO firm on the issue date	CRSP
SIZE_ln$_{it}$	The natural logarithm of total assets for the fiscal year prior to the issue year of SEO	Compustat

APPENDIX B

Panel A: Sample Construction	
Firm-commitment IPOs and SEOs issued by U.S. domestic firms from 01/01/1999 to 12/31/2019 after excluding observations based on standard filters in the literature:	**15,595**
Less: SDC observations missing from AuditAnalytics and audited by non-U.S. audit firms	(2,497)
Sample of IPOs and SEOs remaining after merge:	**13,098**
Less: firms audited by non-Big 4 audit firms	(3,374)
Stock offerings issued from 01/01/1999 to 12/31/2019 for creating the measures of auditor IPO experience:	**9,724**
Stock offerings issued from 01/01/2002 to 12/31/2019 for creating the test sample	**8,171**
Less: Stock offerings missing data from Compustat (for SEO sample only), CRSP and Jay&Ritter's Underwriter Ranking, and offerings issued after 2017	(830)
Test sample from 01/01/2002 to 12/31/2017	**7,341**
Sample of IPOs	*1,602*
Number of unique audit offices in IPO sample	*210*
Sample of SEOs	*5,741*
Number of unique audit offices in SEO sample	*274*

Panel B: Lawsuit incidence sample for	
Number of lawsuits from 01/01/2001 to 01/01/2020	**2,840**
Less: Number of lawsuits lost because of the merge	(1,747)
Sample of lawsuits remaining after merge:	**1,093**
Number of lawsuits in IPO sample:	*252*
Number of lawsuits in SEO sample:	*841*

APPENDIX C

Panel A: Auditor IPO Experience and Lawsuit Incidence for IPO Sample, Reduced Model

DV=SUED	Pred.	(1)	(2)	(3)	(4)
IPO_EXPR_high	?	-0.195**			
		(-2.43)			
IPO_EXPR_ln	?		-0.0844**		
			(-2.19)		
IPO_EXPR_AF_high	?			0.0960	
				(1.21)	
IPO_EXPR_AF_ln	?				0.0611
					(1.57)
BHAR	-	-0.281***	-0.283***	-0.285***	-0.286***
		(-5.84)	(-5.88)	(-5.89)	(-5.91)
OFFER_SIZE_ln	+	0.0133	0.0171	0.0185	0.0180
		(0.30)	(0.39)	(0.42)	(0.41)
SEC_SHARES	+	0.164	0.162	0.245	0.260
		(1.02)	(1.01)	(1.54)	(1.63)
UW_RANK	+	0.135***	0.132***	0.123***	0.123***
		(3.10)	(3.04)	(2.81)	(2.81)
TECH_dummy	+	0.506***	0.500***	0.484***	0.482***
		(5.17)	(5.11)	(4.93)	(4.91)
_cons		-2.288***	-2.249***	-2.356***	-2.386***
		(-6.11)	(-5.98)	(-6.27)	(-6.32)
chi2 (df_m)		79.14 (6)	77.98 (6)	76.42 (6)	77.40 (6)
r2_		0.0568	0.0559	0.0553	0.0560
N		1,602	1,602	1,586	1,586

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$SUED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW_{RANK_{it}} + \alpha_5 BHAR_{it<0,3>} + \alpha_6 TECH\_dummy_{it} + \varepsilon_i$$

APPENDIX C (cont.)

Panel B: Auditor SEO Experience and Lawsuit Incidence for SEO Sample, Reduced Model

DV=SUED	Pred.	(1)	(2)	(3)	(4)
SEO_EXPR_high	?	-0.131***			
		(-3.10)			
SEO_EXPR_ln	?		-0.0447**		
			(-2.11)		
SEO_EXPR_AF_high	?			-0.165***	
				(-3.86)	
SEO_EXPR_AF_ln	?				-0.0117
					(-1.38)
BHAR	-	-0.278***	-0.278***	-0.274***	-0.277***
		(-10.55)	(-10.53)	(-10.35)	(-10.48)
OFFER_SIZE_ln	+	0.0892***	0.0885***	0.0948***	0.0870***
		(4.06)	(4.03)	(4.25)	(3.92)
SEC_SHARES	+	-0.0310	-0.0256	-0.0115	-0.00904
		(-0.62)	(-0.51)	(-0.23)	(-0.18)
UW_RANK	+	0.0380*	0.0372*	0.0393*	0.0386*
		(1.70)	(1.66)	(1.74)	(1.72)
FPS_dummy	+	0.467***	0.466***	0.470***	0.465***
		(10.21)	(10.16)	(10.23)	(10.12)
_cons		-1.913***	-1.866***	-1.943***	-1.872***
		(-11.15)	(-10.67)	(-11.27)	(-10.32)
chi2 (df_m)		241.8 (6)	236.5 (6)	246.9 (6)	233.8 (6)
r2_p		0.0505	0.0495	0.0522	0.0495
N		5,741	5,741	5,690	5,690

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$SUED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW_{RANK_{it}} + \alpha_5 BHAR_{it<0,3>} + \alpha_6 FPS\_dummy_{it} + \varepsilon_i$$

APPENDIX C (cont.)

Panel C: Auditor IPO Experience and Lawsuit Dismissal in IPO Sample, Reduced Model.

DV=SUED	Pred.	(1)	(2)	(3)	(4)
IPO_EXPR_high	?	0.415**			
		(2.48)			
ln_IPO_EXPR	?		0.181**		
			(2.08)		
IPO_EXPR_AF_high	?			0.257	
				(1.54)	
IPO_EXPR_AF_ln	?				0.0744
					(0.94)
BHAR	+	0.0218	0.0336	0.0366	0.0302
		(0.23)	(0.36)	(0.39)	(0.32)
OFFER_SIZE_ln	-	-0.111	-0.126	-0.137	-0.142
		(-1.13)	(-1.28)	(-1.40)	(-1.45)
SEC_SHARES	-	0.169	0.134	0.129	0.116
		(0.49)	(0.39)	(0.37)	(0.34)
UW_RANK	+	0.128	0.153	0.115	0.136
		(1.13)	(1.35)	(1.00)	(1.20)
TECH_dummy	-	-0.393**	-0.392**	-0.345*	-0.341*
		(-2.06)	(-2.06)	(-1.84)	(-1.81)
_cons		-0.906	-1.093	-0.610	-0.732
		(-0.94)	(-1.12)	(-0.63)	(-0.76)
chi2(df_m)		11.09(6)	9.251(6)	7.396(6)	5.894(6)
r2_p		0.0327	0.0273	0.0220	0.0176
N		252	252	250	250

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$DISMISSED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW_{RANK_{it}} + \alpha_5 BHAR_{it<0,3>} + \alpha_6 TECH\_dummy_{it} + \varepsilon_i$$

APPENDIX C (cont.)

Panel D: Auditor SEO Experience and Lawsuit Dismissal in SEO Sample, Reduced Model

DV=SUED	Pred.	(1)	(2)	(3)	(4)
SEO_EXPR_high	?	-0.0672			
		(-0.74)			
SEO_EXPR_ln	?		-0.00524		
			(-0.11)		
SEO_EXPR_AF_high	?			-0.0922	
				(-1.01)	
SEO_EXPR_AF_ln	?				-0.0185
					(-0.98)
BHAR	+	-0.0256	-0.0267	-0.0239	-0.0271
		(-0.55)	(-0.57)	(-0.51)	(-0.58)
OFFER_SIZE_ln	-	-0.00770	-0.00945	-0.0146	-0.0164
		(-0.17)	(-0.21)	(-0.32)	(-0.36)
SEC_SHARES	-	-0.0184	-0.0132	0.00239	0.00448
		(-0.17)	(-0.12)	(0.02)	(0.04)
UW_RANK	-	-0.0456	-0.0464	-0.0398	-0.0404
		(-0.93)	(-0.95)	(-0.81)	(-0.83)
FPS_dummy	+	0.402***	0.392***	0.393***	0.393***
		(4.30)	(4.18)	(4.22)	(4.23)
_cons		-0.000436	-0.00243	-0.00232	0.134
		(-0.00)	(-0.01)	(-0.01)	(0.33)
chi2(df_m)		22.88(6)	22.34(6)	23.23(6)	23.16(6)
r2_p		0.0203	0.0198	0.0209	0.0208
N		841	841	830	830

* p<0.10, ** p<0.05, *** p<0.010. *t* statistics in parentheses. All variables are defined in Appendix B. This table tests the following regression model:

$$DISMISSED_{it<0,3>} = \alpha_0 + \alpha_1 EXPR_{jt<-3,0>} + \alpha_2 OFFER\_SIZE\_ln_{it} + \alpha_3 SEC\_SHARES_{it} + \alpha_4 UW_{RANK_{it}} + \alpha_5 BHAR_{it<0,3>} + \alpha_6 FPS\_dummy_{it} + \varepsilon_i$$