What Happens in Nevada? Self-Selecting into Lax Law

Michal Barzuza
University of Virginia School of Law

David C. Smith
McIntire School of Commerce, University of Virginia

We thank Jon Ashley, Vahid Gholampour, and Xiangjun Ma for outstanding research assistance. We have received helpful comments from Jennifer Arlen, Lucian Bebchuk, Rich Hynes, Marcel Kahan, Paul Mahoney, Roberta Romano, Eric Talley, Michael Weisbach (editor), two anonymous referees, and participants at the 2010 American Law and Economics Association Meetings (Princeton), Israeli Law and Economics Association Meetings (Tel Aviv), and Conference on Empirical Legal Studies (Yale), as well as colleagues in the UVA School of Law Workshop. Send correspondence to: David C. Smith, University of Virginia, Rouss & Robertson Halls, East Lawn, P.O. Box 400173, Charlottesville, VA 22904-4173; Phone: 434-243-2272. E-mail: dcs8f@virginia.edu.

Electronic copy available at: http://ssrn.com/abstract=1644974

Abstract

We find that Nevada, the second most popular state for out-of-state incorporations and a state with lax corporate law, attracts firms that are 30–40% more likely to report financial results that later require restatement than firms incorporated in other states, including Delaware. Our results suggest that firms favoring protections for insiders select Nevada as a corporate home, and these firms are prone to financial reporting failures. We provide some evidence that Nevada law also has a causal impact by increasing a Nevada firm's propensity to misreport financials after the firm has incorporated in Nevada.

Electronic copy available at: http://ssrn.com/abstract=1644974

For a period spanning at least forty years, legal scholars have debated whether competition to attract corporate charters between Delaware, the dominant state for U.S. incorporations, and other states encourages a "race to the top" by creating laws that maximize shareholder value, or a "race to the bottom" through laws that benefit managers at the expense of shareholders.[1] By focusing on one winner, the race-to-the-top-versus-bottom debate overlooks a potentially richer market for incorporations, where states might differ by the types of firms they want to attract. Some states might specialize in offering legal and institutional structures with strong protections for shareholders, while other states may be incented to offer weaker protections for shareholders and stronger protections for managers. In turn, firms with heterogeneous preferences for legal protections, and the costs associated with those protections, may self-select into the legal regime that best fits their corporate structure and preferences.

This paper studies the potential to self-select into a particular legal regime by examining the behavior of publicly traded firms that incorporate in Nevada. We find evidence consistent with the idea that lax shareholder protection under Nevada law induces firms prone to financial reporting errors to incorporate in Nevada, and that lax Nevada law may also cause firms to engage in risky reporting behavior. With 8.0% of all public incorporations by firms in states outside of their headquarter state, Nevada is second to Delaware in attracting out-of-state incorporations (see Table 1). As of 2011, Nevada was corporate home to 254 publicly traded companies containing at least rudimentary financial information in Compustat.

Nevada markets its attractiveness to out-of-state incorporations by emphasizing the fact that the state is a "low-liability" legal regime (Barzuza 2012). Practically speaking, Nevada law

[1] Research arguing that competition leads to a "race to the top" includes Easterbrook and Fischel (1991), Romano (1985, 1993a,b, 2001), and Winter (1977). For race-to-the-bottom literature, see, for example, Cary (1974), Bebchuk (1992), Bebchuk and Ferrell (2001), and Bar-Gill, Barzuza, and Bebchuk (2006).

Electronic copy available at: http://ssrn.com/abstract=1644974

does not require that corporate officers and board members adhere to core fiduciary duties to shareholders, including duties of loyalty, care, and good faith. In fact, under today's Nevada law, officers and board members are not liable to shareholders for breaches beyond intentional misconduct, fraud, or a knowing violation of law. These strong managerial protections were put into Nevada law in 1987 and 2001 with the explicit goal of differentiating Nevada from Delaware as an incorporation destination.[2]

Nevadans actively promote this low-liability regime. The website for the Nevada Secretary of State assures companies that the Nevada business court "provides stronger personal liability protection to officers and directors" of companies than other states, including Delaware. Meanwhile, law firms advertise Nevada online as the "The Expert's Domestic Haven of Choice," in which "You Can Live Anywhere and Still Incorporate in Tax Free, Lawsuit Proof, Private Nevada," and "Control Everything and Own Nothing."[3] Overall, Nevada appears to be a state that is ripe for attracting firms seeking a corporate law that is more lax than in Delaware and other states.

As illustrated by Figure 1, a striking feature of Nevada-incorporated firms is that they are often required to restate financial disclosures that were previously reported incorrectly. The figure graphs the annual number of accounting restatements as a percentage of total public

---

[2] For instance, Michael J. Bonner, a Nevada attorney testifying before the Nevada legislature in favor of the 2001 amendments stated: "We have to recognize that . . . it is Delaware versus home state versus Nevada, if it is a tie, if the corporate laws of these jurisdictions are equally favorable . . . typically, they are going to select Delaware. . . . If Nevada can enhance the liability protection for [directors and officers] and strike the proper balance to not protect those who have participated in criminal activity or fraud, the state will go a long way to making Nevada an attractive place in which to incorporate." Nevada state senator Mark James followed on with the recognition that "Directors are the ones who decide where to incorporate. . . . This will be a major incentive." See *Bill Draft Request 7-1547, introduced as Senate Bill 577, Hearing on S.B. 277 Before the Senate Comm. on the Judiciary, 2001 Leg., 71st Sess.* (Nev. 2001), at 10-12.

[3] For the statement from the Nevada Secretary of State, see http://nvsos.gov/index.aspx?page=152 and Lionel Sawyer and Collins Law Firm, "Legal Advantages: A Comparison with Delaware, Why Nevada?" http://whynevada.com/commercialrecordings/Why.Nevada.Legal.Comparison.pdf. For examples of online advertisements, see http://www.nevada123.com/, http://www.nchinc.com/, and http://www.val-u-corp.com/whynev.html, http://www.nevada123.com/, respectively.

companies incorporated in Nevada, Delaware, and all other states for the years 2000 through 2011. An average of 12.5% of Nevada-incorporated Compustat firms were forced to restate financials each year, nearly double the rate of firms incorporated in Delaware (7.4%) and other states (7.0%). Nevada restatement frequencies peaked in 2006, when nearly one-quarter of all Nevada public corporations were required to restate their financials. This rate dropped to around 10% per year by 2011, but remained well above the rate observed in Delaware and other states during this period.[4]

We use accounting restatement frequencies at the firm level as an indicator of unobserved agency problems between managers and shareholders (see, e.g., Arlen and Carney 1992; Gordon 2003; and Coffee 2005) and explore further the high restatement frequencies observed among Nevada-incorporated firms. We first show that differences in restatement frequencies between Nevada firms and firms incorporated in other states cannot be explained by observable firm characteristics. Holding a variety of firm and industry variables constant, we find that Nevada firms are 20–30% more likely to restate their financials in a given year than firms incorporated in Delaware or other states. These results hold when we narrow our set of restatements to earnings reductions, and to those restatements that raise suspicions of fraud or lead to other regulatory investigations. The results are also robust to use of a propensity score estimator that matches Nevada firms to Delaware firms using a multidimensional matching model.[5]

[4] Plumlee and Yohn (2010) document a rise in aggregate restatements over the 2002–6 period and attribute the rise to an increase in the complexity of audit rules following the adoption of the Sarbanes-Oxley Act.

[5] Two concurrent papers provide additional evidence on the behavior of Nevada-incorporated firms. In an examination of foreign firms that engage in "reverse mergers" through U.S. shell companies, Siegel and Wang (2013) find that the choice of a Nevada-incorporate shell predicts a high likelihood for problematic restatements, including restatements that correct for overstated income and restatements that lead to fraud or regulatory investigations. Donelson and Yust (forthcoming) examine the influence of the 2001 change to Nevada law and find that the Nevada firm values, pay-for-performance sensitivity, and operating performance decline following the 2001 law change.

Our findings are strengthened by comparing accounting "aggressiveness" ratings for Nevada firms with other states, as tracked by the data intelligence service GMIRatings. Aggressiveness ratings are statistically determined grades that predict the likelihood that a firm engages in fraudulent accounting. Consistent with the restatement results, we find that nearly 40% of public Nevada firms are classified as "very aggressive" or "aggressive," compared with closer to 30% of the firms in other states. Holding other characteristics constant, Nevada firms stand out as especially aggressive users of risky accounting techniques.

The second step in our analysis is to explore the source of the observed high frequency of restatements among Nevada firms. Our maintained hypothesis is that lax Nevada law attracts firms that are more likely to engage in behavior leading to accounting restatements. However, an alternative explanation is that lax law creates an environment that causes otherwise low-risk firms to engage in risky and aggressive accounting behavior.

Consistent with the self-selection hypothesis, we find that firms incorporating prior to the adoption of the 1987 law show no abnormal restatement behavior relative to firms incorporated outside of Nevada. It is the firms that incorporate in Nevada after the law change, particularly those firms that had initial public offerings (IPOs) as Nevada-incorporated firms during the period 1988 to 2003, that are responsible for the high restatement rates. We also find some evidence that firms moving their state of incorporation to Nevada from another state are predisposed to restate financials prior to the "reincorporation," although reincorporations are relatively uncommon, so the power of the test is low. Further, we show that firms that are headquartered in states that already provide significant protections to managers are less likely to select Nevada as an incorporation location, suggesting that firms are more likely to seek a

Nevada incorporation when their home-state laws do not provide the high managerial protections available in Nevada.

We report results that lax Nevada laws could also cause firms to engage in riskier behavior. We estimate a two-stage instrumental variable (IV) regression using the location of a firm's headquarters as an instrument for Nevada incorporation. Specifically, we code a "near-neighbor" state variable that equals one if a company is headquartered in Nevada or in a state that borders Nevada (Arizona, California, Idaho, Oregon, and Utah). Firms located in a near-neighbor state of Nevada are significantly more likely to incorporate in Nevada than non-neighbor states, but they are unlikely to have an above- or below-average propensity for restating financial disclosures. We find that our Nevada incorporation instrument is positive and, at least for one specification, statistically significant at the 5% level.

The final step in our analysis examines the valuation implications for incorporating in Nevada. In regressions of firm-level measures of Tobin's q on a Nevada incorporation dummy—in the spirit of Daines (2001) and Subramanian (2004)—we find no discernible valuation effect for firms that incorporate in Nevada, unlike for Delaware firms, which are valued higher than firms incorporated in Nevada and other states outside Delaware. We do find that firms that restate financials experience large drops in market value. However, the magnitude of these losses is no larger for Nevada firms that restate than restating firms incorporated in other states. Overall, our valuation findings are inconclusive and make it difficult to draw strong conclusions regarding the efficiency of the decision to incorporate in Nevada.

1. Background and Motivation

U.S. corporate law research has typically focused on the choice for a company between incorporating in its home state—the state where its headquarters resides—and incorporating in Delaware (e.g., see Romano 1985, 1993a; Daines 2001; Bebchuk and Hamdani 2002; Kahan and Kamar 2002; Subramanian 2004). Yet, Nevada has actively worked to compete with Delaware for out-of-state incorporations, and since 1987, it has enacted laws as part of this strategy that are significantly more lax than Delaware law in terms of their protections for minority shareholders.

1.1 Nevada corporate law

There are three reasons why Nevada is an attractive corporate destination for firms headquartered in other states. First, Nevada legislators, lawyers, and other interested parties have worked hard to lure companies to incorporate in Nevada by offering and marketing a different product than Delaware, a corporate law that is more lax than Delaware's (Barzuza 2012). Second, Nevada has relatively low incorporation fees. Third, Nevada strives for judicial efficiency by modeling its business court after Delaware's.[6] During the 2000s, Nevada's revenue from incorporations increased from the tens of thousands of dollars per year to several million dollars per year, marking incorporations as an important revenue source for the state.[7]

Current differences between Nevada and Delaware law are particularly noteworthy. Under section 102(b)(7) of Delaware law, corporations are permitted to exculpate directors from liability for acts that breach their duty, but not from any act that amounts to breach of good faith or duty of loyalty, or that is made for the personal benefit of directors. In contrast, section 78.138

[6] Efforts include "early and comprehensive case management, active judicial participation in settlement, priority for hearing settings to avoid business disruption, and predictability of legal decisions in commercial matters." See http://nvsos.gov/index.aspx?page=152. There is evidence that the Nevada business court still suffers from deficiencies relative to the Delaware chancery court (Kahan and Kamar 2002).
[7] See the discussion by Warren Lowman and Dr. Paul Chalekian, Secretary of the State Response and Implementation Plan, at http://nvsos.gov/Modules/ShowDocument.aspx?documentid=1282. Fees from public incorporations are difficult to disentangle from overall fees from incorporations, including fees collected from LLCs.

of Nevada law, enacted in 1987, provides protection for any actions by directors that do not amount to intentional misconduct, fraud, or knowing violation of law.[8]

Furthermore, in 2001 Nevada legislators revised the state's statutes to make this protection for directors and managers mandatory. In 2003, the amendment was softened to provide the protections by default, with firms able to opt out only with management approval. In other words, current Nevada law provides only minimal protections for shareholders against adverse actions by directors and managers, and officer liability can be strengthened only through management-directed changes in company certificates of incorporation. Barzuza (2012) and Panel A of Appendix Table A1 provide a more detailed summary of the differences between Nevada and Delaware law in terms of the exposure of directors to liability.[9]

1.2 Nevada incorporations

Table 1 ranks states by the proportion of out-of-state Compustat firms that incorporate in the state. A firm is "out of state" if it incorporates in a state other than the state of its headquarters. With 8.0% of all out-of-state incorporations by Compustat firms, Nevada is a distant second to Delaware in attracting out-of-state incorporations, with 83.3% of all out-of-state incorporations, but far ahead of the third largest state, Maryland, with 1.5%.

Table 2 reports IPO and migration activity in and out of Nevada since 1990 and shows the steady rise in the popularity of Nevada over time. The table is constructed by tracking the state of incorporation of all new firms when added to CRSP or Compustat, primarily through IPOs. To establish that the entries are bona fide operating companies, we require the

[8] See NRS 78.138(7):7.
<AU: Please define NRS>
[9] Nevada corporate anti-takeover law is similarly more protective of managers than Delaware law (see Barzuza 2012). Panel B of Table A1 provides a summary of the differences between Nevada and Delaware law in terms of the standards they apply to management use of defensive tactics.

observations to contain at least rudimentary information on assets and profitability. For Table 2, we also adopt the practice of Ritter (2013) and require each IPO firm have a share price of at least $5 and trade on the New York Stock Exchange, American Stock Exchange, or NASDAQ. We then follow the sample firms as they also exit from Compustat via mergers, bankruptcy filings, take-private transactions (e.g., leveraged buyouts), or bankruptcy, or because they fail to report the rudimentary financial information. Beginning in 2000, the table also follows reincorporations in and out of Nevada. A reincorporation is defined by Mergent, the source of our reincorporations, to be a publicly listed firm that switches its state of incorporation from the state in which it originally went public.[10] Reincorporations are uncommon, but they are potentially helpful for identifying firm-level effects of state law on corporate behavior.

Several notable patterns stand out in Table 2. First, the percentage of Compustat firms incorporated in Nevada has more than doubled since 1990, rising from 3.7% in 1990 to around 8.0% by 2011. Second, measured as a percentage of all new Compustat firms, Nevada has experienced "bursts" in new incorporation activity, including during the 1999–2003 period when Nevada attracted between 11% and 21% of all new incorporations, and during the 2007–11 period when Nevada attracted between 11% and 19% of all new incorporations. A plausible explanation for the first burst in incorporations is the 2001 amendment to Nevada law that further strengthened director and management protections against liability. In 2001, Nevada incorporations accounted for approximately 20% of all new Compustat incorporations, a jump from 13% of incorporations in 2000. These incorporations declined again in 2003, following an increase in the incorporation tax from $85 to $11,000. For the latter period, much of the burst in activity can be explained by the relative paucity of IPOs in the United States. From 2007 to

[10] Compustat reports only the most recent state of incorporation. It does not maintain a time series history of incorporations. However, the Mergent database, available since 2000, does follow firms from state to state.

2011, Nevada added firms at a rate of 18 to 26 a year, compared with 31 to 71 a year from 1999 to 2003.

The third pattern to note is there is significant turnover in the sample of Compustat firms incorporated in Nevada. While an average of 33 Nevada-incorporated firms are created each year during the sample, an average of 22 exit the sample. Exits are particularly prominent in the last part of the sample, accounting for roughly 10% of all Compustat exits from 2007 to 2011.

1.3 Accounting restatements as a measure of agency problems

We use the frequency with which firms restate audited financial statements as an indicator of potential agency problems. Restatements arise when firms make a mistake in their accounting statements and submit corrections to those mistakes. The U.S. Securities and Exchange Commission (SEC) requires publicly traded firms to amend and correct material misstatements to financial disclosures; failure to do is a violation of the 1934 Securities and Exchange Act.

Restatements can occur for a variety of reasons, including for correcting simple and relatively benign errors, because of misinterpretations of new accounting rules, and via deviations in judgment under existing rules. But mistakes can also signal aggressive attempts to manage earnings and other measures of performance, hide bad news, or engage in outright fraud.[11]

Arlen and Carney (1992), Gordon (2003), and Coffee (2005) argue that high restatement frequencies are indicative of unobserved agency problems between managers and outsider shareholders. In particular, manager compensation packages often create incentives to manipulate financial performance to look good in a current accounting period, even if the figures

[11] For discussions of the severity of accounting misstatements and the consequences of their disclosure, see Plumlee and Yohn (2010) and Files, Swanson, and Tse (2009).

have to be corrected later. Accounting restatements are generally received by investors as bad news. Restatements result in large negative market stock price reactions and raise the cost of capital (Palmrose, Richardson, and Scholz 2004; Hribar and Jenkins 2004), reduce the credibility of the reporting company (Anderson and Yohn 2002), precede balance sheet "bloat" (Ettredge, Smith, Scholz, and Sun 2010), and tend to be associated with weak corporate control (Baber, Kang, Liang, and Zhu 2013). The likelihood of observing a restatement also increases when CEO option grants are sensitive to company stock price (Burns and Kedia 2006; Efendi, Srivastava, and Swanson 2007).[12]

The evidence suggests that restatements are associated, at the very least, with aggressive accounting tactics. But the propensity to report financials that later require restatements may also be reflective of the ability for company insiders to manipulate financials to their own benefit, and to the detriment of shareholders and other stakeholders.

Using restatements as a proxy for agency costs has several advantages relative to other measures of corporate governance. First, unlike most corporate governance measures that are regulated by state law, restatements are regulated by federal law and thus enforced uniformly across states. Thus, while our paper focuses on cross-state differences in corporate law, our measure itself is independent of the law because restatements are enforced at the federal level. Second, restatement frequencies vary significantly during our sample period and are observable through time. Observing a proxy for corporate governance that varies temporally can provide more information about the quality of governance than static measures tied to state laws, corporate charters, or one-time events. Finally, restatements data are available for all companies in Nevada, while corporate governance indices typically cover only the larger firms and thus

[12] Consistent with these findings, Bar-Gill and Bebchuk (2002) develop a model demonstrating how compensation could incentivize managers to misreport.

miss many Nevada companies. For instance, the RiskMetrics database, which constructs the Gompers, Ishii, and Metrick (2003) G-Index for more than 1,500 publicly traded companies, covers only 20 companies incorporated in Nevada.

2. Data and Summary Statistics

2.1 Restatement data

We gather data on accounting restatements from Audit Analytics, which provides firm-level information on audit-induced financial restatements ("Auditor Engagements and Earnings Restatements") for more than 20,000 firms starting in 2000. Audit Analytics collects restatement information from all reported restatements in SEC filings. The database flags the restatement and provides accounting and accounting-related information, including measures of the severity of the restatement.

To collect states of incorporation for each firm, we start with the state reported on Compustat. Because Compustat reports only the most recent state of incorporation, we then rely on Mergent to backfill states of incorporation for firms that reincorporated during the sample period. Combining the information from Audit Analytics, Compustat, and Mergent allows us to construct our panel dataset of restatement and incorporation activity for a large sample of publicly traded firms.

We describe the sample collection more completely below. But we first use Table 3 to provide summary information on the restatement activity and accounting risk behavior for our sample firms, split by whether the firms are incorporated in Nevada, Delaware, or another state besides Nevada and Delaware. The statistics cover the period 2000 through 2011. Panel A of Table 3 reports average annual restatement frequencies, defined to be the percentage of sample firms incorporated in each state that report at least one restatement during the year. On average,

12.5% of the firms incorporated in Nevada restated accounting figures at least once each year during our sample period. By comparison, Delaware firms and firms in other states restated at a frequency of 7.4% and 7.0%, respectively. Thus, restatement frequencies in Nevada were roughly 70% higher than the average for all other states, including Delaware. Panel A also reports subsets of the restatement frequencies, including only those restatements that result in a decline in reported net income and those investigated for fraud or regulatory infractions. The pattern of higher reported restatements in Nevada persists across these two breakdowns.

As a separate measure of accounting misbehavior, Panel B of Table 3 reports state-level variation in an ex ante measure of accounting aggressiveness calculated by GMIRatings. The panel reports the average annual percentage of firms in Nevada, Delaware, and other states that are rated as “very aggressive,” “aggressive,” “average,” or “conservative” in their financial reporting according to the GMIRatings Accounting and Governance Risk rating (AGR).[13] The rating is based on a proprietary analysis of the financial reporting activity of publicly traded firms and measures the overall risk of potentially fraudulent or misleading accounting and governance activity. Panel B shows that Nevada has more firms rated as very aggressive or aggressive (40.1%), compared with Delaware (30.2%) and other states (31.8%), and far fewer firms rated as conservative, compared with the other states (9.9% in Nevada, compared with 13.4% and 16.7% in Delaware and other states, respectively).

Taken together, Panels A and B of Table 3 show that Nevada firms tend to be more aggressive with their accounting practices than firms incorporated in other states, and that this aggressiveness correlates at the state level with a higher incidence of accounting restatements. Of course, these tables do not control for variation across firms in other characteristics that could be

[13] See GMIRatings (2012) for an in-depth description of the AGR and its reliability for predicting cases of accounting fraud or misleading activities.

relevant to the propensity to restate financials. We control for this variation in the regressions reported below.

Appendix Table A2 provides additional information on the nature of restatements in Nevada by reporting excerpts from SEC disclosures of a randomly selected group of Nevada firms that restate their financials. The table shows that the reasons for restatements vary considerably, from incorrect applications of derivative costing formulas, to mixing up operating and financial cash flows, to wrongly attributing expenditures on work-in-progress and inventory, to revenues. The important takeaway from Appendix Table A2 is that no one type of restatement dominates Nevada firms in a way that would alone explain higher restatement frequencies.

2.2 Financial and other characteristics of Nevada firms

We draw on a variety of sources to get a better sense of how the observable characteristics of Nevada firms compare to firms incorporated in other states. In addition to the firm-level financial information from Compustat and CRSP and corporate migrations from Mergent, we also collect ownership structure statistics from Thomson Reuters and measures of corporate governance quality from RiskMetrics. From these datasets, we construct a series of variables related to the performance, riskiness, ownership structure, and governance quality of Nevada firms and their peers. These variables also act as controls in our regressions examining restatement frequencies.

From Compustat, we collect information on five characteristics related to a firm's financial performance. As a measure of the market's assessment of the value of the firm relative to its historical cost, we include Tobin's q, measured by the ratio market value of firm assets (market value of equity plus book value of interest-bearing debt) to book value of firm assets (book value of equity plus book value of interest-bearing debt). As a measure of profitability, we

include earnings before interest depreciation and amortization, scaled by the market value of assets. To control for the level of financial leverage, we use the book value of interest-bearing debt divided by the market value of assets, and as a measure of firm size we examine the market value of assets (*Log MVA*), defined as the market value of equity plus the book value of interest-bearing debt.[14] Finally, for the subset of firms in our sample for which data are available, we also include a measure of the age of the firm, measured as the number of years the firm has been publicly listed and tracked by CRSP.

Our sample collection process starts with all firms on Compustat for the years 1990 to 2011. We exclude all financial firms and firms headquartered outside the United States, including firms that state financial figures in Canadian dollars. To dampen the effect of measurement errors in the data, we code as missing observations on *Tobin's q, Profitability, Leverage,* and *Log MVA* that are in the top and bottom 5% of their respective distributions.[15]

In addition to the Compustat variables, we calculate several other firm-level variables related to exchange status, auditor type, and ownership structure. *Big-4 Auditor* takes the value of one when a firm uses Deloitte & Touche, PricewaterhouseCoopers, Ernst & Young, or KPMG as its auditor.[16] Auditor identity comes from Compustat. The *Exchange-Listed* dummy variable takes a value of one when a firm is listed on the NYSE, AMEX, or Nasdaq. *Insider > 15%* and *Institutional > 15%* are indicator variables that equal one when an insider (executive managers and board members) or institution owns more than 15% of the outstanding shares of a company.

[14] For our performance regressions, in which Tobin's q is the dependent variable, we also use the natural logarithm of total revenue (Log Sales) as a measure of size.

[15] Earlier versions of the paper have also reported results using a 1% cutoff in coding missing observations. The results and inferences from the paper are unchanged when using the less restrictive cutoff.

[16] For the earlier part of the sample, Big-4 Auditor also equals one for clients that separately utilized PriceWaterhouse and Coopers & Lybrand (who merged in 1998) and Arthur Andersen (which ceased to exist in 2002).

The ownership dummy variables are calculated using information from SEC 13(f) filings collected by Thomson Reuters.

This selection process leaves us with a sample of 38,844 firm-year observations when we exclude the *Age* variable, and 35,915 observations when *Age* is included.

Table 4 summarizes our firm-level variables, grouped according to whether the firms are incorporated in Nevada, Delaware, or another state. Nevada firms tend to be much smaller, younger, and less profitable than firms incorporated in the other states. The market value of assets of the median-sized firm in Nevada is about $24 million (= $e^{\$3.19\text{million}}$), compared with median assets values of $290 million for Delaware firms and $171 million for firms in other states. The median Nevada firm has been publicly traded for eleven years, which is the same public age of Delaware firms. However, the median firm across states other than Nevada and Delaware has been around for 18 years. The median profitability (EBITDA/Assets) of a Nevada firm is –4%, compared with 8% and 9% in Delaware and other states, respectively. Median Tobin's q for Nevada firms is 1.46, compared with 1.70 for Delaware and 1.51 for other states.

A notable feature of the Nevada public firms is that they are much less likely to be audited by a Big-4 accounting firm and listed on a major U.S. exchange than Delaware firms and firms incorporated in other states. Only 18% of Nevada firms are audited by a Big-4 firm, compared with 69% of firms in Delaware and 59% of firms incorporated in other states, and only 28% of Nevada firms are exchange-listed, compared with 75% of firms in Delaware and 72% of all firms in other states. It is unclear a priori why Nevada firms are less reliant on Big-4 auditors, except that smaller-sized firms may be less reliant on national audit firms than larger firms. The high proportion of "public" but non-exchange-listed firms in Nevada arises from firms that register and consistently file financial statements with the SEC, but either choose to stay off a

major exchange or do not meet listing requirements for a major exchange, because of low stock price, equity value, or number of shareholders on record. Investigating the causes of these large differences in Nevada auditor and exchange status are beyond the scope of this paper. However, as we report in the next section, auditor type and exchange-listing status do not meaningfully influence inferences about restatement frequencies of Nevada firms.

Table 4 shows that the incidence of equity owners holding blocks of 15% or more of outstanding shares is not very different for Nevada firms compared with peers outside the state.

Appendix Table A3 also reports the distribution of companies across two-digit NAIC industries, sorted according to state of incorporation. Nevada-incorporated firms tend to be more concentrated in the mining, construction, and entertainment industries than other states (including Delaware), and tend to have a lower proportion of firms in manufacturing and information technology. Outside of these industries, the distribution of Nevada firms across industries is reflective of other publicly traded firms.

2.3 Corporate governance in Nevada firms

Table 5 compares the corporate governance quality of Nevada firms to firms in other states over the 2000 to 2008 period by disaggregating the 24 components of the Gompers, Ishii, and Metrick (2003) G-Index. Firm-level content for the components was collected originally from charters, bylaws, and state laws by the Investor Responsibility Research Center (IRRC), and more recently from the same sources by RiskMetrics. Collection of these components by RiskMetrics ended in 2006. The components are meant to reflect how protective the contracts and laws of firms are to management relative to shareholders in the firm. Five of the 24 components are used to construct the Bebchuk, Cohen, and Ferrell (2009) refinement of the G-Index, known as the E-Index.

Table 5 lists the aggregate values of the G and E indices, as well as their constituent components, for Nevada firms, Delaware firms, and firms incorporated in other states. The table shows that Nevada firms are more protective of management than Delaware firms according to the G-Index (average score of 10.26 for Nevada firms compared with 8.72 for Delaware firms) but not necessarily according to the E-Index (2.14 in Nevada versus 2.22 in Delaware). A breakdown of the constituent components shows why this is the case. The Bebchuk, Cohen, and Ferrell (2009) E-Index focuses on takeover protections, including whether or not a company requires staggered board elections and supermajorities to approve mergers, and whether the company has adopted poison pills and golden parachutes. For these components, Nevada firms are fairly indistinguishable from Delaware and other peers.

However, as shown at the bottom of Table 5, Nevada firms scored decidedly worse on three other G-Index components: director indemnification (31.8% of Nevada firms, compared with 15.3% of Delaware firms), indemnification contracts (34.5% of Nevada firms, compared with 7.7% of Delaware firms), and director liability (48.0% of Nevada firms, compared with 29.0% of Nevada firms), all of which relate the degree to which firm charters, bylaws, and other contracts indemnify officers' and directors' legal liability resulting from conduct within the firm. Nevada-incorporated firms are much more likely than firms in other states to offer specific protections to their managers and boards against costs and judgments related to litigation. This finding is especially interesting given that Nevada law already offers substantial liability protections to officers and directors of companies that incorporate in the state. Disaggregation of the G-Index suggests that Nevada attracts firms that have a strong desire to protect their management from the costs and consequences of litigation.

3. Regression Results

We now turn to a more detailed analysis of the relation between firm-level accounting restatement activity and incorporating in Nevada.

3.1 Restatement regressions

Table 6 reports the results from firm-level panel regressions of restatement activity on our control variables, along with an indicator variable equal to one when a firm is incorporated in Nevada (*NV Corp*) and a similar variable indicating when a firm is incorporated in Delaware (*DE Corp*). The dependent variable in the regressions is a dummy variable that equals one if a given firm restates financials at least once in a given year, and zero otherwise.[17] Regression standard errors are calculated by grouping on firm ID to account for the correlation induced by using the same firms in multiple years.

Table 6 contains three panels. Panel A reports the regression results by identifying all restatements in the dependent variable, Panel B flags only those restatements that lead to a reduction in reported net income, and Panel C focuses only on restatements suspected of fraud or some other regulatory infraction. Each panel reports specifications with and without *Age* and with and without industry and year fixed effects.

The consistent pattern that arises from all the regressions in Table 6 is that *NV Corp* appears in the regressions with a positive estimate that is both economically and statistically significant. The estimates imply that, holding all other variables constant, Nevada firms are 20–40% more likely to restate their accounting figures in a given year than firms in other states, including Delaware. This result is robust to the inclusion of industry and year fixed effects, and holds across all three types of restatements, with the exception of the sample of restatements

[17] Multiple restatements within a year are treated the same as one restatement, so no weighting occurs within a year for more than one restatement.

suspected of fraud or other wrongdoing that do not include a control for age. Meanwhile, the restatement patterns of Delaware firms are never economically different from those of other states and are nearly always statistically indistinguishable from other states. The Table 6 results suggest that controlling for a variety of firm-level variables, there remains a strong connection between a firm's likelihood to restate accounting numbers and incorporating in Nevada.

3.2 Regression robustness checks

One potential criticism of the Table 6 regressions is that Nevada firms look so different from firms in other states; they are smaller, less profitable, less likely to be audited by a Big-4 firm, and less likely to be exchange-listed. Linearly specified regressors could miss important differences in the characteristics of Nevada firms and other states. Table 7 compares the financial restatement activities of Nevada firms to a set of Delaware firms that are matched annually to the Nevada firms based on a "propensity score" (see, e.g., Rosenbaum and Rubin 1983; Heckman, et al. 1998). Propensity scores are fitted values from a multivariate probit model of the choice to incorporate in Nevada. For the purposes of Table 7, the matching probit model is estimated using firm size (*Log MVA*), profitability, leverage, Tobin's q, and indicator variables for whether the firm is audited by a Big-4 auditor, exchange-listed, and controlled by an institutional or management insider.

Panel A of Table 7 reports annual restatement frequencies for Nevada firms and the *p*-matched Delaware firms. It shows that for every year except 2000, Nevada firms exceed their *p*-matched Delaware peers in the rate at which they are required to restate their financials. On average, Nevada firms restate at a rate of 13.5% per year, compared with 10.2% per year for the matched Delaware firms. Consistent with Table 6, the difference in these two averages suggests that Nevada firms are roughly 30% more likely to restate their financials than the average

matched Delaware firm. Panel B of Table 7 shows that the difference between Nevada and *p*-matched Delaware firms is statistically significant at the 1% level.[18]

We perform further nonlinearity tests that we do not report in the tables. We split the sample into Big-4-audited firms and non-Big-4-audited firms and rerun the Table 6 regressions separately on each sample. The large and statistically significant coefficient on *NV Corp* persists across both samples, although the incidence of accounting restatements among Nevada firms audited by a Big-4 auditor is lower than the incidence among Nevada firms audited by a smaller firm. Likewise, we split the sample according to whether firms are exchange-listed and find a similar result: the Nevada effect is present and significant in both samples, although exchange-listed Nevada firms restate at a lower incidence than over-the-counter-traded Nevada firms.

We also examine the robustness of our results by conducting regressions similar to Table 6 using the GMIRatings Accounting and Governance Rating (AGR) rating as the dependent variable. The AGR rating is appealing because it is an ex ante measure of potential for committing fraud and is derived independently of the restatements that we collect from Audit Analytics. In these regressions, we find that Nevada firms are statistically more likely to score poorly on the AGR rating, implying a higher risk of committing accounting fraud, than their non-Nevada peers.

3.3 What causes the Nevada effect?

We next turn to investigating causality for the high incidence of accounting restatements among Nevada firms. Our maintained hypothesis is that firms that benefit from behaviors that

---

[18] Note that the average difference in matched restatement rates is still statistically different from zero when we exclude two years in which the differences appear particularly large, 2006 (difference = 7.3 percentage points) and 2010 (difference = 7.1 percentage points). If we drop both 2006 and 2010 from the sample, then the average Nevada firm still restates an average of 2.42 percentage points more often than the average matched Delaware firm (or at a rate that is 24% higher than the matched Delaware rate). This difference is still statistically significant at the 5% level in a paired *t*-test (*p*-value = 0.041%).

include risky—and potentially fraudulent—accounting practices select Nevada for its lax law. An alternative hypothesis is that Nevada law causes firms to engage in risky behavior once they incorporate in Nevada.

We employ several techniques to assess causality. First, Table 8 compares the restatement activity of firms that have IPOs over three distinct sample periods: (i) prior to 1987, the enactment year for the first amendment to Nevada law that granted extensive liability protections to management, (ii) from 1987 through 2001, the year Nevada law was amended again to strengthen management liability protections from an "opt-in" to "opt-out" option for shareholders, and (iii) after 2001. We use the year in which a firm first appears on CRSP as our measure of IPO year.

Table 8 shows that firms that incorporated in Nevada prior to 1987 display no abnormal restatement propensity during our sample period. The coefficient estimate on *NV Corp* for these firms is small and statistically insignificant. In contrast, firms that have IPOs in Nevada following the 1987 law change show a positive and statistically significant restatement effect during our sample period. Table 8 also shows that the abnormal restatement activity is strongest among firms that incorporate in Nevada in the early 2000s, near the time of the 2001 amendment to the law. This can be seen by noting that *Age* (firm age since the IPO) is positive and significant in the 1987–2001 IPO sample but negative and significant in the post-2001 sample. Indeed, the post-2001 sample of Nevada IPOs shows no significant restatement effect once we control for age.[19] In sum, the sub-period results suggest that firms incorporating in Nevada after 1987 are different—in terms of their propensity for having to restate their financial results—from firms that incorporated prior to 1987.

---

[19] The post-2001 results could also be weaker because the sample size is small and young. The post-2001 IPO firms have not been around as long to observe potential restatements of financial disclosures.

Of course, the types of firms attracted to Nevada following the 1987 law change could be more susceptible to the influence of lax law than firms incorporating prior to 1987, but the law might still have a causal effect on these firms, particularly if there are potential benefits for management to engage in more risky behavior once protected by the law. We explore this intuition in Table 9 using IV estimators and firm fixed effects.

We exploit the proximity of a firm's headquarters to Nevada—measured by whether the firm is headquartered in Nevada or a state that borders Nevada (Arizona, California, Idaho, Oregon, or Utah)—as an instrument for Nevada incorporation, and repeat the regressions of Table 6 using two-stage least squares (2SLS).[20] Headquarter proximity is a good potential instrument if firms with headquarters close to Nevada are more likely to incorporate in Nevada than firms that are located far away from the states. Headquarter location should be uncorrelated with the likelihood that a firm is forced to restate financials.

The first four columns of Table 9 are devoted to reporting estimates from both stages of the two-stage least squares IV regressions. The first stage shows that firms headquartered in Nevada and in states that border Nevada, captured by the dummy variable *NV Neighbor,* are positive and strongly related to the likelihood of incorporating in Nevada. The second stage shows that the estimate associated with the instrumented Nevada incorporation dummy is positive, with a magnitude close to what is observed in Table 6. For the specification containing controls for firm profitability, size, leverage, riskiness (Tobin's q), and age, the instrumented *NV Corp* is positive and significant at the 5% level. However, when other controls are added to the 2SLS specification, including whether the firm is exchange-listed and audited by a Big-4 auditor,

[20] Although we do not report the statistics in Table 8, tests for the "strength" of the headquarter proximity instrument suggest that is a good instrument. Stock and Yogo (2005) tests reject the null hypothesis of weak instruments at all simulated size levels, although this test is not well specified when errors are heteroscedastic. First-stage *F*-tests and *t*-stats on the excluded variable that account for firm-level clustering of errors—a more robust test—also easily reject the null hypothesis of weak instruments.

the significance of *NV Corp* disappears, although the magnitude of the estimate is still large. To the extent that *NV Neighbor* is a valid excluded instrument, the 2SLS results in Table 9 provide some support for the idea that Nevada lax law has some causal effect on firm behavior.

The last two columns of Table 9 incorporate firm fixed effects into the original Table 6 regressions. Once we account for firm fixed effects, the only variation in *NV Corp* arises from reincorporations in and out of Nevada. Thus, the coefficient on *NV Corp* with firm fixed effects will reflect the impact of moving to (from) Nevada on a firm's restatement behavior. Because relatively few firms reincorporate following their IPO, the firm fixed effects regressions have low statistical power to detect changes in firm behavior. For these regressions, the estimates on *NV Corp* are negative but indistinguishable from zero.

A different approach to examining causation is to observe which firms are more likely to incorporate in Nevada as a function of their headquarter state. Firms headquartered in a state that already offers strong protections to managers should be less likely to choose Nevada than firms from states with weak protections for managers. Firms from high-management protection states that value this protection will tend to incorporate at home, while firms from these states seeking strong shareholder protections will tend to select Delaware to incorporate.

Panel A of Table 10 reports how firms headquartered in states deemed to have "extreme" pro-management statutes—Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia—select to incorporate in Nevada, Delaware, and other states. The Pennsylvania and Ohio "disgorgement statutes" and Massachusetts "staggered board statute" have been shown by Subramanian (2002) to be a primary reason that firms seeking stronger shareholder protections leave these states to incorporate in Delaware, while Maryland and Virginia have, within the past decade, adopted a strong anti-takeover statute that allows the use of a "slow/dead hand pill" (Barzuza 2009). Panel

A shows that firms from the extreme states that incorporate out of state are roughly 50% more likely to choose Delaware than Nevada (15% choose Delaware, compared with 8–10% that select Nevada), consistent with the idea that firms from these states have less incentive to seek out the lax laws of Nevada.

Panel B of Table 10 attempts to quantify more carefully the patterns observed in Panel A by specifying a multinomial model that allows a firm to choose to be incorporated in its home state versus Delaware, Nevada, or another out-of-state venue as a function of firm characteristics and the strength of the pro-management laws in the home state. To do so, we define a dummy variable that equals one when a firm is headquartered in one of the five extreme states. (We also examine an extreme-state dummy that includes only Massachusetts, Ohio, and Pennsylvania.) We separately include the anti-takeover index proposed by Bebchuk and Cohen (2003) that ranges from 0 to 5, with 5 indicating strong protections for managers against hostile takeovers.

The multinomial estimates in Panel B confirm the findings in Panel A that firms from extreme-statute states are less likely to choose Nevada and more likely to select Delaware, compared with their home state. The patterns are consistent with the idea that firms self-select Nevada as a state of incorporation when seeking protections for management that are unavailable in their home state.

3.4 Tobin's q regressions

While the results above suggest that Nevada firms adopt more aggressive accounting procedures that lead to high restatement activity, the effect of lax law on firm value and performance is unclear. The decision by a firm to incorporate in Nevada could endogenously be determined, given characteristics of the firm (Hermalin and Weisbach 1998, 2003; Adams, Hermalin, and Weisbach 2010). Managers of some companies may feel that strict corporate law

impinges on their ability to make creative, value-increasing decisions. In particular, value-maximizing managers of high-risk, high payoff companies could eschew a strong corporate-law state such as Delaware if they assess the downside risks of liability-related litigation to be high. Value-maximizing managers may also seek out Nevada to reduce the costs associated with frivolous lawsuits.

To explore the valuation implications for residing in Nevada and measure the impact of restatements on this value, Table 11 reports results of Tobin's q regressions on Nevada, Delaware, and restatement dummy variables, along with a set of control variables. The methodology is similar to that employed by Daines (2001), Gompers, Ishii, and Metrick (2003), Subramanian (2004), and Bebchuk, Cohen, and Ferrell (2009), among others.

The first thing to note from the regressions in Table 11 is that we document a "Delaware effect" on Tobin's q consistent with Daines (2001). The Delaware indicator variable is positive and significant at the 1% level, and suggests that Delaware firms have a Tobin's q that is about 30% higher than that of firms incorporated in other states (measured at the median Tobin's q for other states), holding constant our controls. In contrast, the Nevada dummy is not statistically different from zero, except in the third specification, where the Nevada dummy is also interacted with whether or not a restatement occurred in the last period. While the coefficient estimate on the Nevada dummy is large and of the same magnitude as the Delaware estimate, the Nevada effect on Tobin's q is measured with a large amount of error. Simply put, values of the Nevada firms are too "noisy" to distinguish their value from other states.

When we add an indicator variable for whether or not a firm restated its financials in the prior year ($Restatements_{t-1}$), as in column (2), we find that firms that restate financials are significantly less valuable than comparable other firms. The coefficient in column (2) of –0.235

implies that firms restating in the previous year have values that are about 18% lower than non-restating firms, measured at a median Tobin's q of 1.5. However, when the incidence of a restatement is interacted with the Nevada incorporation dummy in column (3), the coefficient is small and statistically insignificant. We do see that the coefficient estimate on the non-interacted *NV Corp* becomes significant, suggesting that Nevada firms that are not forced to restate their financials may receive some positive valuation benefit. Overall, to the degree that these Tobin's q specifications are informative, we are unable to uncover a valuation effect—positive or negative—among Nevada firms that are forced to restate their financial disclosures.

A different way to study the valuation consequences of restatement activity in Nevada is to examine the announcement effect of restatements on the stock prices of restating firms. We use the restatement disclosure dates from Audit Analytics and CRSP daily stock price data to compute average one- to three-day cumulative abnormal returns (CARs) from a standard market-model regression. In unreported results, we find that Nevada firms experience negative and statistically significant wealth losses around the disclosure of restatements, with average CARs on the order of –2% over a three-day event window. But these wealth losses are similar in magnitude to losses experienced by restating firms incorporated in other states, including Delaware. To the extent that holding equity in a firm likely to restate financials increases the chance of experiencing these losses, Nevada firms can impose costs on the investors interested in holding their equity.[21]

[21] A third approach to studying the valuation consequences of incorporating in Nevada would be to examine the long-term return performance of Nevada-incorporated firms along the lines of Gompers, Ishii, and Metrick (2003) and Bebchuk, Cohen, and Ferrell (2009). We do not attempt such a study here. However, Torous (2013) shows that firms scoring poorly on the GMIRatings AGR scale have long-term stock performance that is significantly lower that firms with high AGR scores, suggesting that the long-term performance of Nevada firms might be lower than their less aggressive peers in other states.

4. Conclusion

This paper finds that firms incorporated in Nevada, the state second only to Delaware in attracting out-of-state incorporations, have a large and significant likelihood of reporting financial results that later require restatement. Compared with Delaware and other states, restatement likelihoods for Nevada-incorporated firms are nearly double on an unconditional basis, and 30–40% higher when controlling for firm-level characteristics. Our results suggest that lax Nevada law attracts firms that are prone to financial reporting failures. Nevada appears particularly attractive to firms from headquarter states that have laws that are less management-friendly than Nevada.

We posit that these firms endogenously select to incorporate in Nevada because of the state's strong liability protections for managers and board members. Nevada exploits the heterogeneity in firm's preferences for governance to effectively compete with Delaware to attract a given type of firm to its state. To the extent that such reporting failures proxy for higher agency costs, our findings indicate that firms may self-select a legal system that matches their desirable level of private-benefit consumption, and that Nevada competes to attract firms with higher agency costs. But because Nevada firms do not appear to be valued lower, on average, than other firms, it is also possible that some firms choose Nevada to save on costs of frivolous lawsuits, or simply seek out the lower incorporation tax in Nevada.

References

Adams, R. B., B. E. Hermalin, and M. S. Weisbach. 2010. The role of boards of directors in corporate governance: A conceptual framework and survey. *Journal of Economic Literature* 48:58–107.

Anderson, K. L., and Yohn, T. L. 2002. The effect of 10K restatements on firm value, information asymmetries, and investors' reliance on earnings. Working Paper, available at http://ssrn.com/abstract=332380.

Arlen, J. H., and W. J. Carney. 1992. Vicarious liability for fraud on securities market: Theory and evidence. *University of Illinois Law Review,* 691–740.

Baber, W. R., S.-H. Kang, L. Liang, and Z. Zhu. 2013. External corporate governance, and misreporting. Working Paper, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=760324

Bar-Gill, O., M. Barzuza, and L. A. Bebchuk. 2006. The market for corporate law. *Journal of Institutional and Theoretical Economics* 162:134–71.

Bar-Gill, O., and L. A. Bebchuk. 2002. Misreporting corporate performance. Harvard Olin Discussion Paper No. 400.

Barzuza, M. 2009. The state of state antitakeover law. *Virginia Law Review* 95:1973–2052.

———. 2012. Market segmentation: The rise of Nevada as a liability-free jurisdiction. *Virginia Law Review* 98:935–1000.

Bebchuk, L. A. 1992. Federalism and the corporation: The desirable limits on state competition in corporate law. *Harvard Law Review* 105:1435–1510.

Bebchuk, L. A., and A. Cohen. 2003. Firms' decisions where to incorporate. *Journal of Law and Economics* 46:383–91.

Bebchuk, L. A., A. Cohen, and A. Ferrell. 2009. What matters in corporate governance? *Review of Financial Studies* 22:783–827.

Bebchuk, L. A., and A. Ferrell. 2001. Federalism and takeover law: The race to protect managers from takeovers. In D. Esty and D. Geradin (Eds.), *Regulatory Competition and Economic Integration,* 68–94. Oxford: Oxford University Press.

Bebchuk, L. A., and A. Hamdani. 2002. Vigorous race or leisurely walk: Reconsidering the competition over corporate charters. *Yale Law Journal* 112:553–615.

Burns, N., and S. Kedia. 2006. The impact of performance-based compensation on misreporting. *Journal of Financial Economics* 36:35–57.

Cary, W. L. 1974. Federalism and corporate law: Reflections upon Delaware. *Yale Law Journal* 83:663–705.

Coffee, J. C. 2005. A theory of corporate scandals: Why the U.S. and Europe differ. *Oxford Review of Economic Policy* 21:198–211.

Daines, R. M. 2001. Does Delaware law improve firm value? *Journal of Financial Economics* 62: 525–58.

Donelson, D. C., and C. G. Yust. Forthcoming. Litigation risk and agency costs: Evidence from Nevada corporate law. *Journal of Law and Economics*.

Easterbrook, F. H., and D. R. Fischel. 1991. *The economic structure of corporate law.* Cambridge, MA: Harvard University Press.

Efendi, J., A. Srivastava, and E. P. Swanson. 2007. Why do corporate managers misstate financial statements? The role of option compensation and other factors. *Journal of Financial Economics* 85:667–708.

Ettredge, M., K. R. Smith, S. Scholz, and L. Sun. 2010. How do misstatements begin? Evidence of Biased financial reporting preceding misstatements. *Journal of Business Finance and Accounting* 37:332–55.

Files, R., E. P. Swanson, and S. Y. Tse. 2009. Stealth disclosure of accounting statements. *Accounting Review* 84:1495–1520.

GMIRatings. 2012. Eyes wide shut: Behind the masks of accounting fraud. Research Report, available at http://www3.gmiratings.com/home/2012/11/eyes-wide-shut-behind-the-masks-of-accounting-fraud-2/.

Gompers, P., J. Ishii, and A. Metrick. 2003. Corporate governance and equity prices. *Quarterly Journal of Economics,* 107–55.

Gordon, J. N. 2003. Governance failures of the enron board and the new information order of Sarbanes-Oxley. *Connecticut Law Review* 35:1125–46.

Heckman, J., H. Ichimura, J. Smith, and P. Todd. 1998. Characterizing selection bias using experimental data. *Econometrica* 66:1017–98.

Hermalin, B. E., and M. S. Weisbach. 1998. Endogenously chosen boards of directors and their monitoring of the CEO. *American Economic Review* 88:96–118.

———. 2003. Boards of directors as an endogenously determined institution: A survey of the economic literature. *Economic Policy Review* 9:7–26.

Hribar, P., and N. T. Jenkins. 2004. The effect of accounting restatements on earnings revisions and the estimated cost of capital. *Review of Accounting Studies* 9:337–56.

Kahan, M., and E. Kamar. 2002. The myth of state competition in corporate law. *Stanford Law Review* 55:697–749.

Palmrose, Z., V. Richardson, and S. Scholz, S. 2004. Determinants of market reactions to restatement announcements. *Journal of Accounting and Economics* 37:59–90.

Plumlee, M., and T. L. Yohn. 2010. An analysis of the underlying causes attributed to restatements. *Accounting Horizons* 24:41–64.

Ritter, J. 2013. Initial public offerings: Updated statistics. University of Florida, manuscript available at http://bear.warrington.ufl.edu/ritter/IPOs2013Statistics.pdf.

Romano, R. 1985. Law as a product: Some pieces of the incorporation puzzle. *Journal of Law, Economics, and Organization* 1:225–83.

———. 1993a. *The genius of American corporate law.* Washington, D.C.: AEI Press.

———. 1993b. Competition for corporate charters and the lesson of takeover statutes. *Fordham Law Review* 61:843–64.

———. 2001. The need for competition in international securities regulation. *Theoretical Inquiries in Law* 2:387–562.

Rosenbaum, P. R., and D. B. Rubin. 1983. The central role of the propensity score in observational studies for causal effects. *Biometrika* 70:41–55.

Siegel, J. I., and Y. Wang. 2013. Cross-border reverse mergers: Causes and consequences. Harvard Business School Strategy Unit, Working Paper No. 12-089.

Subramanian, G. 2002. The influence of antitakeover statutes on incorporation choice: Evidence on the "race" debate and antitakeover overreaching. *University of Pennsylvania Law Review* 150:1795–1873.

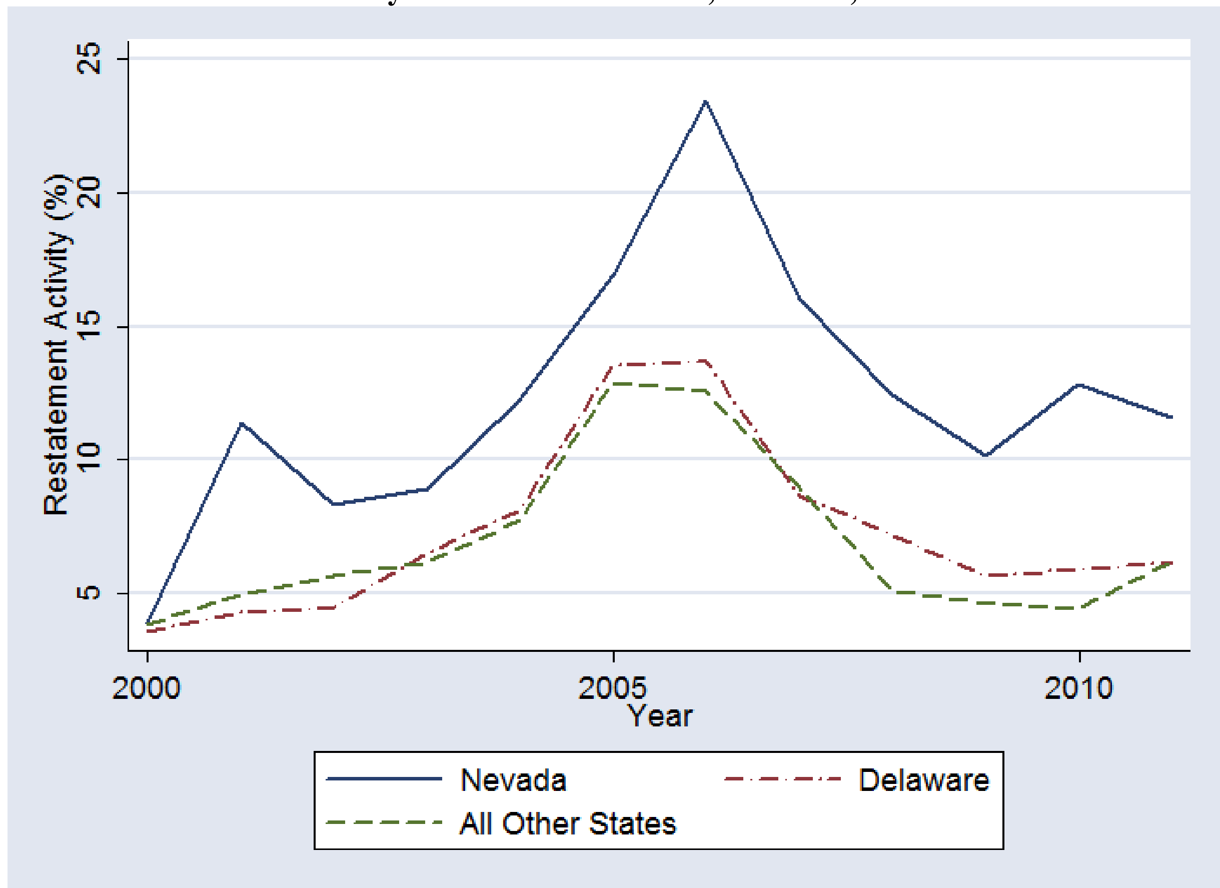
———. 2004. The disappearing Delaware effect. *Journal of Law, Economics, and Organization* 20:32–59.

Stock, J. H., and M. Yogo. 2005. Testing for weak instruments in linear IV regression. In D. W. K. Andrews, J, Stock, and T. Rothenberg (Eds.), *Identification and inference for econometric models: Essays in honor of Thomas Rothenberg,* 80–108. Cambridge: Cambridge University Press.

Torous, W. 2013. The AGR anomaly: Corporate governance and the mispricing of U.S. stocks. UCLA Working Paper.

Winter, R. K. 1977. Shareholder protection and the theory of the corporation. *Journal of Legal Studies* 6:251–92.

Figure 1
Financial restatement activity 2000–2011 for Nevada, Delaware, and other states



This figure compares financial annual restatement activity by graphing the annual percentage of publicly traded firms incorporated in Nevada, Delaware, and other states that report at least one restatement of their financial activities. Data on financial restatements are from Audit Analytics for the years 2000 through 2011. The number of publicly traded firms incorporated in each state is based on firms listed in Compustat during the same period.

Table 1
Number of 2011 public firm incorporations and out-of-state incorporations, by state

State	Number of Incorporations	Number of Out-of-State Incorporations	Proportion of Out-of-State Incorporations (%)
Delaware (DE)	2,251	2,242	83.31
Nevada (NV)	253	216	8.03
Maryland (MD)	51	41	1.52
New York (NY)	95	26	0.97
Colorado (CO)	47	24	0.89
Florida (FL)	71	14	0.52
New Jersey (NJ)	39	14	0.52
Virginia (VA)	39	13	0.48
Pennsylvania (PA)	58	12	0.45
Indiana (IN)	29	8	0.30
Minnesota (MN)	77	8	0.30
Utah (UT)	22	8	0.30
Washington (WA)	33	7	0.26
Ohio (OH)	59	6	0.22
California (CA)	76	5	0.19
Massachusetts (MA)	44	5	0.19
Wisconsin (WI)	36	5	0.19
Missouri (MO)	20	4	0.15
Georgia (GA)	24	3	0.11
Iowa (IA)	7	3	0.11
North Carolina (NC)	19	3	0.11
Oregon (OR)	21	3	0.11
Texas (TX)	60	3	0.11
Idaho (ID)	5	2	0.07
Kansas (KS)	8	2	0.07
Tennessee (TN)	16	2	0.07
Alaska (AK)	2	1	0.04
Arizona (AZ)	8	1	0.04
Connecticut (CT)	12	1	0.04
Louisiana (LA)	8	1	0.04
Michigan (MI)	30	1	0.04
Montana (MT)	4	1	0.04
North Dakota (ND)	3	1	0.04
Nebraska (NE)	3	1	0.04
Oklahoma (OK)	11	1	0.04
Rhode Island (RI)	5	1	0.04
South Carolina (SC)	4	1	0.04
Wyoming (WY)	2	1	0.04
Alabama (AL)	1	0	0.00

Arkansas (AR)	1	0	0.00
Hawaii (HI)	1	0	0.00
Illinois (IL)	11	0	0.00
Kentucky (KY)	3	0	0.00
Mississippi (MS)	1	0	0.00
New Hampshire (NH)	1	0	0.00
New Mexico (NM)	1	0	0.00
South Dakota (SD)	3	0	0.00
Vermont (VT)	1	0	0.00
West Virginia (WV)	1	0	0.00
District of Columbia (DC)	0	0	0.00
Maine (ME)	0	0	0.00
Puerto Rico (PR)	0	0	0.00
All states	3,577	2,691	100.00

This table reports the total number of incorporations in 2011 of publicly traded firms in each state, the number of these incorporations that are by firms headquartered in a different state, and the proportion of all out-of-state incorporations incorporate in each state. The sample reports all publicly traded U.S. firms reporting state-of-incorporation information in Compustat as of 2011.

Table 2
Nevada incorporations, 1990–2011

Year	Compustat Firms in Nevada	Compustat Firms in Nevada as % of All Compustat Firms	New Nevada Firms	New Nevada Firms as % of All New Compustat Firms	Reincorporations to Nevada	Reincorporations from Nevada	Exiting Nevada Firms	Exiting Nevada Firms as % of all Exiting Compustat Firms
1990	124	3.7%	--	--	--	--	--	--
1991	121	3.5%	11	2.8%	--	--	11	4.0%
1992	120	3.3%	11	2.2%	--	--	7	3.0%
1993	128	3.1%	24	3.9%	--	--	6	3.1%
1994	147	3.2%	28	4.6%	--	--	10	3.8%
1995	167	3.4%	21	3.0%	--	--	7	2.3%
1996	196	3.7%	29	3.3%	--	--	5	1.5%
1997	192	3.6%	14	2.6%	--	--	13	2.7%
1998	203	4.0%	24	5.7%	--	--	14	2.5%
1999	262	5.0%	71	11.2%	--	--	14	2.3%
2000	319	6.2%	72	12.7%	3	2	16	2.4%
2001	328	6.9%	51	20.4%	1	1	35	5.2%
2002	323	7.2%	38	20.9%	8	2	38	7.4%
2003	330	7.7%	31	21.4%	0	1	27	5.8%
2004	320	7.5%	12	5.7%	2	2	22	6.2%
2005	304	7.4%	16	8.3%	4	5	30	8.0%
2006	303	7.6%	18	7.5%	3	3	24	6.6%
2007	305	7.7%	28	10.9%	2	0	35	8.4%
2008	288	7.6%	23	16.4%	2	1	45	10.3%
2009	271	7.6%	18	18.6%	0	1	38	10.4%
2010	269	8.0%	26	18.2%	0	0	34	9.7%
2011	254	7.9%	25	15.4%	0	1	41	11.2%
1990–2011 Average	240	5.7%	33	9.9%	1.1	0.9	22	5.7%

This table reports the number and frequency of Compustat firms with at least rudimentary financial data on assets and profitability that appear as Nevada-incorporated firms during the period 1990 to 2011. A new firm is a firm that appears on Compustat for the first time. A firm exits when it is dropped from Compustat. Reincorporations are collected from Mergent starting in 2000 and occur when a firm switches its state of incorporation after appearing on Compustat (states of incorporation listed in Compustat are only for the current year of the dataset).

Table 3
Accounting restatement and aggressiveness activity in Nevada, Delaware, and other states

Panel A: Average proportion of firms requiring financial restatement each year, by type of restatement

State	Nevada	Delaware	All Other States
All restatements	12.5%	7.4%	7.0%
Lower reported net income	10.8%	6.3%	6.0%
Fraud allegations or investigation by regulators	1.2%	0.7%	0.7%
Total firm/year observations	3,557	34,093	18,883

Panel B: Distribution of average GMIRatings accounting and governance ratings (AGR)

Rating	Nevada	Delaware	All Other States
Very aggressive	10.1%	6.8%	8.4%
Aggressive	30.0%	23.4%	23.4%
Average	50.1%	56.4%	51.5%
Conservative	9.9%	13.4%	16.7%
Total firm/year observations	1,218	21,165	14,139

This table compares measures of financial restatement activity and accounting aggressiveness among sample firms incorporated in Nevada, Delaware, and all other states. Panel A reports the average annual proportion of sample firms that restate financials at least once in a year, including the frequency of all restatements, only those restatements that lead to lower reported net income, and only those restatements that lead to an allegation of fraud or an investigation by regulatory authorities. The restatement data are from Audit Integrity. Panel B reports the distribution of ex ante measures of accounting and governance aggressiveness for a subset of the sample, as computed by GMIRatings. The scale is based on a proprietary analysis of financial reporting activity of publicly traded firms and measures the overall risk of potentially fraudulent or misleading accounting and governance activity. All data are for the years 2000 to 2011.

Table 4
Financial characteristics of sample firms: Nevada, Delaware, and all other states

	N	Mean	SD	25% Quartile	Median	75% Quartile
<u>Nevada</u>						
Tobin's q	2,271	2.12	2.42	0.85	1.46	2.97
Profitability	2,475	–0.21	0.43	–0.38	–0.04	0.10
Leverage	3,319	0.24	0.28	0.01	0.13	0.39
Log MVA	2,761	3.62	1.87	2.18	3.19	4.54
Age	1,731	13.03	10.00	5.00	11.00	18.00
Big-4 Auditor	3,373	0.18	0.39	0.00	0.00	0.00
Exchange-Listed	3,557	0.28	0.45	0.00	0.00	1.00
Insider > 15%	3,557	0.14	0.35	0.00	0.00	0.00
Institutional > 15%	3,557	0.02	0.13	0.00	0.00	0.00
<u>Delaware</u>						
Tobin's q	28,561	2.28	1.93	1.12	1.70	2.85
Profitability	30,098	–0.02	0.29	–0.06	0.08	0.14
Leverage	31,415	0.22	0.26	0.00	0.12	0.35
Log MVA	28,641	5.54	1.95	4.07	5.67	7.05
Age	29,096	15.00	14.86	5.00	11.00	19.00
Big-4 Auditor	32,089	0.69	0.46	0.00	1.00	1.00
Exchange Listed	34,093	0.75	0.43	0.00	1.00	1.00
Insider > 15%	34,093	0.12	0.32	0.00	0.00	0.00
Institutional > 15%	34,093	0.07	0.26	0.00	0.00	0.00
<u>All Other States</u>						
Tobin's q	15,924	2.03	1.74	1.06	1.51	2.44
Profitability	16,172	0.02	0.25	0.01	0.09	0.15
Leverage	17,375	0.23	0.25	0.01	0.14	0.37
Log MVA	15,632	5.12	2.05	3.44	5.10	6.75
Age	16,076	22.18	17.31	10.00	18.00	31.00
Big-4 Auditor	17,419	0.59	0.49	0.00	1.00	1.00
Exchange Listed	18,883	0.72	0.45	0.00	1.00	1.00
Insider > 15%	18,883	0.13	0.33	0.00	0.00	0.00
Institutional > 15%	18,883	0.05	0.22	0.00	0.00	0.00

This table presents summary statistics on financial characteristics of the firms in our sample, grouped by whether they are incorporated in Nevada, Delaware, or all other states. We define *Tobin's q* to be the ratio of the market value of assets to book value of assets; *Profitability* to be the ratio of earnings before interest, taxes, depreciation, and amortization to the market value of assets; *Leverage* to be the book value of interest-bearing debt divided by the market value of assets, *Log MVA* to be the natural logarithm of the market value of assets (book value of interest-bearing debt plus market value of equity), *Age* to be the

number of years the firm has been publicly listed, *Big-4 Auditor* to be a dummy variable set to one when a firm uses one of the Big-4 auditing firm (Deloitte & Touche LLP, PricewaterhouseCoopers LLP, Ernst & Young LLP, or KPMG LLP), and *Exchange Listed* to be a dummy variable equal to one when a firm is listed on the NYSE, AMEX, or Nasdaq. *Insider > 15%* and *Institutional > 15%* are indicator variables that equal one when an insider (executive managers and board members) or institution owns more than 15% of the outstanding shares of a company. The ownership dummy variables are calculated using information from SEC 13(f) filings collected by Thomson Reuters. The sample contains all Compustat firms that have at least four consecutive years of data on *Tobin's q, Profitability,* and *Log MVA*. We control for the influence of outliers by trimming the top and bottom 5% of observations for *Tobin's q, Profitability, Log MVE,* and *Log MVA*. *N* refers to the number of firm-year observations.

Table 5
Ownership and governance characteristics of sample firms: Nevada, Delaware, and all other states

RiskMetrics Governance Characteristics	Nevada	Delaware	All Other States
Gompers, Ishii, Metrick (2002) G-Index	10.26	8.72	9.54
Bebchuk, Cohen, and Farrell (2007) E-Index	2.14	2.22	2.25
Components of E-Index (proportion of firms with protection in bylaws)			
Classified board	54.1%	58.3%	59.9%
Limit ability to amend bylaws	27.0%	24.2%	17.3%
Limit ability to amend charter	3.4%	1.6%	3.9%
Supermajority to approve merger	16.9%	13.8%	18.7%
Poison pill	43.2%	55.9%	54.3%
Golden parachute	68.9%	68.3%	70.9%
Additional components of G-Index			
Blank check preferred	87.8%	93.3%	85.3%
Limit ability to call special meeting	43.2%	56.8%	29.8%
Limit ability to act by written consent	46.6%	54.1%	25.0%
Comp plan with change in control	60.1%	72.6%	73.4%
Cumulative voting	9.5%	6.1%	14.3%
Secret ballot	0.0%	0.0%	0.0%
Unequal voting rights	0.0%	1.5%	1.7%
Executive severance agreement	4.1%	7.5%	5.4%
Anti-greenmail	0.0%	2.8%	4.5%
Fair price	13.5%	20.0%	24.6%
Pension parachute	0.0%	0.9%	1.0%
Business combination law	100.0%	99.2%	80.1%
Cashout law	0.0%	0.0%	7.7%
Director's duties law	0.0%	0.1%	10.5%
Director indemnification	31.8%	15.3%	25.8%
Indemnification contracts	34.5%	7.7%	7.6%
Director liability	48.0%	29.0%	41.3%

This table presents a summary of 2008 governance characteristics for the 1,500 sample firms that are tracked by the Investor Responsibility Research Center (IRRC). Statistics are computed by state of incorporation for Nevada, Delaware, and other states. The IRRC tracks indicators of corporate governance quality based a company's bylaws, charter, and state in which they are incorporated. The indicators follow the set of twenty-four variables used by Gompers, Ishii, and Metrick (2003) that, when summed, result in the study's G-Index. The E-Index includes only the six G-index components (classified

board, limited ability to amend bylaws, supermajority to approve merger, poison pill, and golden parachute) reported by Bebchuk, Cohen, and Farrell (2009) to explain long-run returns.

Table 6
Restatement regressions

Panel A: All restatements

	(1) Basic Controls with Age	(2) Industry Fixed Effects with Age	(3) Year Fixed Effects with Age	(4) Basic Controls, No Age	(5) Industry Fixed Effects, No Age	(6) Year Fixed Effects, No Age
NV Corp	0.234***	0.230***	0.226***	0.323***	0.310***	0.318***
	(0.0737)	(0.0733)	(0.0757)	(0.0586)	(0.0583)	(0.0600)
DE Corp	0.0464*	0.0527**	0.0419	0.0435*	0.0421*	0.0445*
	(0.0255)	(0.0255)	(0.0263)	(0.0241)	(0.0242)	(0.0248)
Big-4 Auditor	–0.0674**	–0.0654**	–0.0342	–0.0744***	–0.0735***	–0.0372
	(0.0274)	(0.0274)	(0.0293)	(0.0266)	(0.0266)	(0.0284)
Big4_NV	–0.0270	–0.0228	–0.0183	–0.118	–0.114	–0.0977
	(0.115)	(0.115)	(0.118)	(0.105)	(0.105)	(0.108)
NV HQ	0.0370	–0.0169	0.0314	0.0951	0.0521	0.0952
	(0.121)	(0.124)	(0.125)	(0.107)	(0.108)	(0.110)
Exchange Listed	–0.0995***	–0.100***	–0.0473	–0.125***	–0.124***	–0.0691**
	(0.0324)	(0.0325)	(0.0337)	(0.0308)	(0.0308)	(0.0320)
Institutional > 15%	–0.00161	–0.00477	–0.00212	–0.00211	–0.00412	–0.00351
	(0.0387)	(0.0386)	(0.0397)	(0.0379)	(0.0378)	(0.0388)
Insider > 15%	0.0660**	0.0580*	0.0835***	0.0482*	0.0380	0.0632**
	(0.0299)	(0.0299)	(0.0307)	(0.0288)	(0.0287)	(0.0295)
Profitability	–0.176***	–0.231***	–0.217***	–0.203***	–0.249***	–0.244***
	(0.0529)	(0.0541)	(0.0545)	(0.0483)	(0.0492)	(0.0496)
Leverage	0.243***	0.235***	0.407***	0.223***	0.218***	0.374***
	(0.0461)	(0.0470)	(0.0482)	(0.0438)	(0.0445)	(0.0456)
Log MVA	0.0274***	0.0244***	0.00891	0.0266***	0.0252***	0.00716
	(0.00806)	(0.00812)	(0.00852)	(0.00762)	(0.00768)	(0.00806)
Tobin's q	–0.0126*	–0.0112	–0.0225***	–0.00465	–0.00396	–0.0125*
	(0.00710)	(0.00710)	(0.00740)	(0.00639)	(0.00640)	(0.00664)
Age	–0.00182**	–0.000807	–0.00264***			
	(0.000851)	(0.000872)	(0.000891)			
N	35,915	35,915	35,915	38,844	38,844	38,844

Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Panel B: Lower reported net income

	(1) Basic Controls with Age	(2) Industry Fixed Effects with Age	(3) Year Fixed Effects with Age	(4) Basic Controls, No Age	(5) Industry Fixed Effects, No Age	(6) Year Fixed Effects, No Age
NV Corp	0.241***	0.238***	0.242***	0.311***	0.300***	0.311***
	(0.0748)	(0.0744)	(0.0765)	(0.0594)	(0.0592)	(0.0607)
DE Corp	0.0387	0.0438*	0.0366	0.0350	0.0330	0.0364
	(0.0261)	(0.0261)	(0.0268)	(0.0246)	(0.0248)	(0.0252)
Big-4 Auditor	–0.0532*	–0.0525*	–0.0248	–0.0564**	–0.0566**	–0.0249
	(0.0284)	(0.0285)	(0.0302)	(0.0276)	(0.0276)	(0.0293)
Big4_NV	–0.0648	–0.0602	–0.0702	–0.149	–0.144	–0.143
	(0.118)	(0.118)	(0.121)	(0.108)	(0.108)	(0.111)
NV HQ	0.0796	0.00998	0.0777	0.128	0.0748	0.132
	(0.122)	(0.125)	(0.126)	(0.108)	(0.109)	(0.110)
Exchange Listed	–0.146***	–0.147***	–0.0951***	–0.164***	–0.163***	–0.109***
	(0.0330)	(0.0331)	(0.0342)	(0.0313)	(0.0314)	(0.0324)
Institutional > 15%	0.00365	0.00183	0.00548	0.00562	0.00485	0.00723
	(0.0402)	(0.0401)	(0.0412)	(0.0393)	(0.0392)	(0.0402)
Insider > 15%	0.0675**	0.0579*	0.0819***	0.0520*	0.0403	0.0641**
	(0.0310)	(0.0310)	(0.0317)	(0.0298)	(0.0298)	(0.0305)
Profitability	–0.148***	–0.217***	–0.192***	–0.181***	–0.239***	–0.223***
	(0.0547)	(0.0560)	(0.0561)	(0.0497)	(0.0507)	(0.0509)
Leverage	0.198***	0.193***	0.343***	0.196***	0.193***	0.331***
	(0.0477)	(0.0486)	(0.0496)	(0.0451)	(0.0459)	(0.0469)
Log MVA	0.0285***	0.0271***	0.0129	0.0256***	0.0253***	0.00937
	(0.00830)	(0.00836)	(0.00873)	(0.00783)	(0.00790)	(0.00824)
Tobin's q	–0.0106	–0.00850	–0.0201***	–0.00270	–0.00142	–0.0107
	(0.00734)	(0.00735)	(0.00763)	(0.00659)	(0.00661)	(0.00683)
Age	–0.00163*	–0.000680	–0.00214**			
	(0.000871)	(0.000893)	(0.000907)			
N	35,915	35,915	35,915	38,844	38,844	38,844

Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Panel C: Fraud allegations or investigation by regulators

	(1) Basic Controls with Age	(2) Industry Fixed Effects with Age	(3) Year Fixed Effects with Age	(4) Basic Controls, No Age	(5) Industry Fixed Effects, No Age	(6) Year Fixed Effects, No Age
NV Corp	0.397***	0.397***	0.408***	0.344***	0.328***	0.345***
	(0.129)	(0.130)	(0.133)	(0.107)	(0.108)	(0.110)
DE Corp	0.0145	0.0128	0.0183	0.0141	0.00639	0.0155
	(0.0534)	(0.0536)	(0.0549)	(0.0492)	(0.0498)	(0.0505)
Big-4 Auditor	–0.109*	–0.111*	–0.125*	–0.116**	–0.117**	–0.126**
	(0.0605)	(0.0608)	(0.0651)	(0.0579)	(0.0582)	(0.0624)
Big4_NV	–0.396	–0.376	–0.433	–0.348	–0.330	–0.369
	(0.257)	(0.259)	(0.267)	(0.244)	(0.245)	(0.254)
NV HQ	–0.257	–0.306	–0.223	–0.322	–0.342	–0.285
	(0.288)	(0.296)	(0.290)	(0.274)	(0.278)	(0.274)
Insider > 15%	–0.0315	–0.0251	–0.0108	–0.0300	–0.0224	–0.0114
	(0.0638)	(0.0639)	(0.0657)	(0.0611)	(0.0612)	(0.0627)
Institutional > 15%	0.121**	0.119**	0.0883	0.0928*	0.0906*	0.0469
	(0.0559)	(0.0562)	(0.0675)	(0.0541)	(0.0544)	(0.0646)
Exchange Listed	–0.130*	–0.140*	–0.0734	–0.152**	–0.163**	–0.0943
	(0.0736)	(0.0743)	(0.0759)	(0.0688)	(0.0693)	(0.0708)
Profitability	–0.0951	–0.137	–0.162	–0.0784	–0.109	–0.141
	(0.118)	(0.121)	(0.122)	(0.108)	(0.109)	(0.111)
Leverage	0.218**	0.214**	0.345***	0.193**	0.180*	0.314***
	(0.0999)	(0.102)	(0.105)	(0.0933)	(0.0953)	(0.0983)
Log MVA	0.0472**	0.0531***	0.0444**	0.0501***	0.0542***	0.0481***
	(0.0185)	(0.0188)	(0.0197)	(0.0172)	(0.0175)	(0.0182)
Tobin's q	0.000393	–0.000553	–0.00884	0.00250	0.00168	–0.00618
	(0.0157)	(0.0157)	(0.0165)	(0.0140)	(0.0141)	(0.0147)
Age	–0.00156	–0.000876	–0.00164			
	(0.00176)	(0.00182)	(0.00183)			
N	35,915	35,915	35,915	38,844	38,844	38,844

Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

This table reports estimates of the marginal effects of Nevada and Delaware incorporation dummy variables on the likelihood that a firm restates its accounting figures. Panel A reports regression results using all reported financial restatements, Panel B flags only those restatements that lead to a reduction in reported net income, and Panel C focuses only on restatements investigated for fraud or some other regulatory infraction. *NV Corp* is a dummy variable that equals one when a firm is incorporated in Nevada. *DE Corp* is a dummy variable that equals one when a firm is incorporated in Delaware. *NV HQ* equals one when a firm is headquartered in Nevada. From Compustat, we define Tobin's q to be the ratio of the market value of assets to book value of assets; *Profitability* to be the ratio of earnings before interest, taxes, depreciation, and amortization to the market value of assets; *Leverage* to be the book value of interest-bearing debt divided by the market value of assets; *Log MVE* to be the natural logarithm of the market value of equity (year-end stock price times number of shares outstanding); and *Log MVA* to be the natural logarithm of the market value of assets. *Age* is the number of years since the firm had a public IPO, according to the length of time it has been tracked by CRSP. From Thomson Reuters, we collect information on concentrated equity ownership and define *Insider > 15%* to be an indicator variable that

equals one when insiders own 15% or more of the outstanding equity. *Institutional > 15%* is an indicator variable that equals one when institutional investors own 15% or more of outstanding equity. Each panel reports specifications with and without *Age* and with and without industry and year fixed effects.

Table 7
Annual restatements of Nevada firms compared with *p*-matched Delaware firms

Panel A: Annual restatement frequencies of Nevada firms and *p*-matched Delaware firms

	Nevada			Delaware (*p*-matched sample)		
Year	Number of Firms That Restate	All Firms	Restatement Frequency (%)	Number of Firms with Restatement	All Firms	Restatement Frequency (%)
2000	7	133	5.3	10	133	7.5
2001	19	133	14.3	5	133	3.8
2002	13	130	10.0	11	130	8.5
2003	18	139	12.9	13	139	9.4
2004	22	149	14.8	19	149	12.8
2005	34	155	21.9	30	155	19.4
2006	38	151	25.2	27	151	17.9
2007	27	158	17.1	24	158	15.2
2008	16	147	10.9	14	147	9.5
2009	10	131	7.6	7	131	5.3
2010	16	126	12.7	7	126	5.6
2011	11	114	9.6	10	114	8.8
Avg.	19.25	138.8	13.5	14.75	138.8	10.3

Panel B: Tests for differences in restatement frequencies for Nevada and *p*-matched Delaware firms

Variable	Observations	Mean Restatement Frequency	Paired *t*-test	Wilcoxon Signed Rank Test
Nevada	12	13.5		
Delaware	12	10.3		
Difference	12	3.2	3.23	2.57
(*p*-value)			(0.008)	(0.010)

This table compares the financial restatement activities of Nevada firms to a set of Delaware firms that are matched annually to the Nevada firms via a propensity-score (*p*-matching) technique that chooses Delaware firms with propensity scores nearest to their Nevada counterparts. The propensity score is calculated as the fitted value from a probit model of the choice to incorporate in Nevada, where the right-hand side variables include firm size (*log MVA*), *Profitability, Leverage,* Tobin's q, and indicator variables for whether the firm is audited by a Big-4 auditor, exchange-listed, controlled by an institutional owner, and controlled by a management insider.

Table 8
Restatement regressions by IPO year

Variables	IPO Before 1987 Without *Age*	IPO Before 1987 with *Age*	IPO 1987–2001 Without *Age*	IPO 1987–2001 with *Age*	IPO After 2001 Without *Age*	IPO After 2001 with *Age*
NV Corp	0.127	0.123	0.278***	0.283***	0.111	0.125
	(0.156)	(0.156)	(0.100)	(0.100)	(0.166)	(0.150)
DE Corp	0.0516	0.0502	0.0279	0.0386	0.117	0.0879
	(0.0435)	(0.0435)	(0.0335)	(0.0336)	(0.0980)	(0.0921)
Big-4 Auditor	0.0356	0.0345	–0.0856**	–0.0582	–0.200**	–0.200**
	(0.0518)	(0.0518)	(0.0351)	(0.0357)	(0.0859)	(0.0812)
Big4_NV	–0.0367	–0.0356	0.0355	0.0412	0.0591	–0.0219
	(0.228)	(0.228)	(0.151)	(0.151)	(0.322)	(0.294)
NV HQ	0.0669	0.0602	–0.0864	–0.0966	0.238	0.173
	(0.222)	(0.222)	(0.171)	(0.171)	(0.317)	(0.295)
Insider > 15%	–0.0568	–0.0577	–0.125***	–0.124***	–0.150*	–0.127
	(0.0631)	(0.0631)	(0.0409)	(0.0411)	(0.0874)	(0.0950)
Institutional > 15%	–0.0355	–0.0345	-4.68e–05	–0.00648	0.0000	0.0214
	(0.0739)	(0.0739)	(0.0525)	(0.0526)	(0.0777)	(0.0918)
Exchange Listed	0.101*	0.100*	0.00587	0.0234	0.0438	0.114
	(0.0580)	(0.0580)	(0.0391)	(0.0393)	(0.113)	(0.0751)
Profitability	–0.448***	–0.450***	–0.219***	–0.252***	0.136	–0.0698
	(0.136)	(0.136)	(0.0682)	(0.0683)	(0.132)	(0.131)
Leverage	0.354***	0.358***	0.190***	0.196***	0.357**	0.220
	(0.0887)	(0.0889)	(0.0608)	(0.0609)	(0.144)	(0.136)
Log MVA	0.00876	0.0118	0.0395***	0.0346***	–0.0250	0.0221
	(0.0140)	(0.0147)	(0.0107)	(0.0108)	(0.0289)	(0.0263)
Tobin's q	0.00264	0.00127	–0.0207**	–0.0182**	–0.00629	–0.00114
	(0.0167)	(0.0168)	(0.00873)	(0.00875)	(0.0188)	(0.0171)
Age		–0.00109		0.0157***	0.111	–0.0515***
		(0.00165)		(0.00296)	(0.166)	(0.0124)
N	11,562	11,562	20,276	20,276	4,353	4,353

Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

This table repeats the regressions in Table 6 but splits the sample into segments (before 1987, 1987–2001, and after 2001) based on the year in which a company first appears on CRSP. We use a company's first appearance in CRSP as a measure of IPO year. The regressions also control for industry fixed effects. Each panel reports specifications with and without *Age*.

Table 9
Instrumental variables and firm fixed-effects regressions of restatement activity

	(1)	(2)	(3)	(4)	(5)	(6)
	First Stage of 2SLS (Basic Controls Only)	Second Stage of 2SLS (Basic Controls Only)	First stage of 2SLS (All Variables)	Second Stage of 2SLS (All Variables)	Firm Fixed Effects with Basic Controls	Firm Fixed Effects with Year Fixed Effects
NV Corp		0.2617**		0.4561	–0.0860	–0.457
		(0.1328)		(0.3336)	(0.6330)	(0.669)
NV Neighbor	0.0299***		0.0146***			
	(0.0023)		(0.0019)			
DE Corp					–0.278	–0.673*
					(0.3330)	(0.358)
Big-4 Auditor			–0.0490***	–0.3458	0.1690**	0.276***
			(0.0017)	(0.2866)	(0.0759)	(0.0844)
Insider > 15%			0.0016	0.0231***	0.0030	0.0690
			(0.0015)	(0.0037)	(0.0725)	(0.0754)
Institutional > 15%			–0.0097***	–0.0090	–0.0457	–0.0393
			(0.0018)	(0.0056)	(0.0949)	(0.0977)
Exchange Listed			–0.0183***	–0.0052		
			(0.0024)	(0.0082)		
Profitability	–0.0196	– 0.0281****	–0.0050	–0.0233***	–0.7470***	–0.7700***
	(0.0044)	(0.0076)	(0.0034)	(0.0087)	(0.1530)	(0.0017)
Leverage	0.0577***	0.0270***	0.0153***	0.0236***	0.0314	0.05990***
	(0.0038)	(0.0096)	(0.0031)	(0.0088)	(0.1410)	(0.1510)
Log MVA	–0.0098***	0.0039**	–0.0024***	0.0040**	0.1690***	0.0661*
	(0.0005)	(0.0016)	(0.0006)	(0.0016)	(0.0356)	(0.0396)
Tobin's q	0.0037***	–0.0018*	0.0017***	–0.0017	–0.0126	–0.0320*
	(0.0005)	(0.0011)	(0.0004)	(0.0012)	(0.0170)	(0.0183)
Age	–0.0002***	–0.0002*	–0.0002***	–0.0002		
	(0.0001)	(0.00)	(0.0001)	(0.0002)		
N	36,612	36,612	35,915	35,915	17,957	17,957

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

The table presents instrumental variables regressions using two-stage least squares (2SLS) and firm fixed-effects regressions of the marginal effects of Nevada and Delaware incorporation dummy variables on the likelihood that a firm restates its accounting figures. Both sets of regressions examine the causal effect of Nevada law on firm restatement activity. The excluded instrument in the first stage of the 2SLS is an indicator variable that equals one when a Nevada firm is headquartered in a "neighbor" state (Arizona, California, Idaho, Oregon, or Utah). The firm fixed-effect regressions exploit movement by firms in and out of Nevada as their state of incorporation on the impact of a Nevada incorporation.

Table 10
Selecting a state of incorporation as a function of home-state laws

Panel A: Percentage of firms incorporated in Nevada and Delaware that are from an extreme-statute state

	2001		2010	
Extreme-Statute State	NV	DE	NV	DE
Massachusetts	3.00%	2.30%	3.10%	2.40%
Maryland	1.50%	5.30%	1.00%	5.70%
Ohio	0.80%	1.70%	1.00%	2.00%
Pennsylvania	0.40%	1.80%	0.00%	1.80%
Virginia	4.60%	3.90%	3.10%	3.40%
Total	**10.30%**	**15.00%**	**8.20%**	**15.30%**

Panel B: Decision to incorporate in home state versus Nevada, Delaware, or another state

	Extreme-Statute State = MA, MD, OH, PA, VA			Extreme-Statute State = MA, OH, PA		
	DE	NV	Other	DE	NV	Other
Intercept	0.651 ***	-0.034	-0.746 ***	0.627 ***	-0.061	-0.751 ***
	(0.047)	(0.097)	(0.078)	(0.047)	(0.097)	(0.078)
Profitability	-1.807 ***	-1.542 ***	-0.919 ***	-1.820 ***	-1.562 ***	-0.924 ***
	(0.076)	(0.118)	(0.117)	(0.076)	(0.118)	(0.117)
Leverage	0.344 ***	1.599 ***	1.085 ***	0.332 ***	1.586 ***	1.085 ***
	(0.052)	(0.105)	(0.082)	(0.052)	(0.105)	(0.082)
Log MVA	0.156 ***	-0.383 ***	-0.083 ***	0.158 ***	-0.380 ***	-0.083 ***
	(0.007)	(0.017)	(0.012)	(0.007)	(0.017)	(0.012)
Tobin's q	0.061 ***	0.210 ***	0.078 ***	0.061 ***	0.210 ***	0.077 ***
	(0.009)	(0.015)	(0.014)	(0.009)	(0.015)	(0.014)
Extreme-Statute State	0.152 ***	-0.342 ***	-0.309 ***	0.003	-0.769 ***	-0.337 ***
	(0.033)	(0.108)	(0.065)	(0.036)	(0.136)	(0.071)
Anti-takeover index	-0.282 ***	-0.351 ***	-0.141 ***	-0.266 ***	-0.335 ***	-0.142 ***
	(0.008)	(0.017)	(0.014)	(0.008)	(0.017)	(0.013)

Panel A of this table reports the percentage of firms in Nevada and Delaware that are from “extreme-statute” states, defined as states with especially strong antitakeover and director protection laws. Panel B reports estimates from a multinomial logit model of the decision by firms to incorporate in their home state versus Nevada, Delaware, or another state. *Anti-takeover index* is the number of antitakeover statutes including in the headquarter-state corporate law, as recorded by Bebchuk and Cohen (2003). In the first specification, *Extreme-statute state* takes the value of one when the firm is headquartered in Massachusetts, Maryland, Ohio, Pennsylvania, or Virginia. Under the second specification, *Extreme-statute state* includes only Massachusetts, Ohio, and Pennsylvania.

Table 11
Tobin's q regressions

	(1)	(2)	(3)
	Basic Controls	With Lagged Restatement Variable	With Lagged Restatement and Interaction Variables
NV Corp	0.494	0.504	0.599*
	(0.337)	(0.337)	(0.345)
DE Corp	0.289***	0.290***	0.290***
	(0.0791)	(0.0791)	(0.0803)
NV HQ	0.448	0.443	0.444
	(0.559)	(0.558)	(0.557)
Insider > 15%	0.0779	0.0802	0.0781
	(0.0776)	(0.0776)	(0.0776)
Institutional > 15%	–0.0165	–0.0159	–0.0166
	(0.0836)	(0.0837)	(0.0837)
$Leverage_{t-1}$	–1.790***	–1.775***	–1.776***
	(0.157)	(0.156)	(0.156)
Log $Sales_{t-1}$	–0.167***	–0.167***	–0.166***
	(0.0317)	(0.0317)	(0.0317)
$Profitability_{t-1}$	0.458***	0.457***	0.457***
	(0.149)	(0.149)	(0.149)
Age	–0.00359	–0.00368	–0.00368
	(0.00262)	(0.00262)	(0.00262)
$Restatement_{t-1}$		–0.235***	–0.193
		(0.0812)	(0.120)
$Restatement_{t-1}$* NV Corp			–0.815
			(0.512)
$Restatement_{t-1}$*DE Corp			–0.00625
			(0.159)
N	36,500	36,500	36,500

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

This table reports estimates from regressions of Tobin's q on a set on Nevada and Delaware dummy variables, and whether or not a firm restated financials in the previous year, along with a set of control variables. We calculate Tobin's q using Compustat figures. It is defined to be the ratio of the market value of assets to book value of assets, where market value of assets is constructed by adding the book value of interest-bearing debt to the market value of equity (year-end stock price times number of shares outstanding). *NV Corp* is a dummy variable that equals one when a firm is incorporated in Nevada. *DE Corp* is a dummy variable that equals one when a firm is incorporated in Delaware. *NV HQ* equals one when a firm is headquartered in Nevada. Using Compustat, we define *Profitability* as the ratio of earnings before interest, taxes, depreciation, and amortization to the market value of assets; Leverage as the book value of interest-bearing debt divided by the market value of assets; *Log MVE* as the natural logarithm of the market value of equity; and *Log MVA* as the natural logarithm of the market value of assets. *Age* is the number of years since the firm has been publicly listed, according to the length of time it has been tracked by CRSP. From Thomson Reuters, we collect information on concentrated equity ownership and define *Insider > 15%* to be an indicator variable that equals one when insiders own 15% or more of the outstanding equity. *Institutional > 15%* is an indicator variable that equals one when institutional investors own 15% or more of outstanding equity. *Restatements* equals one when a firm restates its financials at least one time during the year. The subscript *t*–1 refers to the value of the variable, lagged one year relative to the dependent variable. Robust standard errors in parentheses.

Appendix Table A1

Significant differences between Nevada and Delaware corporate law

Panel A: Exposure for liability for breach of fiduciary duties

Breach	Delaware	Nevada
Intentional misconduct or knowing violation of law	Mandatory liability	Mandatory Liability
Duty of loyalty	Mandatory liability	No liability by default
Duty of good faith	Mandatory liability	No liability by default
Acting for improper personal benefit	Mandatory liability	No liability by default
Duty of care	Liability by default	No liability by default

Panel B: Judicial standards that apply to use of defensive tactics by management

Standard	Delaware	Nevada
General use of defensive tactics	*Unocal*	BJR
Use of defensive tactics when sale is inevitable	*Revlon*	BJR
Intervention in shareholder franchise	*Blasius*	*Unocal*

Appendix Table A2: Excerpts from SEC disclosures of Nevada restatements

Company Name, SEC Filing, SEC Filing Date, Industry	Excerpt from SEC Disclosure	Audit Analytics Restatement Reasons
Archon Corp., Annual Report (Form 10-K/A), at 50 (Mar. 1, 2004). Casino Hotels	"Subsequent to the issuance of the Company's consolidated financial statements for the year ended September 30, 2003, the Company determined that it had incorrectly classified $4.8 million in Cash Flows from Operating activities instead of Cash Flow from Financing activities; the Company also determined the need to record an additional $600,000 allowance for a certain note receivable from Duke's casino and other investment property; and determined that the accrual of undeclared preferred stock dividends within stockholders' equity was not correct. "As a result, the consolidated financial statements for the years ended September 30, 2003 and 2002 have been restated from the amounts previously reported to correct the classification of the cash flow item, to record the additional charge related to Duke's casino and other investment property and reverse the accrual of undeclared preferred stock dividends. ***"Delivery of Auditors' Report and Consent.*** Archon had previously been advised by its independent auditors Deloitte & Touche, LLP ('Deloitte') that Deloitte had not delivered an audit report in connection with the Company's financial statements for the fiscal year ended September 30, 2003 (the 'Audit Opinion') or the consent of Deloitte that was to have been filed as Exhibit 23.1 to the Form 10-K (the 'Consent'). At the time the Company filed its Form 10-K for the year ended September 30, 2003, which was filed on December 29, 2003 (the 'Form 10-K'), it was believed that the audit was complete, but the Company subsequently understood and acknowledged that Deloitte had not delivered either the Audit Opinion or the Consent at that time. As part of this Amendment No. 3 to	|Debt, quasi-debt, warrants & equity (BCF) security issues | Liabilities, payables, reserves and accrual estimate failures | Cash flow statement (SFAS 95) classification errors|

	Form 10-K, the Company hereby affirmatively reports that Deloitte has delivered its Audit Opinion and Consent. The Audit Committee of the Company's Board of Directors (the 'Audit Committee') investigated the circumstances surrounding the matter discussed above. On February 6, 2004, the Company's Senior Vice President, Chief Financial Officer, Treasurer, Secretary and Director resigned. On February 9, 2004, John M. Garner was appointed as Chief Financial Officer, Secretary and Treasurer."	
ATSI Communications Inc., Current Report (Form 8-K), at (Mar. 23, 2006). Cellular and Other Wireless Telecommunications The company reincorporated into Nevada at 2004	*"Item 4.02. Non-reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.* "On March 22, 2006, our board of directors determined that the previously-issued audited financial statements for the year ended July 31, 2005 and interim financial statements for the three months ended October 31, 2005 should not be relied upon because they do not reflect a net gain or benefit from certain embedded derivative securities issued by ATSI. The board of directors has reviewed the accounting treatment of the Company's convertible securities with the Company's independent accountants and intends to promptly amend and restate any affected financial statements previously filed with the Securities and Exchange Commission."	|Debt, quasi-debt, warrants & equity (BCF) security issues | Gain or loss recognition issues|
DealerAdvance Inc., Quarterly Report (Form 10-QSB/A), at 12 (Feb. 11, 2005). Software Publishers	"For the period ended September 30, 2004 the Company has taken the position of capitalizing the approximately $334,000 of debt issuance cost, relating to the Callable Secured Convertible Notes described in footnote 8, as a deferred charge. As a result, the Company has also recorded the beneficial conversion feature in the full amount of the outstanding note of $2,000,000. Both items will be amortized over the life of the loan of 3 years which is in accordance with EITF 00-27. The effects of this restatement for the three and nine month periods ended September 30, 2004 are listed below:"	|Debt, quasi-debt, warrants & equity (BCF) security issues | Capitalization of expenditures issues|

Global Diversified Industries Inc., Annual Report (Form 10-KSB), at F-31 (Aug. 17, 2005). Commercial and Institutional Building Construction	"The Company has restated its statement of operations for the year ended April 30, 2004 to correct the following errors in the financial statements previously filed: "The Company erroneously recorded as revenues the value of its work-in-process and finished goods inventories as of April 30, 2004. "The net effect of the correction of this error was to: "Decrease the Company's reported revenues for the year ended April 30, 2004 by $420,023 from $3,827,608 to $3,407,585. "Decrease the Company's reported cost of sales for the year ended April 30, 2004 by $420,023 from $2,560,877_to $2,140,854. "The correction of the error has resulted in no change in the Company's reported Consolidated Balance Sheet as of April 30, 2004 and Consolidated Statement of Cash Flows for the year ended April 30, 2004. "However, the restatement did affect the individual components of the Company's revenues and cost of sales as reported on its Consolidated Statement of Operations for the year ended April 30, 2004."	|Revenue recognition issues | Inventory, vendor and/or cost of sales issues|
Inuvo Inc., Annual Report (Form 10-KSB/A), at 18 (June 23, 2005). Custom Computer Programming Services	"As discussed in the Change in Financial Statement Presentation footnote, the Company changed the presentation of its balance sheet to offset the amount of the installment contracts receivable with the deferred revenue associated with the contracts to provide a net unbilled revenue amount. This change resulted in the reclassification of the Company's 2003 balance sheet but did not affect the Company's earnings or net worth."	|Fin Statement, footnote & segment disclosure issues|
Nevada Gold & Casinos Inc.,	"The Registrant's Form 10K for its fiscal year ended March 31, 2004 could not be filed within the prescribed	|Debt, quasi-debt, warrants & equity (BCF) security issues

Notification of Late Filing (Form NT 10-K), at 2 (June 30, 2004). Casino Hotels	time period without unreasonable effort or expense as a result of certain anticipated non-cash audit adjustments. These audit adjustments relate to the Registrant's prior credit facility, certain non-qualified options granted in the fiscal years ended March 31, 2000, March 31, 2001 and March 31, 2002 and their associated costs. On the date hereof, the Registrant has reached a settlement of a dispute with our primary creditor and has executed a new credit facility with such creditor. Our auditors reviewed the terms of the prior credit facility and determined that certain adjustments need to be reflected in prior periods to reflect an increase in the number of fully diluted shares outstanding and non-cash expenses related to the convertible debt portion of the prior credit facility and certain other non-qualified options granted in the fiscal years ended March 31, 2000, March 31, 2001 and March 31, 2002. Additionally, tax deductions to the Registrant in the estimated amount of approximately $4,400,000 related to the exercise of non-qualified options in the fiscal years ended March 31, 2002 and March 31, 2003 were not reflected in the financial statements for prior periods. Adjustments for this deduction will also be reflected in prior periods as an approximate $1,500,000 reduction in tax liability and a corresponding approximate $1,500,000 increase in shareholder equity.”	| EPS, ratio and classification of income statement issues | Acquisitions, mergers, disposals, re-org acct issues | Tax expense/benefit/deferral/other (FAS 109) issues|
Royalite Petroleum Co. Inc., Annual Report (Form 10-KSB), at 36 (Aug. 14, 2001). Crude Petroleum and Natural Gas Extraction	“Our balance sheet as at April 30, 2000 has been restated to reflect an adjustment of $79,750 which had been erroneously included in paid-up capital rather than shareholder loans. No other adjustments were necessary for this restatement.”	|Liabilities, payables, reserves and accrual estimate failures|
Tidelands Oil & Gas Corp., Quarterly Report (Form 10-Q), at 13 (Nov. 19, 2007).	“On November 14, 2007, the Board of Directors of the Company determined that the accounting treatment of certain options issued to its directors (the ‘Options’) originally reported on its (i) Quarterly Report of Form 10-Q for the three months ended March 31, 2007, and (ii)	|Deferred, stock-based and/or executive comp issues|

Support Activities for Oil and Gas Operations	Quarterly Report for the three and six months ended June 30, 2007 (the 'Prior Reports'), was incorrect and required revision. Therefore, the Board of Directors has determined that the financial statements in the Company's Prior Reports should not be relied upon and should be restated. "The adjustments to the Prior Reports listed below correct the accounting treatment of the Options to comply with the provisions of Financial Accounting Standards Board Statement No. 123 Share Based Payment (FAS 123(R)). FAS 123(R) was adopted by the Company on January 1, 2006; however, with respect to the Options, the Company inadvertently failed to record the appropriate expense for such Options in accordance with FAS 123(R)."	

Appendix Table A3
Distribution of firms by industry for Nevada, Delaware, and all other states

Industry Description	NAICS	Frequency (%)		
		NV	DE	Other States
Agriculture, Forestry, Fishing and Hunting	11	0.00	0.43	0.22
Mining, Quarrying, and Oil and Gas Extraction	21	15.50	5.26	4.54
Utilites	22	0.50	1.21	5.41
Construction	23	1.00	1.68	0.72
Manufacturing	31	2.50	3.24	4.54
Manufacturing	32	14.50	15.06	8.44
Manufacturing	33	20.00	25.80	25.02
Wholesale Trade	42	4.00	3.11	3.46
Retail Trade	44	2.00	2.59	3.46
Retail Trade	45	0.50	2.29	1.44
Transportation and Warehousing	48	4.00	2.55	1.80
Transportation and Warehousing	49	0.00	0.39	0.07
Information	51	8.50	11.04	6.27
Real Estate and Rental and Leasing	53	2.50	2.03	4.25
Professional, Scientific, and Technical Services Administrative and Support and Waste	54	4.50	4.83	3.24
Management and Remediation Services	56	3.50	2.29	1.59
Educational Services	61	0.00	0.56	0.50
Health Care and Social Assistance	62	5.00	1.94	1.37
Arts, Entertainment, and Recreation	71	3.50	0.69	0.65
Accommodation and Food Services	72	5.00	1.60	1.59
Other Services (except Public Administration)	81	0.00	0.30	0.50
NAICS 99 - Unclassified Establishments	99	3.00	1.21	1.01

This table presents the industry distribution in 2011 for Compustat firms incorporated in Nevada, Delaware, and all other states, using two-digit NAICS codes.