Lawyer Expertise and Contract Design –

Evidence from M&A Negotiations

Christel Karsten   Ulrike Malmendier   Zacharias Sautner

July 2019

ABSTRACT

Using proprietary data on private company acquisitions, we document significant variation in acquisition outcomes depending on the expertise of the negotiating parties. Lawyers with higher expertise relative to their counterparties negotiate better risk allocation for their clients and favorably affect target prices, after controlling for the deal environment, the quality of financial advisors, and other features of the contract design. The benefits of high expertise appear to outweigh its costs, largely because high-expertise lawyers economize on transaction costs by shortening negotiation times. Our findings help explain the importance of league tables and variation in legal fees in the M&A industry.

JEL Codes: D86, G34, K12

Conflict-of-Interest Disclosure Statement

Christel Karsten

"The law firm that provided the data had the right to review the manuscript prior to submission. This review was exclusively to ensure that the manuscript does not include information that reveal the identity of the parties included in the data. I have nothing else to disclose."

Ulrike Malmendier

"I have nothing to disclose."

Zacharias Sautner

"I have nothing to disclose."

The traditional analysis of mergers and acquisition has identified several key features of the economic environment that help explain deal outcomes, including financial constraints (Harford 1999), bargaining power (Moeller, Schlingemann, and Stulz 2004), and corporate governance (Masulis, Wang, and Xie 2007) among others. Recent work further shows that managerial traits and biases of top managers (Ishii and Xuan 2014; Krueger, Landier, and Thesmar 2015; Malmendier and Tate 2008) as well as financial advisors (Golubov, Petmezas, and Travlos 2012; Bao and Edmans 2011) exert significant influence on M&A outcomes.

In comparison, little attention has been paid to the parties negotiating and designing M&A contracts. The lawyers involved in M&A deals spend much time and effort on the details of the contracts. Their negotiation skills and legal knowledge are highly prized and intensely taught in law schools, and a large legal literature highlights the importance of these factors for explaining real-world contracts (Gilson and Mnookin 1995).

In this paper, we utilize a unique data set of 151 acquisition contracts for privately held targets to show that M&A contracting outcomes vary substantially depending on the relative expertise of the lawyers negotiating a deal.[1] Notably, lawyers with relatively more experience and better education negotiate contracts that benefit their clients by allocating more risks to their counterparties. More legal expertise relative to the other side is also associated with better target prices, controlling for the negotiated contract clauses. Further, more expertise seems to pay off financially despite higher legal fees, as high-expertise lawyers economize on transaction costs by

---

[1] Erel, Liao, and Weisbach (2012) show that the vast majority of company acquisitions target privately held firms.

shortening negotiation times. We argue that frictions in the assignment of lawyers appear to hinder the optimal allocation of lawyers to deals. Our analysis also includes a stylised theoretical model (and corresponding empirical tests) that show that relative expertise, not absolute expertise, determines surplus distribution via risk allocation since a high level of expertise on one side of the negotiations may neutralize an equally high level of expertise on the other side. Overall, relative lawyer expertise emerges as possibly making up one additional piece in the (continuing) puzzle of how to explain the long-term performance of acquisitions (Malmendier 2018).

To perform our analysis, we construct novel measures of contract-design outcomes based on legal textbooks and extended interviews of M&A lawyers. The goal of the measures is to capture deal outcomes that are economically important and can unambiguously be identified as favorable for one party or the other. The first three outcomes are contract clauses: knowledge qualifiers, materiality qualifiers, and material adverse change (MAC) clauses. Knowledge and materiality qualifiers allocate risks related to warranties. Both qualifiers are key clauses in M&A contracts (Freund 1975; Miller 2008) and attached to warranties, which are guarantee statements of the seller about the quality of the target. While warranties usually serve as signaling devices and help overcome asymmetric information, the qualifiers, instead, reduce contract enforceability. Knowledge qualifiers render a warranty unenforceable unless the buyer proves that the seller had knowledge of a warranty violation, and materiality qualifiers specify that warranty violations need to be "material." MAC clauses shift the risk of adverse events between the signing and closing of a deal to the seller, allowing the buyer to cancel a deal if the target suffers a material adverse change. While the buyer prefers to exclude any qualifiers and to include a MAC clause,

the seller prefers the opposite and favors not to carry these risks (Denis and Macias 2013; Gilson and Schwartz 2005; Macias and Moeller 2016).

The next two outcomes concern bargaining dynamics that lawyers employ to negotiate in their clients' favor. First, law firms usually have buyer- and seller-friendly model contracts and try to use those as starting points for negotiations. Being the first to draft a contract creates a first-mover advantage and sets a reference point (Hart and Moore 2008). As Freund (1975, p. 26) writes: "*The axiom is: If you have an opportunity to draft the documents, do so; you will jump into the lead, and your opponent will never catch up completely.*" Second, we consider the length of the closing time. Long closing times are generally detrimental to buyers as the seller keeps control of the target and can extract private benefits.

We also construct a negotiation index that aggregates all five outcomes, to increase power and to address concerns about substitution effects across outcomes.

All contracting-outcomes measures are significantly related to relative legal expertise of the lawyers involved in M&A deals. The lawyers that we focus on are usually partners at their law firms, and our data include contracts negotiated by many leading international law firms. Higher-expertise buyer lawyers successfully prevent sellers from following the advice of Miller (2008, p.240): "*Add materiality and knowledge qualifiers wherever possible.*" An interquartile-range (IQR) increase in relative buyer-lawyer expertise increases the likelihood of a MAC clause by 77%. In terms of the bargaining process, an IQR increase in relative buyer-lawyer expertise implies a 67% higher likelihood to provide the first draft. More buyer-lawyer expertise also reduces closing times. The results continue to hold when using the negotiation index. We find little

evidence that the impact of relative expertise varies with deal complexity. In all of our estimations, we include a battery of control variables. One control variable of particular interest is the relative size of the deal parties, as it has been the proxy for bargaining power in prior literature (e.g., Moeller, Schlingemann, and Stulz 2004; Netter, Stegemoller, and Wintoki 2011). Relative size is positively but far from perfectly correlated with relative expertise. Its inclusion in the estimations implies separate effects of relative lawyer expertise from those of bargaining power. Results are also robust to controlling for the relative M&A experience of the deal parties.

Our results indicate that M&A contracting outcomes can vary substantially depending on the experience and expertise of the lawyers negotiating the deal, and that it will be important to account for such heterogeneity in explaining M&A outcomes. How do we explain the predictive power of relative lawyer expertise? One interpretation is that more experienced lawyers are better able to negotiate for their clients. Alternatively, the relationship may not be causal but reflects assortative matching−higher-expertise lawyers are assigned to negotiations that tend to generate more favorable results for their clients due to other, unobserved reasons. We address concerns about endogenous lawyer assignment and unobserved explanatory variables in four ways.

First, our detailed data allow us to control for a broad array of variables that might correlate with lawyer expertise. In particular, we include three sets of fixed effects that absorb unobserved heterogeneity. Drafting-law-firm fixed effects addresses the concern that deals are matched to law firms based on their model contracts, which may in turn reflect law firms' unobserved specializations. Client fixed effects address the assignment of lawyers to deals based on unobserved client characteristics, such as their bargaining power or risk aversion, and lawyer

fixed effects address that lawyers attract or select deals based on their unobserved personal characteristics. We estimating regressions with each of the fixed effects individually and, for the negotiation index, with the full set of all three fixed effects. While this reduces the size of the data we are identifying off, the estimation confirms (and strengthens) the results.

Second, we document and exploit frictions in lawyer switches, namely the high propensity of clients to employ a previously used law firm for subsequent deals. This friction implies that, even if unobserved deal characteristics were to drive the initial lawyer assignment, the assignment is not optimized for subsequent cases. We find similar results when estimating effects only for the subsample of subsequent deals.

Third, we exploit another friction, namely that clients have a preference for nearby lawyers. This friction leads to nearby lawyers on average having lower expertise than distance lawyers. We use client-lawyer distance as an instrument for expertise, and continue to find that (instrumented) relative expertise predicts negotiation outcomes.

Fourth, we show in a stylized theoretical model that the use of *relative* expertise in our estimations helps to distinguish alternative unobserved determinants that correlate with lawyer expertise. As we show in the model, estimations including absolute expertise, on top of relative expertise, continue to generate unbiased estimators if negotiation outcomes are determined by *relative* expertise. Any omitted variable that determines endogenous assignment should plausibly be related to absolute expertise according to our model. This insight enables us to evaluate the role of omitted variables that affect the lawyer assignment by introducing absolute lawyer expertise directly into the estimated model. We find that the impact of relative lawyer expertise re-

mains statistically significant, and becomes economically larger, when controlling for absolute expertise. Absolute expertise itself is statistically insignificant, which, as we show in the model, is inconsistent with endogenous lawyer assignment.

We also estimate several placebo regressions with outcome variables that should not be affected by relative lawyer expertise but by other, possibly unobserved correlates, in particular asymmetric information: warranties, covenants, earnouts, and purchase price adjustments. We fail to estimate a significant relation with lawyer expertise, further corroborating our interpretation.

In a last step, we assess the value implications of expertise. First, we consider transaction prices. While lawyers are generally not the primary parties bargaining over prices, they may affect prices through the due-diligence and negotiation process. We find that more relative buyer expertise is associated with lower prices, after controlling for deal characteristics, financial advisors, and contract design. As in Masulis and Nahata (2011), we measure prices using the acquisition premium, i.e., the price paid for the target (including liabilities) relative to its book value. An IQR increase in relative buyer-lawyer expertise comes with a 0.57 decrease in the acquisition premium, which is more than 20% of the standard deviation of premia. At the same time, we cannot detect that the contract terms we studied affect target prices. This implies that the negotiations of high-expertise lawyers for better contracts do not come at the expense of worse pricing.

Second, we estimate that better lawyers generally do not cost more in total as they tend to negotiate faster, resulting in lower legal bills despite higher daily fees. The positive net benefits of expertise suggest inefficiencies in the market for lawyers—more clients should seek out high-

expertise lawyers for their deals. Hence, frictions in the assignment of lawyers, possibly from geographical preferences for nearby lawyers or from prestige effects, appear to reduce efficiency in the market for legal advice.

Our findings help explain the importance of league tables and variation in legal fees in the M&A services industry. They also highlight the need to model more formally the role and abilities of parties that design contracts and to account for such heterogeneity in empirical work explaining M&A outcomes.

We relate to several strands of literature. Our approach to study the drivers of real-world contracts closely relates to Kaplan and Strömberg (2003), who study VC contracts, and Lerner and Malmendier (2010), who study strategic alliances. A few papers study the relation between law firm characteristics and M&A outcomes. Coates (2012) relates law firm expertise to earnouts and price adjustments, and Coates (2015) provides a more general review of literature on M&A contracts and additional data sources. Krishnan and Masulis (2013) relate the ranking of law firms to completion rates and takeover premia, and Krishnan and Laux (2008) relate their size to deal completions and acquirer returns. Krishnan et al. (2012) show that shareholder litigation affects M&A outcomes. Our paper complements these studies in pinning down individual lawyer expertise as a determinant of contractual outcomes.

Several studies show how investment banks (Rau 2000; Servaes and Zenner 2000; Kale, Kini, and Ryan 2003; Bao and Edmans 2012; Golubov, Petmezas, and Travlos 2012) or client characteristics (Stulz, Walkling, and Song 1990; Lang, Stulz, and Walkling 1991; Harford 1999; Masulis, Wang, and Xie 2007) affect M&A outcomes. Derrien and Dessaint (2018) show how

league tables for investment banks influence M&A deals. Only few papers study the M&A bargaining process. Boone and Mulherin (2007) examine whether firms are sold through auctions or negotiations, and Ahern (2012) examines the role of product markets for bargaining outcomes. We contribute to these literatures by highlighting the role of characteristics of the negotiating lawyers for understanding contracting outcomes and bargaining dynamics.

We further contribute to a large literature in labor economics, which considers assortative matching. Ackerberg and Botticini (2002) show that the determinants of contract design considered in traditional contract-theory models play less of a role than previously assumed. Both their and our work establish the importance of characteristics of the negotiating parties in predicting contract design, though the emphasis is different. Ackerberg and Botticini (2002) show that characteristics affect contract choice via matching; we show that characteristics matter beyond matching. We also build on Rosen (1992) who documents that lawyers' earnings are increasing in experience, but at a decreasing rate, inconsistent with assignment models. Spurr (1987) investigates the assignment of high-expertise lawyers to large legal claim to explain promotions and firings in law firms, and Haire, Hartley, and Lindquist (1999) show that better attorneys achieve better litigation results.

I. Data and Variable Construction

A. Sample

Our sample consists of the files of 151 acquisitions of privately-held targets between 2005 and 2010. The files have been made available by one of the largest law firms in The Netherlands,

which acted as advisor on buy (86 deals) or sell (65 deals) side. The files contain the acquisition contracts, information on the lawyers involved, and details on the bargaining.

Lawyers usually negotiate in teams of a lead lawyer and several associates. Our files allow us identify the lead lawyers on each transaction, and we focus on their expertise in our tests. Lead lawyers are usually partners at their firms and we assume that they guide the contract negotiations.[2] Interviews with the lawyers in our law firms further suggest that client/lead-lawyer relations are very stable over time. The partners typically cover a given client relation entirely over their partner career, advising their clients on the full spectrum of M&A deals.

The sample includes eight of the world's top-ten law firms based on deal volume, and 25 law firms are headquartered in The Netherlands. Across our sample, 112 lead lawyers of 49 law firms are involved in the negotiations. Twenty lead lawyers are from the law firm that provided the data, and these lawyers advise buy-side and sell-side deals. The average lead lawyer advises 2.3 sample deals.

To measure lawyer expertise, we collect data from the webpages of the involved law firms, internet searches, and Mergermarket. We complement these data with information on the buyers, sellers, and targets from Amadeus, national trade registers, and financial statements. All financial variables are from the end of the year preceding the closing of a deal.

Table I presents information on the deals. (Variable definitions are in the Data Appendix.) The average purchase price paid for a target is EUR 222m. Buyers and sellers have median

---

[2] Though we do not have data to test this assumption, there is anecdotal evidence that lead lawyers with higher expertise usually work with better associates.

book values of EUR 1.4bn and EUR 2.1bn, respectively. Both parties have similar deal experience, as the median party performed four M&A deals over the past five years. Buyers (sellers) use the services of the in-house legal departments in 5% (11%) of the deals, and 44% of all deals are international (target and buyer from different countries). As in Krishnan and Masulis (2013) and Beatty and Welch (1996), we categorize law firms (and banks) using a ranking based on deal volume. The buyer (seller) law firms belong to the top ten in 19% (12%) of all cases. Negotiations take on average 170 days. Internet-Appendix Table I, Panel A, shows that our sample contains a wide range of buyers and sellers. Panels B and C show that, by virtue of our law firm's location, the majority of parties are from The Netherlands. Nevertheless, a substantial fraction of buyers (41%), sellers (21%), and targets (15%) are located outside this country.

We collect data on a broader set of acquisitions from Mergermarket (MM) to assess how representative our sample is (Internet-Appendix Table II). We identify 2,601 private-target acquisitions where at least one party is from The Netherlands (120 sample deals are in MM). Panel A shows that the mean purchase price in the MM sample is EUR 344m, similar to that in our sample; it is also not statistically different from the subset of our sample in MM (EUR 545m). Both samples are similar in terms of use of a controlled auction, fraction of management buyouts, and PE involvement, but our sample contains fewer cross-country deals. Panel B shows that our targets are more likely located in The Netherlands, and that our sample does not feature lower-ranked advisors compared to MM. Overall, the comparison reveals little evidence of sample selection issues.

B. M&A Negotiation Process

Negotiations usually begin with one party communicating interest in a deal. If there is mutual deal-interest, both parties sign a non-disclosure agreement (NDA). The preparation of the NDA is generally the moment when lawyers join the negotiations. The seller then provides additional information about the target in an information memorandum (IM), and the parties evaluate whether they think along a similar price range. Based on the IM, the buyer provides an initial non-binding offer. If this offer does not discourage the seller, the lawyers write down initial agreements in a non-binding letter of intent (LOI). After signing the LOI, the buyer obtains access to target data for a due diligence.

The actual contract negotiations start with a first draft by one of the two parties, which is a combination of a standard sample contract and deal specifics. Law firms generally have different sample contracts when they represent a buyer versus a seller, and the first draft is biased towards the own party. The counter-party lawyer then prepares a mark-up and indicates preferred changes. The lawyers extensively discuss these changes and send mark-ups back and forth. The target price is often not part of these negotiations and mostly not mentioned in the draft until late in the negotiations. While there is no explicit interaction at this stage between pricing and contract design, the final price can be adjusted if issues appear that the contract does not mitigate. Unless the transfer of control (closing) occurs at the signing date, the contract stipulates conditions to be met before the closing. If they are satisfied, there is no further contract renegotiation after the signing. However, if some conditions are violated the contract can be terminated.

C. Measuring Negotiation Outcomes

To test whether the relative legal expertise affects negotiation outcomes, we identify outcomes

that are unambiguously favorable for one party. We are careful to identify outcomes that distribute value between both parties (rather than create value for both of them). Specifically, we identify outcomes for which relative expertise may be used to allocate risks from one party to the other. We focus on three contract clauses and two features of the bargaining process.

C.1. Contract Design

Numerous law textbooks and research papers, including Freund (1975), Gilson and Schwartz (2005), and Miller (2008), identify two key clauses that allocate risks between contracting parties and are subject to extensive negotiations, the knowledge qualifier and the materiality qualifier. These clauses are attached to warranties.[3] The first clause, the knowledge qualifier, states that a warranty is only true "*so far as the seller is aware.*" A qualified warranty cannot be enforced unless the buyer proves that the seller was aware of the breach at the time of signing (Freund 1975). Warranties with knowledge qualifiers allocate risk to buyers, while those without them allocate risk to sellers; this is the case even if the warranty itself had a signaling nature.

We can illustrate the mechanism with an example. Suppose the seller includes the warranty: "*There is no breach of the target's IP rights by another party.*" If the seller is uncertain whether such a breach has happened, the warranty helps to overcome information asymmetry, but leaves the risk of a breach of IP rights with the seller (as the seller has to pay for any unknown breach). Suppose now that the seller adds the qualifier: "*So far as the seller is aware,*

---

[3] Warranties themselves are typically not measures of relative risk allocation, but signaling devices when sellers are better informed about the target than buyers (Grossman 1981), and reduce information asymmetry in the interest of both parties. When warranties explicitly cover issues that sellers may not be certain about, they allocate risk to sellers and provide insurance to buyers.

there is no breach of the target's IP rights by another party." In that case, the warranty still helps to overcome information asymmetry, but it reallocates risk from the seller to the buyer (as, now, the seller does not have to pay in case of a breach).

Our first measure then is the fraction of warranties without knowledge qualifiers. We use a measure of exclusion ("*without*") so that the measure is positively related to the interest of the buyer. We do the same for all measures. For any given price, the buyer prefers the inclusion of few qualifiers, while the sellers has the opposite incentive. Table II, Panel A, shows that the inclusion of knowledge qualifiers is a rather exceptional bargaining success for a seller, as 86% of warranties in a typical contract do not include such statements.[4]

The second clause is a materiality qualifier, which is an overarching statement that warranty violations can only be claimed if they are "material." This clause strongly reduces the warranty risk of the seller, as the buyer needs to prove that a warranty is violated and that the damage is material (Kling, Simon, and Goldman 1996). Our second measure then is an indicator equal to 1 if warranty breaches do *not* need to be material. Table II, Panel A, reveals that 81% of contracts specify that warranty breaches do not need to be material.

Another important source of risk in acquisitions is adverse events between signing and closing. As a default, this risk lies with the buyer, who contractually agrees to purchase the target at a given price. If adverse events substantially reduce the value of the target after signing, the buyer still has to honor the contract. A MAC clause shifts this risk to the seller by stipulating that

---

[4] Table II, Panel B, shows that a seller that is able to provide the first contract draft is generally in a better position to also include knowledge qualifiers. The same holds for materiality qualifiers

the buyer can refuse deal completion if the target suffers a material adverse change. While buyers prefer the inclusion of this clause, sellers favor not to carry this risk. Our measure is an indicator equal to 1 if the contract contains a MAC clause; 34% of our deals do so (this compares with 99% of transactions in public takeovers, see Denis and Macias 2013).

<div align="center">C.2. Bargaining Process</div>

In addition to risk-shifting clauses, we identify features of the bargaining process that advantage or disadvantage either one of the two parties. These bargaining dynamics shed light on the channels that high-expertise lawyers use to influence negotiations in their clients' favor.

One such element is the delivery of the first draft of a contract. As discussed at length in the legal and in some of the contract-theory literature (Freund 1975; Molod 1994; Hart and Moore 2008), drafting the first contract provides a first-mover advantage and sets a reference point. In practice, the negotiation advantage partly comes from law firms having both a buyer-friendly and a seller-friendly model contract. As the first mover, lawyers use the model that is friendly towards the own party. Our data allow us to identify which law firm provided the first draft, and we construct an indicator equal to one if it was the buyer. The first draft comes in 44% of the deals from the buyer law firm.

As an additional aspect, we measure the closing time, i.e., the time between the contract signing and the target transfer. Closing times are sometimes necessary to apply for regulatory or shareholder approvals. While the duration largely depends on the number of required approvals, lawyers can influence it by filing documents more quickly or pushing for fast responses. The buyer prefers short closing times since the seller remains in control of the target until closing

and, with the target price fixed, might act opportunistically. Our data indicate considerable closing time, about 46 days on average, making opportunistic seller actions a realistic concern.

C.3. Negotiation Index

We also construct an index that aggregates all five negotiation outcomes to strengthen the power of our estimations and to address concerns about substitution effects: when a lawyer reaches a favorable result with respect to one deal outcome, she might have to accommodate the other side with respect to another outcome. To construct the index, we create two additional indicators specifying (i) whether the closing time equals zero, which is the case in 32% of deals; and (ii) whether *%Warranties w/o Knowledge Qualifier* is above the median. *Negotiation Index* is then the sum of all five deal-outcome indicators; higher numbers reflect outcomes that are more favorable to the buyer.

D. Measuring Relative Lawyer Expertise

We construct an index of *Relative Lawyer Expertise* based on six components that each capture relative expertise along a different dimension. The use of *relative* expertise as the relevant proxy is both intuitive, given the interaction of lawyers on both sides, and follows directly in a Rubinstein (1982)-type bargaining setting in which legal expertise affects surplus distribution. (We show formally in Internet-Appendix B.) The six components include (i) years as partner; (ii) deal experience; (iii) M&A specialization; (iv) listing as an M&A expert in the Chambers ranking; (v) law school rank; and (vi) graduation from US law school. We construct each component in one of two ways. If the data are continuous (e.g., years as partner), the components are created by

dividing the expertise value of the buyer lawyer by the expertise value of the seller lawyer. This implies that a higher ratio indicates higher relative buyer lawyer expertise. We then standardize the resulting ratios such that they range between zero and one. If the underlying data are binary (e.g., graduation from US law school), the components can take three values: 0 if the seller lawyer has more expertise; 0.5 if both have the same expertise; and 1 if the buyer lawyer has more expertise.

Years as Partner is the years of experience as partner of the buyer relative to the seller lawyer, measured since promotion to partner status (relative to the contract-signing year). The ratio ranges between 0 (most seller lawyer experience) and 1 (most buyer lawyer experience).

Deal Experience is the experience of the buyer relative to the seller lawyer, measured as the number of deals advised on between 1995 and contract-signing year. The ratio ranges between 0 (most seller lawyer experience) and 1 (most buyer lawyer experience).

M&A Specialist. A lawyer is an M&A specialist if web-profiles of the law firms explicitly specify "M&A law" as a specialization (rather than tax or competition law). The variable takes three values: 0 if only the seller lawyer is an M&A specialist; 0.5 if both or neither lawyers are M&A specialists; and 1 if only the buyer lawyer is an M&A specialist.

Chambers Recommendation utilizes the Chambers Expert Lawyer ranking on "the world's leading lawyers." We assign three values: 0 if only the seller lawyer is recommended in the ranking; 0.5 if both or neither lawyers are recommended; and 1 if only the buyer lawyer is recommended.

Law School Ranking captures the quality of a lawyer's law schools based on its rank in

www.topuniversities.com. We use the ratio of the inverse of the rank and standardize it between 0 and 1. Higher numbers indicate that the buyer lawyer studied at a relatively better university.

US Education accounts for graduation from a US law school, as US programs tend to have a stronger focus on negotiation skills compared to European programs. The variable takes three values: 0 if only the seller lawyer studied at a US law school; 0.5 if both or neither studied at a US law school; and 1 if only the buyer lawyer studied at a US law school. We have too little variation in the data to code this variable according to "tiers" of US law school rankings.

Relative Lawyer Expertise averages these six components and ranges between 0 and 1.[5] For auxiliary tests we construct two separate indices, *Buyer Lawyer Expertise* and *Seller Lawyer Expertise*, which consist of the same six components, but for the buyer or seller lawyer separately. They also range between 0 and 1, and higher values indicate more expertise.

Table III, Panel A, shows that the mean of our expertise ratio is 0.41. Table III, Panel B, reveals that the index components are positively but far from perfectly correlated; they appear to capture different aspects of expertise.

II. Empirical Results

A. Effects of Relative Lawyer Expertise on Negotiation Outcomes

In our baseline analyses, we regress negotiation outcomes on *Relative Lawyer Expertise* and a set

---

[5] As shown in Table I, sellers (buyers) did not hire an external law firm and relied on internal in-house lawyers in 11% (5%) of the deals. Following a similar approach in Yermack (1992) and Matsunaga, Shevling, and Shores (1992), we assume that this reflects low legal expertise and code the index with the value 1 (value 0) for these observations.

of control variables. The control variables include the size of the buyer relative to the seller as the M&A literature has established this variable as an important proxy for bargaining power (Moeller, Schlingemann, and Stulz 2004; Netter, Stegemoller, and Wintoki 2011).[6] We further include two proxies for deal complexity (target size and a cross-border indicator), whether a deal is an asset deal, and the expertise of the financial advisors (indicators for the banks being in the top ten). We also control for the number of warranties when explaining warranty-related provisions. As contract clauses and prices are likely to be interrelated, we confirm in unreported estimations that our results are robust to directly controlling for the acquisition price.

Table IV, Columns 1 to 3, show estimations for the three outcomes related to contract clauses. In all three columns, we estimate a positive relation between relative lawyer expertise and the contract variables. The coefficients indicate that lawyers with more expertise negotiate contracts with better risk allocation for the side they represent. In Column 1, we estimate that more relative buyer-lawyer expertise is associated with fewer warranties that include knowledge qualifiers: an IQR increase in the relative expertise index implies an increase in *%Warranties w/o Knowledge Qualifier* by 4 pp, more than one third of the variable's standard deviation. Column 2 shows that higher relative expertise of the buyer lawyer predicts a higher probability that a warranty breach does not need to be material. An IQR increase in relative expertise is associated with a 12 pp increase in the likelihood of a materiality exception, about 1/8th of the variable's average frequency. In Column 3, we find that more legal expertise is associated with a signifi-

---

[6] Relative size has a correlation of only 48% with relative expertise, so that we are able to separate the effects of relative expertise and relative size.

cantly higher likelihood that a MAC clause is included (estimated for deals where signing and closing were not on the same day, as MAC clauses are otherwise not relevant). Here, an IQR increase in relative buyer-lawyer expertise is associated with a large increase in the likelihood of inclusion, namely of 26 pp relative to a frequency of 34%, an increase by 77%.

Turning to the bargaining dynamics, Column 4 shows that more legal experience on the buyer side is associated with a higher probability that the buyer delivers the first draft. An IQR increase in the relative expertise of the buyer lawyer implies an increase of 67% in providing the first draft, an increase of 23 pp relative to a baseline of 44%. Our other proxy for the balance of power during the bargaining process is closing times (Column 5). To ensure that regulatory hold-ups do not confound the estimated effect, we add a control variable that captures whether the acquisition required approval. Turning to our variable of interest, we estimate that an IQR increase of the relative expertise index reduces closing times by 23 days.[7]

Columns 6 and 7 report results for the *Negotiation Index*. These results are particularly strong; we estimate highly significant positive coefficients for *Relative Lawyer Expertise*. The coefficients indicate that an increase in the buyer's relative lawyer expertise strongly increases the probability that negotiation outcomes are more favorable overall.

Internet-Appendix Table III shows that our results are robust to controlling for the relative expertise of buyers and sellers, measured based on the number of M&A transaction in the

---

[7] In unreported regressions, we also find that negotiation times, measured between the start of deal negotiations and the signing of a contract, are shorter if relative buyer expertise is larger. This corroborates our findings: shorter negotiations likely benefit the buyer by giving the seller less time to push back against any bias in the first-drafts provided by the buyer, and gives the seller less time to find outside opportunities to increase bargaining power.

past five years. Internet-Appendix Table IV reports results for each of the six components of *Relative Lawyer Expertise*. These estimates show that both legal experience and legal education contribute to our findings, with a U.S. law school education being the characteristic most strongly related to negotiation outcomes.

We also re-estimate all regressions with interaction terms between *Relative Lawyer Expertise* and our two complexity proxies, using either one interaction term at a time or both together. We include these interaction terms as the effects of expertise may depend on deal complexity (cf. Gabaix and Landier 2008). However, we find that these interaction terms are almost always insignificant. Instead, when we calculate the joint significance of *Relative Lawyer Experience* and the interaction terms, we reject the null of no joint significance whenever relative expertise is significant without interactions (reported at the bottom of the table).

B. Addressing Coefficient Bias from Unobservable Variables

Our estimates in the previous section may not reflect the causal effect of lawyer expertise if endogenous lawyer assignment induces a correlation between expertise and an unobserved variable that also affects contractual outcomes. We address this concern using four approaches: (1) including fixed effects, (2) exploiting frictions in lawyer switching, (3) estimating instrumental-variables and selection models, and (4) controlling for lawyer-expertise levels.

B.1. Fixed-Effects Regressions

We use three sets of fixed effects to address bias from time-invariant unobserved heterogeneity. First, we account for unobserved law-firm characteristics. A concern could be that those law

firms that employ contracts with the clauses we analyze also have high-expertise lawyers. Indeed, law firms often have standardized "off-the-shelf" model contracts, one buyer-friendly and one seller-friendly version, which they use as starting points when providing first drafts. This could generate a positive correlation between expertise and contractual outcomes. It does not easily generate, however, the two bargaining results; the same law firms would need to be more adept at affecting closing times and at ensuring the right to provide the first draft, independent of their lawyers' expertise. Nevertheless, we address concerns about unobserved law-firm characteristics by adding fixed effects for the drafting law firms. To ensure convergence, we use a linear model in the fixed-effects regressions. The corresponding results in Table V, Panel A, are similar to those in Table IV. That is, even after accounting non-parametrically for unobserved characteristics of the drafting law firm, relative lawyer expertise predicts negotiation outcomes.

Second, we address the possibility that unobserved client characteristics introduce coefficient bias. Clients who seek out high-expertise lawyers might pursue deals where the inclusion of advantageous clauses is, ex ante, more likely and they might also have better bargaining positions. Directionally, this alternative story may not seem plausible, as clients in such a position might, if anything, be willing to select lower-expertise (and cheaper) lawyers. Nevertheless, we address concerns about unobserved client-characteristics by including client fixed effects. As shown in Table V, Panel B, the size and significance of the coefficients for relative expertise remain again very similar, especially when explaining the *Negotiation Index*. This is the case even though we observe few clients with a high number of observations, implying that the fixed effects absorb a high amount of variation.

Third, we address the concern that unobserved lawyer characteristics affect the results. High-expertise lawyers might attract or select deals that are particularly likely to feature advantageous clauses, regardless of their input. Directionally, this type of selection seems again somewhat implausible, and inefficient, but it might occur in badly governed firms where high-expertise lawyers are entrenched. Table V, Panel C, accounts for unobserved time-invariant lawyer characteristics that could drive the matching. The estimation includes fixed effects for our law firm's lawyers, thereby identifying the effect of expertise from variation in the expertise of the counterparty. The results indicate a strong effect of relative expertise, both on the inclusion of the MAC clause and on the provision of the first draft. As before, our results remain similar.

We also explore whether we can include all fixed effects simultaneously. In that case, the dependent variable is fully explained by at least one of the fixed effects in a large number of observations, and we have to look at the results with some caution. However, a joint inclusion is feasible for the *Negotiation Index* if we restrict the client fixed effect to those involved in more than two sample transactions. Table VI shows the corresponding estimations using an OLS and Ordered Probit model. For comparison, we present regressions with and without the three fixed effects. Again, we find estimates that are robust, in terms of statistical and economic significance, compared to those in Table IV.

B.2. Exploiting Frictions in Lawyer Switches

The inclusions of law-firm, client, and lawyer fixed effects allow us to rule out the confounding effects of a wide range of time-invariant unobserved factors. Next, we consider time-*varying* unobserved factors that might determine lawyer assignment. To address deal-specific assortative

matching, we exploit frictions in lawyer switches. First, we note that, if lawyers were assigned to deals based on time-varying unobservables, we should see frequent switches, as the nature of deals shows large variation in our sample, even for a given client. (There is even larger variation in the types of buyers who sign deals with a given seller.) Despite this variation, sellers change in only 18% of the deals to a new law firm and buyers in only four out of ten cases. These statistics already speak to the identification: The widespread repeated counsel that is present in our sample is inconsistent with endogenous switching. At the same time, the pattern we document is in line with legal practice more generally, as argued by Coates et al. (2011) or Gilson, Mnookin, and Pashigian (1985).

These statistics raise the question which friction prevents clients from switching more frequently. Our data provide suggestive evidence that the observed inclination to stay with a law firm originates from a tendency to hire (and then stick to) lawyers in geographic proximity: Table I indicates that the median client-law firm distance is only about 50km. That is, clients have a strong preference for having their lawyers nearby. While the selection of nearby lawyers is not necessarily a bad idea, e.g., as information asymmetry may be lower, or might reflect (informational) constraints, we show below that lawyers located more closely to a client tend to have lower expertise.

We exploit this friction in two ways, first by subsampling (this subsection) and second by implementing an instrumental-variables approach (next subsection). As for the first approach, we re-estimate our model on two subsamples of deals with prior client-law firm relation. The idea is that, even if the initial assignment of a client to a law firm were driven by unobservables, these

past determinants are less likely to bias estimates of expertise in future deals given the lack of switching. The first subsample is restricted to deals where our law firm established a client relation prior to the current deal. This is the case for 101 sample deals. The corresponding results in Table VII, Panel A, show similar effects of relative expertise on contract design. In terms of the effects on the bargaining process, the implied reduction of closing times becomes even larger, while the impact on the right to draft the first contract version is weaker and noisier. The second subsample further excludes deals where the counterparty switched law firm, i.e., we include only deals where neither side changed law firm, leading to a sample of 73 deals. The results in Table VII, Panel B, are again similar, with some effects being estimated more precisely now, and others being noisier. The model using the *Negotiation Index* in Column 6 continues to generate a highly significant coefficient estimate on relative expertise, even for the starkly reduced sample we are constrained to. Both sample refinements mitigate concerns about endogenous selection driving our results, as the estimated economic magnitudes remain rather stable.

B.3. Instrumental-Variables Model

As an alternative, we exploit clients' geographical preferences with an IV approach. As discussed above, the tendency to select nearby lawyers implies that some clients do not maximize expertise (at least for some deals). Expertise should therefore be lower, on average, when clients use law firms located in closer proximity. To illustrate, suppose that lawyers are distributed evenly across space and that skills are randomly assigned. Expected lawyer expertise is then higher if the geographical region within which a client searches for a lawyer is bigger. More generally, a client who considers a larger geographical area with a larger set of law firms will on

average select a better lawyer, which is further away. At the same time, we also expect to see nonlinearities. For example, in a large city with a strong legal community, the best law firm might be located nearby with a high probability. Considering more law firms within the city should still lead to a higher expertise, but law firms within a city might have better lawyers on average than law firms outside of it.

In Table VIII, Column 1, we estimate a first diagnostic first-stage regression relating relative lawyer expertise to two variables of interest: the distance between the buyer and her lawyer, and the distance between the seller and her lawyer.[8] (For these analyses, we exclude cases with in-house lawyers; we address potential selection in Column 6.)[9] We find results that confirm our prediction for buyer lawyers: Lawyers in closer proximity to buyers tend to have lower expertise after accounting for the expertise of the seller lawyer. We do not find a significant result for seller-lawyer distance. These findings are consistent with the evidence in Table III, Panel A, that buyers on average have lower-expertise lawyers at their disposal.

Next, we estimate in Column 2 a modified first-stage regression that adds the distance ratio and allows for nonlinearities by interacting the distance ratio with three bins that capture whether a buyer uses a law firm nearby (<50km), at moderate distance (>50km but <100km), or further away (>100km). We stratify distance by buyer as the distance effects originate from the

---

[8] We use a log-log model as the distance variable is highly skewed and to model the relationship between the law-yer-client distance and relative expertise as an elasticity.
[9] Alternatively, one could assign 0 distances to in-house lawyers. However, this would imply that the prediction for very close law firms and in-house lawyers are almost indistinguishable, which is not obvious. As another alternative, one could use an in-house lawyer dummy. However, it is not clear that such an instrument would satisfy the exclusion restriction.

local preferences of the buyers. We select this specific regression as our preferred first stage for the IV estimation after exploring alternatives that include variants of the bin dummies and their interactions with the distance ratio, and that in- or exclude the distance-level effects. For these (unreported) regressions, we find that the sign and significance of the buyer-distance variable is present regardless of binning and of the other variables being in- or excluded. However, the first-stage R^2 and F-statistic is maximized when including the distance levels and ratio, and when allowing for nonlinearities in the distance effects. The model in Column 2 therefore seems appropriate for our data as it provides a strong fit in terms of the relevance condition.

Finally, note that it is hard to conceive of a reason why the distance between clients and their law firms should affect the contract outcomes we study, implying that our distance measure should plausibly satisfy the exclusion restriction.

Using our preferred first-stage specification from Column 2, we re-estimate in Column 3 the relation between the *Negotiation Index* and relative expertise. Instrumented relative expertise remains strongly positively related to the *Negotiation Index*. The result is robust to changes in the number of bins and the distance cutoffs. For example, in Column 4 we find similar effects when we separate at distances of 25km and 150km, and in Column 5 when we only use two bins with a separation at 150km. Finally, in Column 6 we show for comparison results without instrumenting. The regression in this column is a replication of our baseline estimation for the *Negotiation Index*, but it is restricted to the sample without in-house lawyers and also uses the logarithmized explanatory variable. The coefficient of relative expertise continues to be highly significant and comparable to the instrumented results, ameliorating concerns about the role of sample selection

in our IV (or baseline) estimation.

Results are also similar if we use in Internet-Appendix Table V a Heckman (1979) model to account for endogenous selection into our sample.[10] We model selection in Column 1 based on the log distance between our law firm and its clients, assuming again that client-law firm distance is uncorrelated with contract outcomes. Both the statistical and the economic significance of the relative expertise coefficient remain consistent with our other results. Column 2 shows that results are also robust to using the log distance between buyers and their law firms.

B.4. Controlling for Expertise Levels

Finally, we address concerns about omitted variables by exploiting the theoretical prediction that only relative expertise determines surplus shares in case of exogenous lawyer assignment. To derive this prediction, Internet-Appendix Section B shows that the effects of relative expertise are independent of absolute expertise in case of exogenous lawyer assignment. Hence, we predict to estimate a null effect for the expertise levels if lawyer assignment is exogenous. If, instead, we omit variables that determine endogenous assignment, such variables should plausibly be related to expertise levels according to our model. This insight enables us to evaluate the role of omitted variables that affect the lawyer assignment by introducing absolute lawyer expertise directly into the estimated model.

To explore the role of expertise levels, Table IX shows an array of estimations for the *Negotiation Index*. Column 1 shows our benchmark result for ease of comparison and Column 2

---

[10] We exploit that, given the source of our data, the primary factor for selection into the sample is having been involved with the data-providing law firm.

adds both lawyers' absolute expertise. In Column 3, we use expertise-quartile fixed effects to consider that endogenous matching might be driven only by particularly high or low levels of expertise (or unobserved correlates).

Two findings emerge from Table IX. First, the estimates for absolute lawyer expertise are statistically *in*significant. This supports our model (i.e., that relative, not absolute, expertise affects outcomes) and mitigates concerns about endogenous lawyer assignment. Second, the impact of relative lawyer expertise is robust across all specifications, both in terms of magnitude and in terms of significance. This implies that possible unobserved determinants of client-lawyer matching correlated with absolute expertise do not appear to affect our estimations.

C. Placebo Tests

We conduct several placebo tests to further mitigate concerns about spurious correlations between lawyer expertise and contract outcomes. To this end, we consider other commonly used contract features that do *not* capture surplus distribution (risk allocation), but instead aim to increase joint surplus (Gilson 1984). *Relative* lawyer expertise should not affect these features.

We consider four clauses: the number of warranties; the number of covenants; earnouts; and purchase price adjustments (PPA). As discussed before, the first placebo, warranties, typically serve to reduce information asymmetry by signaling target quality. Warranties thereby protect buyers against information solely available to sellers, and, as a result, increase the probability of a deal completion. Hence, warranties increase joint surplus, making them an area where incentives are aligned. Similar arguments apply to covenants, which prescribe the behavior of the target and seller between the signing and closing date. Covenants are in the interest of both par-

ties, as they are commitment devices that mitigate opportunistic seller behavior between signing and closing, thereby also facilitating deal completion. Earnouts and PPAs also increase the probability that the target is sold to begin with (Cain, Denis, and Denis 2011). Earnouts stipulate that parts of the price are contingent on target performance after closing, thereby reducing uncertainty about future performance. PPAs modify the price retroactively based on target book values at closing and also help to overcome information asymmetry about target performance.

Table X estimates regressions using the placebo outcomes. The coefficient estimates for relative expertise are statistically insignificant across all placebo outcomes, while other deal characteristics show significant relationships. This corroborates that legal expertise is primarily used to bargain for outcomes that are favorable to the relative share of the surplus retained for the own client, rather than to influence provisions that maximize joint surplus.

III. Evaluating Financial Benefits and Costs of Lawyer Expertise

Our results indicate that more legal expertise is associated with better contract design and a more favorable bargaining process. This relationship is robust to including the acquisition price as a control variable that captures the trade-off between risk allocation and the price. It is still possible, though, that higher legal expertise affects the financials of a deal, in terms of the transaction price and the cost of legal representation.

We test for the financial implications of expertise in two ways. First, we analyze whether more relative legal expertise on the buyer side is associated with a lower target price. For example, buyer lawyers with more expertise may be better able to identify "skeletons in the closet"

and to obtain lower prices as a result. We measure the acquisition premium as the price for the target (including liabilities) divided by its book value (Masulis and Nahata 2011).[11] To account for the trade-off between contract design and prices, we control for the previously studied contract clauses, separately in Columns 2 to 4, and jointly in Column 5. In all specifications, the regressions in Table XI show that if the buyer lawyer has relatively more experience, the premium paid is *lower*. Column 5 implies that an IQR increase in relative buyer-lawyer expertise comes with a substantial 0.57 reduction in the premium, more than 20% of the variable's mean. With the exception of the MAC clause, we cannot detect that prices reflect the negotiated contract clauses, which suggests that high-expertise lawyers are beneficial on two fronts: they negotiate better contracts *and* ensure that their clients do not have to pay for them.

Next, we evaluate whether the cost of high-expertise legal representation neutralize or even outweigh these benefits. We approximate total legal fees by multiplying the negotiation time with the respective team size (number of associates and partners) and a daily rate.[12] The duration of negotiations determines fees as lawyers are remunerated on a per-hour basis (Garoupa and Gomez-Pomar 2008). We calculate the time lawyers spent on a deal as the days between the start of the negotiations and the signing of the contract. We can identify the start of negotiations as the date at which our law firm opened a file on a deal. This information provides us with a unique opportunity as we do not have to rely on public deal announcements, which usually take

---

[11] The average acquisition premium in our sample equals 240%. This compares with a range of 131% to 146% as documented for public takeovers (e.g., Moeller (2005)). Masulis and Nahata (2011) report private takeovers mean (median) premiums of 1073% (469%), but the targets in their analysis are much smaller.
[12] There are on average five (eight) lawyers in the teams of the sellers (buyers).

place after substantial negotiation has passed. Based on conversations with M&A lawyers, we apply a daily fee of EUR 4,000 for a top-tier law firm and EUR 3,000 for all others. The median buyer pays EUR 1.9m in legal fees, while the median seller pays EUR 1.1m.[13]

Table XII, Columns 1 to 4, relate fees to lawyer expertise. The regressions show that we cannot detect that more expertise comes with a higher bill. To understand this surprising result, we investigate the time that lawyers spend negotiating. Column 5 shows that more buyer expertise is associated with *shorter* negotiation times. This suggests that high-expertise lawyers not only negotiate beneficial outcomes, but also economize on transaction costs. While these estimates capture only short-term cost implications, and we do not have longer-term data on later renegotiations or other implications, it seems plausible that such data would strengthen the result. If high-expertise lawyers secure better contractual outcomes for their clients and economize on time spent, these qualities are likely to apply also to follow-up aspects. Overall, this makes it unlikely that legal costs outdo the benefits of expertise. It also leads us back to the question we asked in the previous section: given the benefits of associating with higher-expertise lawyers, why do (some) clients fail to do so and choose lower-expertise local lawyers? Are there other unobserved benefits to the firm or personal benefits to the manager? A better understanding of these frictions and possible benefits are an interesting challenge for future research.

---

[13] Over the last few years, some lawyers are increasingly paid based on value-added, a fixed amount for an overall deal, or in other hybrid ways. This is especially the case in very large deals.

IV. Conclusions

We show that the professional experience and educational background of lawyers involved in M&A negotiations influence contract design in a predictable and measurable way. This finding suggests a need for a more explicit modeling of contracting expertise, and helps explain the importance of league tables and variation in legal fees within the M&A services industry.

We document this finding by using private company acquisitions as a laboratory. Lawyers with relatively more expertise yield better contractual outcomes for their clients along several important dimensions. First, lawyers with more relative expertise negotiate contracts that allocate more risks to the counterparties. Second, more relative legal expertise is associated with a higher probability that a party can deliver the first contract draft, which provides a first-mover advantage. The latter finding sheds light on one channel that high-expertise lawyers use to influence contracts in their clients' favor. Buyer lawyers with more expertise also close faster.

More legal expertise is also associated with better target prices, and we cannot detect that prices reflect the negotiated contract clauses. Hence, lawyers with high expertise negotiate better contract clauses and ensure that their clients do not have to pay for them. More expertise does not come with higher legal fees, as high-expertise lawyers economize on transaction costs by shortening negotiation times.

We address concerns about endogenous lawyer assignment by absorbing unobserved heterogeneity across drafting-law firms, clients, and lawyers, by exploiting firms' inclination to work with the same lawyer on subsequent deals, by using instrumental-variables analyses, and by controlling for expertise levels.

Our analyses focus on the prediction that lawyers with more expertise distribute value away towards their own clients. In addition, it is possible that lawyer expertise increases the surplus generated in a transaction. Our results provide little evidence in favor of this prediction as relative expertise is unrelated to contract clauses that plausibly increase the joint surplus. However, our sample size is relatively small and the proxies may not be perfect. In future research, it will be interesting to identify more precise proxies for surplus-increasing effects of expertise, and to test whether such effects are detectable in the data.

References

Ackerberg, Daniel A., and Maristella Botticini, 2002, Endogenous matching and the financial determinants of contract design, *Journal of Political Economy* 110, 564-591.

Ahern, Kenneth R., 2012, Bargaining power and industry dependence in mergers, *Journal of Financial Economics* 103, 530-550.

Bao, Jack, and Alex Edmans, 2011, Do investment banks matter for M&A returns? *Review of Financial Studies* 24, 2286-2315.

Beatty Randolph P., and Ivo Welch, 1996, Issuer expenses and legal liability in initial public offerings, *Journal of Law and Economics* 39, 545-602.

Boone, Audra L., and J. Harold Mulherin, 2007, How are firms sold? *Journal of Finance* 62, 847-875.

Cain, Matt, David Denis, and Diane Denis, 2011, Earnouts: A study of financial contracting in acquisition agreements, *Journal of Accounting and Economics* 51, 151-170.

Coates, John C., 2012, Allocating risk through contract: Evidence from M&A and policy implications, Working Paper, Harvard Law School.

Coates, John C., Michele M. DeStefano, Ashish Nanda, and David B. Wilkins, 2011, Hiring teams, firms, and lawyers: Evidence of the evolving relationships in the corporate legal market, *Law & Social Inquiry* 36, 999-1031.

Coates, John C., 2015, M&A Contracts: Purposes, Types, Regulation and Patterns of Practice, in *Research Handbook on Mergers and Acquisitions* (Claire Hill and Steven Davidoff Solomon, eds., Edward Elgar).

Denis, David J., and Antonio J. Macias, 2013, Material adverse change clauses and acquisition dynamics, *Journal of Financial and Quantitative Analysis* 48, 819-847.

Derrien, François, and Olivier Dessaint, 2018, The effects of investment bank rankings: Evidence from M&A league tables, *Review of Finance* 22 1375–1411.

Erel, Isil, Rose C. Liao, and Michael S. Weisbach, 2012, Determinants of cross-border mergers and acquisitions, *Journal of Finance* 67, 1045-1082.

Frankel, Michael E.S., 2005, *Mergers and Acquisitions Basics. The Key Steps of Acquisitions, Divestitures, and Investments* (John Wiley & Sons, Inc., Hoboken, New Jersey).

Freund, James, 1975, *Anatomy of a Merger: Strategies and Techniques for Negotiating Corporate Acquisitions* (Law Journal Press, New York).

Garoupa, Nuno, and Fernando Gomez-Pomar, 2008, Cashing by the hour: Why large law firms prefer hourly fees over contingent fees, *Journal of Law, Economics & Organization* 24, 458-475.

Gabaix, Xavier, and Augustin Landier, 2008, Why has CEO pay increased so much? *Quarterly Journal of Economics* 123, 49-100.

Gilson, Ronald J., 1984, Value creation by business lawyers: legal skills and asset pricing, *Yale Law Journal* 94, 239-313.

Gilson, Ronald J., and Alan Schwartz, 2005, Understanding MACs: Moral hazard in acquisitions, *Journal of Law, Economics and Organization* 21,330-358.

Gilson, Ronald J., Robert H. Mnookin, and B. Peter Pashigian, 1985, Sharing among the human capitalists: An economic inquiry into the corporate law firm and how partners split profits, *Stanford Law Review* 37, 313-397.

Gilson, Ronald J., and Robert H. Mnookin, 1995, Symposium on business lawyering and value creation for clients. Foreword: business lawyers and value creation for clients, *Oregon Law Review* 74, 1-14.

Golubov, Andrey, Dimitris Petmezas, and Nickolaos Travlos, 2012, When it pays to pay your investment banker: New evidence on the role of financial advisors in M&As, *Journal of Finance* 67, 271-311.

Grossman, Sanford J., 1981, The information role of warranties and private disclosure about product quality, *Journal of Law and Economics* 24, 461-483.

Harford, Jarrad, 1999, Corporate cash reserves and acquisitions, *Journal of Finance* 54, 1969-1997.

Haire, Susan, Roger E.Hartley, and Stefanie A Lindquist,1999, Attorney expertise, litigant success, and judicial decision making in the U.S. Courts of Appeals, *Law & Society Review* 33, 667-686.

Hart, Oliver and John Moore, 2008, Contracts as reference points, *Quarterly Journal of Economics* 73, 1-48.

Heckman, James J., 1979, Sample selection bias as a specification error, *Econometrica* 47, 153–161.

Ishii, Joy and Yuhai Xuan, 2014, Acquirer-target social ties and merger outcomes *Journal of Financial Economics* 112, 344-363.

Kale, Jayant R., Omesh Kini, and Harley E. Ryan, Jr., 2003, Financial advisors and shareholder wealth gains in corporate takeovers, *Journal of Financial and Quantitative Analysis* 38, 475-501.

Kaplan, Steven N., and Per Strömberg, 2003, Financial contracting theory meets the real world: An empirical analysis of venture capital contracts, *Review of Economic Studies* 70, 281-315.

Kling, Lou R, Eilen N. Simon, and Michael Goldman, 1997, Summary of acquisition agreements, *Miami Law Review* 51, 779-813.

Krishnan, C.N.V., and Paul A. Laux, 2008, Legal advisors: Popularity versus economic performance in acquisitions, *Journal of Corporate Ownership and Control* 6, 475-500.

Krishnan, C.N.V, Ronald W. Masulis, R.S. Thomas, and R.B. Thompson, 2012, Shareholder litigation in mergers and acquisitions, *Journal of Corporate Finance* 18, 1248-1268.

Krüger, Philipp, Augustin Landier, and David Thesmar, The WACC fallacy: The real effects of using a unique discount rate, *Journal of Finance* 70, 1253-1285.

Lang, Larry H.P., Rene M. Stulz, and Ralph A. Walkling, 1991, A test of the free cash flow hypothesis. The case of bidder returns, *Journal of Financial Economics* 29, 315-335.

Lerner, Josh, and Ulrike Malmendier, 2010, Contractibility and the design of research agreements, *American Economic Review* 100, 214-246.

Macias, Antonio J., and Thomas Moeller, 2016, Target signaling with material adverse change clauses in merger agreements, *Journal of Empirical Finance* 39, 69-92.

Malmendier, Ulrike, 2018, Bahavioral Corporate Finance, In D. Bernheim, S. DellaVigna, and D. Laibson (eds.) *Handbook of Behavioral Economics* 1, 277-379.

Malmendier, Ulrike and Geoffrey Tate, 2008, Who makes acquisitions? CEO overconfidence and the market's reaction, *Journal of Finance* 89, 20-43.

Masulis, Ronald W., Cong Wang, and Fei Xie, 2007, Corporate governance and acquirer returns, *Journal of Finance* 62, 1851-1889.

Masulis, Ronald W., and Rajarishi Nahata, 2011, Venture capital conflicts of interest: Evidence from acquisitions of venture-backed firms, *Journal of Financial and Quantitative Analysis* 46, 395-430.

Matsunaga, Steve, Terry Shevlin, and Dee Shores, 1992, Disqualifying dispositions of incentive stock options: Tax benefits versus financial reporting, *Journal of Accounting Research* 30, 37-68.

Miller, Edwin L. Jr., 2008, *Mergers and Acquisitions: A Step-by-Step Legal and Practical Guide* (John Wiley & Sons, Inc., Hoboken, New Jersey).

Molod, Alan H., 1994, Forms and Paperwork, Chapter 30 in M.L. Rock, R.H. Rock and M. Sikora, eds.: (2nd ed.) *The Mergers and Acquisitions Handboo*k (McGraw-Hill, Inc, New York, USA).

Moeller, Sara B., Frederik Schlingemann, and René Stulz, 2004, Firm size and the gains from acquisitions, *Journal of Financial Economics* 73, 201-228.

Moeller, Thomas, 2005, Let's make a deal! How shareholder control impacts merger payoffs, *Journal of Financial Economics* 76, 167-190.

Mnookin, Robert H., Scott R. Peppet, and Andrew S. Tulumello, 2000, *Beyond Winning: Negotiating to*

Create Value in Deals and Disputes (Harvard University Press, Cambridge).

Netter, Jeffry, Mike Stegemoller, and M. Babajide Wintoki, 2011, Implications of data screens on merger and acquisition analysis: A large sample study of mergers and acquisitions from 1992 to 2009, *Review of Financial Studies* 24, 2316-2357.

Rau, P.Raghavendra, 2000, Investment bank market share, contingent fee payments, and the performance of acquiring firms, *Journal of Financial Economics* 56, 293-324.

Rosen, Sherwin, 1992, The market for lawyers, *Journal of Law and Economics* 35, 215-246.

Rubinstein, Ariel, 1982, Perfect equilibrium in a bargaining Model, *Econometrica* 50, 97-109.

Servaes, Henri, and Marc Zenner, 1996, The role of investment banks in acquisitions, *Review of Financial Studies* 9, 787-815.

Spurr, Stephen J., 1987, How the market solves an assignment problem: The matching of lawyers with legal claims, *Journal of Labor Economics* 5(4), 502-532.

Stulz, Rene M., Ralph A. Walkling, and Moon H. Song, 1990, The distribution of target ownership and the division of gains in successful acquisitions, *Journal of Finance* 45, 817-833.

Yermack, David, 1992, Do corporations award CEO stock options effectively? *Journal of Financial Economics* 39, 237-269.

Data Appendix

Variable	Description
Target Characteristics	
Purchase Price	Price paid by the buyer to the seller for the equity in the target.
Target Book Value	Book value of target assets based on the last financial account prior to the acquisition.
Target Market Value	Purchase price paid by the buyer to the seller for the equity in the target plus the book value of liabilities. Liabilities include short-term debt, long-term debt, and provisions. If the buyer purchases less than 100% of the equity of the target, we calculate the purchase price for the equivalent of 100% of the equity of the target, i.e., (Purchase Price)/(fraction of target shares bought by buyer).
Target EBIT/Assets	EBIT of the target divided by the target's book value of assets. If EBIT is not available (48 observations), we replace missing values with the mean value of EBIT/Assets calculated over the sample (13.6%).
Asset Deal	Indicator variable that takes the value 1 if the transaction is an asset deal, and 0 if the transaction is a share deal. An asset deal is a transaction where a list of target assets (and liabilities) transfer to the buyer.
Buyer Characteristics	
Buyer Book Value	Book value of the assets of the buyer. If there is more than one buyer, we calculate the weighted average of the assets of the different buyers using the percentage of the shares bought by the different buyers as weights.
Buyer Deal Experience	Number of transactions that a buyer has engaged in over the five years preceding the signing date of a deal.
Buyer In-house Lawyer	Takes the value 1 if the buyer did not use external legal advice but used the internal legal department, and 0 otherwise.
Buyer Law Firm Top 10	Takes the value 1 if the buyer's law firm ranks in the top ten based on the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Buyer Bank Top 10	Takes the value 1 if the buyer's bank ranks in the top ten based on the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Distance Buyer Law Firm	Geographic distance (in km) between the location of the buyer and the location of the buyer's law firm.
Seller Characteristics	
Seller Book Value	Book value of the assets of the seller. If there is more than one seller, we calculate the weighted average of the assets of the different sellers using the percentage of the shares sold by the different sellers as weights.
Seller Deal Experience	Number of transactions that a seller has engaged in over the five years preceding the signing date of a deal.
Seller In-house Lawyer	Takes the value 1 if the seller did not use external legal advice but used the internal legal department, and 0 otherwise.
Seller Law Firm Top 10	Takes the value 1 if the seller's law firm ranks in the top ten based on a ranking that uses the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Seller Bank Top 10	Takes the value 1 if the seller's bank ranks in the top ten based on a ranking that uses the number of transactions advised on between 1995 and 2010, and 0 otherwise.
Distance Seller Law Firm	Geographic distance (in km) between the location of the seller and the seller's law firm.
Deal Characteristics	
Relative Size	Size of the buyer relative to the size of the seller. To create this variable, we first calculate the ratio of the assets of the buyer to the assets of the seller. We then divide this ratio into

	ten deciles such that the resulting variable ranges between 1 (buyer is small relative to the seller) and 10 (buyer is large relative to the seller).
Relative Client Expertise	The buyer's deal experience divided by the seller's deal experience. The ratio is standardized such that it ranges between 0 (more seller expertise) and 1 (more buyer expertise). Transactions where the seller (buyer) has not undertaken any past transactions are coded such that the variable takes the value 1 (0).
Cross-Country Deal	Takes the value 1 if the target is not located in the same country as the buyer, and 0 otherwise.
Approvals Required	Number of approvals to be obtained between the signing and closing date from competition or financial authorities. The closing date is the date at which control of the target transfers from seller to buyer through the legal transfer of shares or assets.
Controlled Auction	Takes the value 1 if the transaction is organized as a controlled auction, and 0 otherwise.
Negotiation Time	Number of days between the start of negotiations over a transaction and the signing of a contract. The start of the transaction negotiations is the date at which the law firm that provided the data has opened a file on a transaction.
Buyer-Lawyer Fee	Legal fees paid by the buyer to the buyer's law firm, estimated as the product of three variables: (i) Negotiation time; (ii) number of lawyers of the legal team of the law firm that was advising the buyer; (iii) daily fee. We assume an daily fee of EUR 4,000 per average lawyer for a Top 10 law firm and EUR 3,000 for all other law firms.
Seller-Lawyer Fee	Legal fees paid by the seller to the seller's law firm, estimated as the product of three variables: (i) Negotiation time; (ii) number of lawyers of the legal team of the law firm that was advising the seller; (iii) daily fee. We assume an daily fee of EUR 4,000 per average lawyer for a Top 10 law firm and EUR 3,000 for all other law firms.
Contract Design	
%Warranties w/o Knowledge Qualifier	Percentage of warranties in a contract that do *not* have a knowledge qualifier attached, i.e., without the statement *"so far as the seller is aware"* (or any equivalent).
Warranties w/o Know. Qual. Above Median	Takes the value 1 if the percentage of warranties in a contract that do *not* have a knowledge qualifier attached is above the sample median, and 0 otherwise.
Warranties Not Material	Takes the value 1 if a contract contains a clause that states that warranty breaches do *not* need to be material, and 0 otherwise.
MAC Clause	Takes the value 1 if the contract stipulates that the transaction does not have to be completed if a material adverse event occurs in the period between the signing date and the closing (transfer) date, and 0 otherwise. The closing date is the date at which control of the target transfers from sellers to buyers through the legal transfer of shares or assets.
Warranties	Number of warranties in a contract. Warranties are statements about target (or seller) quality. Each separate quality statement is a separate warranty.
Covenants	Number of covenants in a contract. Covenants prescribe the behavior of the target and the seller in the period between the signing date and the closing (transfer) date. Each separate prescription of behavior is a separate covenant. The closing date is the date at which control of the target transfers from sellers to buyers through the legal transfer of shares or assets.
Bargaining Process	
First Draft By Buyer	Takes the value 1 if the first draft of the contract was provided by the buyer lawyer, and 0 otherwise.
Closing Time	Number of days between the signing date and the closing date. The closing date is the date at which control of the target transfers from sellers to buyers through the legal transfer of shares or assets.
Closing Time	Takes the value 1 if the number of days between the signing date and the closing date

Equals Zero	equals zero, and 0 otherwise.
Aggregate Negotiation	
Negotiation Index	The sum of five indicator variables: *Warranties w/o Knowledge Qualifier Above Median, Warranties Not Material, MAC Clause, First Draft By Buyer, and Closing Time Equals Zero*.
Pricing	
Acquisition Premium	*Target Market Value* divided by *Target Book Value (cf. Masulis and Nahata 2011)*. The variable is winsorized at 2%.
Earnout	Takes the value 1 if the contract stipulates that parts of the purchase price are conditional on target performance after the closing date, and 0 otherwise.
Purchase Price Adjustment	Takes the value 1 if the contract contains an adjustment to the purchase price based on book values of the target on the closing date. The closing date is the date at which control of the target transfers from sellers to buyers through the legal transfer of shares or assets, and 0 otherwise.
Lawyer Expertise	
Relative Lawyer Expertise	Index that measures the legal expertise of the buyer's lead lawyer relative to the legal expertise of the seller's lead lawyer. The variable averages the following index components that measure different aspects of relative lawyer expertise: (i) Years as Partner; (ii) *Deal Experience*; (iii) *M&A Specialist*; (iv) *Chambers Recommendation*; (v) *Law School Ranking*; and (vi) *US Education*. The index ranges between 0 (more seller lawyer expertise) and 1 (more buyer lawyer expertise).
Years as Partner	Years of experience of the buyer's lead lawyer relative to that of the seller's lead lawyer. Years of experience is the number of years between the year in which the lead lawyer has been promoted to partner status and the year in which the contract is signed. The ratio is standardized such that it ranges between 0 (more seller lawyer experience) and 1 (more buyer lawyer experience). Transactions where the seller (buyer) has not requested legal advice are coded such that the variable takes the value 1 (0). The variable is winsorized at 5%.
Deal Experience	Deal experience of the buyer's lead lawyer relative to that of the seller's lead lawyer. Deal experience is the number of deals that a lawyer has advised on between 01/1995 and the year in which the contract is signed. The ratio is standardized such that it ranges between 0 (more seller lawyer experience) and 1 (more buyer lawyer experience). Transactions where the seller (buyer) has not requested legal advice are coded such that the variable takes the value 1 (0). The variable is winsorized at 5%.
M&A Specialist	Takes three values: 0 if only the seller's lead lawyer is an M&A specialist; 0.5 if both or neither lead lawyers are M&A specialists; and 1 if only the buyer's lead lawyer is an M&A specialist. A lead lawyer is an M&A specialist if the corporate web-profile of the lawyer explicitly specifies M&A law as the specialization of the lawyer (rather than other specializations such as tax law or competition law).
Chambers Recommendation	Takes three values: 0 if only the seller's lead lawyer is recommended in the Chambers Expert Lawyer ranking; 0.5 if both or neither lead lawyers are recommended in the ranking; and 1 if only the buyer's lead lawyer is recommended in the ranking. The Chambers Expert Lawyer ranking provides information on "the world's leading lawyers."
Law School Ranking	Variable that reflects the quality of the law school at which the buyer's lead lawyer has studied relative to that of the seller's lead lawyer. We employ the 2012 law school ranking from www.topuniversities.com. We use the inverse of the rank to ensure that higher values indicate higher quality. The ratio is standardized such that it ranges between 0 (seller lawyer from better university) and 1 (buyer lawyer from better university). The variable is winsorized at 5%.

US Education	Takes three values: 0 if only the seller's lead lawyer has studied at a US law school; 0.5 if both or neither lead lawyers have studied at a US law school; and 1 if only the buyer's lead lawyer has studied at a US law school.
Seller Lawyer Expertise	Index that measures the legal expertise of the seller lawyer only. The variable averages six expertise measures of the seller lawyer: (i) *Years as Partner*; (ii) *Deal Experience*; (iii) *M&A Specialist*; (iv) *Chambers Recommendation*; (v) *Law School Ranking*; and (vi) *US Education*. The variable ranges between 0 (low seller lawyer expertise) and 1 (high seller lawyer expertise).
Buyer Lawyer Expertise	Index that measures the legal expertise of the buyer lawyer only. The variable averages six expertise measures of the buyer lawyer: (i) *Years as Partner*; (ii) *Deal Experience*; (iii) *M&A Specialist*; (iv) *Chambers Recommendation*; (v) *Law School Ranking*; and (vi) *US Education*. The variable ranges between 0 (low buyer lawyer expertise) and 1 (high buyer lawyer expertise).

TABLE I
SUMMARY STATISTICS

This table presents summary statistics of target, buyer, seller, and deal characteristics, reported at the deal level. The sample consists of 151 acquisitions of private targets between 2005 and 2010. Not all variables are available for all deals. Detailed variable definitions are in the Data Appendix.

	Mean	Median	25th	75th	Std. Dev.	Obs.
Target						
Purchase Price (mEUR)	222	34	10	174	795	151
Target Book Value (mEUR)	318	45	8	147	990	146
Target Market Value (mEUR)	434	80	20	232	1,291	146
Target Leverage	59%	60%	36%	81%	30%	146
Target EBIT/Assets	14%	14%	5%	15%	15%	151
Asset Deal	9%					151
Buyer						
Buyer Book Value (mEUR)	40,028	1,408	414	8,645	138,859	150
Buyer Deal Experience	11	4	1	15	16	147
Buyer In-house Lawyer	5%					151
Buyer Bank Top 10	15%					151
Buyer Law Firm Top 10	19%					151
Seller						
Seller Book Value (mEUR)	90,761	2,079	42	23,913	316,029	147
Seller Deal Experience	12	4	0	21	16	151
Seller In-house Lawyer	11%					151
Seller Bank Top 10	15%					151
Seller Law Firm Top 10	12%					151
Deal						
Cross-Country Deal	44%					151
Approvals Required (Number)	1.0	0.0	0.0	1.0	1.8	151
Controlled Auction	23%					151
Negotiation Time	170	141	74	228	134	147
Seller Fee Lawyer (mEUR)	3.6	1.1	0.5	3.8	6.9	131
Buyer Fee Lawyer (mEUR)	4.8	1.9	0.7	5.7	7.3	139
Seller-Lawyer Fee/Purch. Price	11%	3%	1%	9%	37%	130
Buyer-Lawyer Fee/Purch. Price	12%	5%	1%	16%	99%	138
Distance Seller Law Firm (km)	574	48	10	106	2,063	135
Distance Buyer Law Firm (km)	758	49	20	302	2,000	144

TABLE II
NEGOTIATION OUTCOMES

This table presents in Panel A summary statistics, and in Panel B correlations, of negotiation outcomes, reported at the deal level. The sample consists of 151 acquisitions of private targets between 2005 and 2010. Not all variables are available for all deals. Detailed variable definitions are in the Data Appendix .* indicates significance at the 5% level.

PANEL A: SUMMARY STATISTICS

	Mean	Median	25th	75th	Std. Dev.	Obs.
Contract Design						
Warranties	98	100	27	152	49	150
%Warranties w/o Kn. Qualifier	86%	89%	76%	99%	12%	150
Warranties Not Material	81%					150
MAC Clause	34%					151
Covenants	14	14	0	31	13	151
Bargaining Process						
First Draft By Buyer	44%					151
Closing Time	46	24	0	123	66	151
Pricing						
Acquisition Premium	2.4	1.6	1.0	5.1	2.3	146
Earnout	18%					151
Purchase Price Adjustment	52%					151
Aggregate Index						
Negotiation Index	2.4	2.0	1.0	4.0	1.3	150

PANEL B: SPEARMAN RANK CORRELATION

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) *Warranties*	1.00									
(2) *%Warranties w/o Kn. Qual.*	0.02	1.00								
(3) *Warranties Not Material*	0.26*	0.21*	1.00							
(4) *Covenants*	0.23*	0.01	0.22*	1.00						
(5) *MAC Clause*	0.22*	-0.02	0.08	0.34*	1.00					
(6) *First Draft By Buyer*	0.24*	0.28*	0.22*	-0.27*	0.10	1.00				
(7) *Closing Time*	-0.01	-0.12	0.13	0.48*	0.21*	-0.29*	1.00			
(8) *Acquisition Premium*	0.19*	0.12	0.07	-0.10	-0.05	0.16	-0.09	1.00		
(9) *Earnout*	0.05	0.12	0.05	-0.17*	0.03	0.11	-0.10	0.31*	1.00	
(10) *Purchase Price Adjustment*	0.24*	0.03	0.03	0.11	0.15	-0.11	0.06	-0.02	0.03	1.00

TABLE III
RELATIVE LAWYER EXPERTISE

The table presents in Panel A summary statistics of *Relative Lawyer Expertise*, which is an index that measures relative lawyer expertise (*Buyer Lawyer Expertise/Seller Lawyer Expertise*), reported at the deal level. The panel also provides summary statistics of the six components which the index averages: *Years as Partner*; *Deal Experience*; M&A Specialist; *Chambers Recommendation*; *Law School Ranking*; *US Education*. The index and its components are standardized to range between 0 and 1. Higher (lower) values indicate more legal expertise on the side of the buyer (seller) lawyer. *Years as Partner*, *Deal Experience*, and *Law School Ranking* are based on continuous variables, and defined as the value of the buyer lawyer divided by the value of the seller lawyer. (We use inverse values of the ranking position for *Law School Ranking* so that higher values reflect higher university quality.) *M&A Specialist*, *Chambers Recommendation*, and *US Education* are based on indicator variables and can take three values: 0 if the seller lawyer has more expertise; 0.5 if both lawyers have the same expertise; and 1 if the buyer lawyer has more expertise. Panel B reports rank correlations of *Relative Lawyer Expertise* and the six index components. The sample consists of 151 acquisitions of private targets between 2005 and 2010. * indicates significance at the 5% level.

PANEL A: SUMMARY STATISTICS

	Mean	Median	25th	75th	Std. Dev.	Obs.
Index						
Relative Lawyer Expertise	0.41	0.37	0.25	0.54	0.22	111
Index Components						
Years as Partner	0.37	0.23	0.07	0.50	0.36	121
Deal Experience	0.32	0.09	0.03	0.80	0.41	144
M&A Specialist	0.55	0.50	0.50	0.50	0.26	132
Chambers Recommendation	0.59	0.50	0.50	1.00	0.35	151
Law School Ranking	0.22	0.09	0.03	0.35	0.27	125
US Education	0.50	0.50	0.50	0.50	0.31	129

PANEL B: SPEARMAN RANK CORRELATION

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) *Relative Lawyer Exper.*	1.00						
(2) *Years as Partner*	0.67*	1.00					
(3) *Deal Experience*	0.66*	0.47*	1.00				
(4) *M&A Specialist*	0.67*	0.49*	0.64*	1.00			
(5) *Chambers Recomm.*	0.66*	0.29*	0.61*	0.49*	1.00		
(6) *Law School Ranking.*	0.73*	0.42*	0.31*	0.36*	0.21*	1.00	
(7) *US Education*	0.67*	0.33*	0.10	0.25*	0.21*	0.76*	1.00

TABLE IV
NEGOTIATION OUTCOMES AND RELATIVE LAWYER EXPERTISE: BASIC RESULTS

This table presents OLS, Logit (marginal effects), and Ordered Probit regressions relating *Relative Lawyer Expertise* to M&A negotiation outcomes. *Relative Lawyer Expertise* is an index between 0 and 1, where higher (lower) values indicate more legal expertise on the buyer side (seller side). Columns 3 and 7 contain deal signed and closed on different days as MAC clauses are otherwise not relevant. Variable definitions are in the Data Appendix. The bottom of the table shows the results from alternative regressions, which interact *Relative Lawyer Expertise* with proxies for deal complexity (*Log Target Book Value*, *Cross-Country Deal*, or both). We only report *p*-values for a test of joint significance of *Relative Lawyer Expertise* and the interaction term(s). Year indicators and constants are included but not reported. *t*-statistics for standard errors clustered by drafting-law-firm are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Contract Design			Bargaining Process		Negotiation Index	
	%Wts. w/o Kn. Qual.	*Warranties Not Material*	*MAC Clause*	*First Draft By Buyer*	*Closing Time*		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Relative Lawyer	0.15***	0.40**	0.90**	1.02***	-80.23*	2.62***	2.34***
Expertise	(2.98)	(2.52)	(2.53)	(3.36)	(-1.94)	(6.08)	(4.02)
Relative Size	0.00	0.01	0.01	0.04**	4.73	0.02	0.06
	(0.32)	(1.02)	(0.23)	(2.14)	(1.03)	(0.71)	(1.16)
Cross-Country Deal	-0.03*	-0.08	-0.06	-0.47***	0.23	-0.99**	-1.00**
	(-1.76)	(-1.21)	(-0.35)	(-3.74)	(0.05)	(-2.55)	(-2.13)
Log(Target Book Value)	-0.01**	-0.01	-0.09***	-0.11**	4.63	-0.25***	-0.16**
	(-2.18)	(-1.04)	(-2.69)	(-2.35)	(1.37)	(-3.45)	(-2.10)
Asset Deal	0.03	-0.13	-0.35***	-0.29	39.55**	-0.63**	-0.59
	(1.48)	(-1.43)	(-3.47)	(-1.25)	(2.52)	(-2.15)	(-1.35)
Seller Bank Top 10	-0.02	0.01	-0.09	-0.01	19.94	0.09	0.13
	(-0.30)	(0.19)	(-0.41)	(-0.04)	(0.87)	(0.18)	(0.29)
Buyer Bank Top 10	0.02	0.03	0.33***	0.08	-20.29	0.34	0.22
	(0.75)	(0.93)	(3.70)	(0.25)	(-1.42)	(1.13)	(0.99)
Warranties	0.00	0.00				0.00**	0.01***
	(0.11)	(1.41)				(2.43)	(2.58)
Approvals Required					12.30***	-0.00	0.05
					(4.46)	(-0.03)	(0.85)
Model	OLS	Logit	Logit	Logit	OLS	Ordered Probit	Ordered Probit
Obs.	105	105	74	105	105	105	74
Adjusted/Pseudo R^2	0.103	0.227	0.199	0.345	0.214	0.205	0.188
Specifications with interaction term(s): *p*-values for joint sig. with							
… target size	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)
… cross-country	(0.00)	(0.00)	(0.11)	(0.00)	(0.04)	(0.00)	(0.00)
… both interactions	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)

TABLE V

NEGOTIATION OUTCOMES AND RELATIVE LAWYER EXPERTISE:

FIXED-EFFECTS REGRESSIONS

This table presents regressions that replicate the specifications of Table IV, but using OLS regressions and including in Panel A drafting-law-firm fixed effects, in Panel B client fixed effects, and in Panel C lawyer fixed effects. *t*-statistics for standard errors clustered at the drafting-law-firm level are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Contract Design			Bargaining Process		
	%Wts. w/o Kn. Qual.	*Wts. Not Material*	*MAC Clause*	*First Draft By Buyer*	*Closing Time*	*Negotiation Index*
	(1)	(2)	(3)	(4)	(5)	(6)
PANEL A: DRAFTING-LAW-FIRM FIXED EFFECTS						
Relative Lawyer	0.17***	0.46***	0.48*	0.51***	-51.47**	1.60***
Expertise	(7.27)	(7.15)	(1.88)	(3.67)	(-2.37)	(4.29)
Model	OLS	OLS	OLS	OLS	OLS	OLS
Obs.	105	105	74	105	105	105
Adjusted R^2	0.204	0.170	0.258	0.453	0.257	0.475
PANEL B: CLIENT FIXED EFFECTS						
Relative Lawyer	0.15***	0.39	0.93**	0.74***	-67.22***	2.95***
Expertise	(4.17)	(1.52)	(2.64)	(3.64)	(-6.86)	(3.82)
Model	OLS	OLS	OLS	OLS	OLS	OLS
Obs.	105	105	74	105	105	105
Adjusted R^2	0.379	0.510	0.384	0.323	0.266	0.439
PANEL C: LAWYER FIXED EFFECTS						
Relative Lawyer	0.14**	0.20**	0.68*	0.64***	-68.11	1.69***
Expertise	(2.18)	(2.81)	(1.81)	(3.38)	(-1.65)	(4.67)
Model	OLS	OLS	OLS	OLS	OLS	OLS
Obs.	105	105	74	105	105	105
Adjusted R^2	0.113	0.099	0.107	0.282	0.279	0.331

TABLE VI

NEGOTATIONS INDEX AND RELATIVE LAWYER EXPERTISE:

FIXED-EFFECTS REGRESSIONS

This table presents Ordered Probit and OLS regressions relating *Relative Lawyer Expertise* to the *Negotiation Index*. In Columns 2 and 4, we simultaneously include three sets of fixed effects: (i) drafting law-firm fixed effects; (ii) (restricted) fixed effects for each client involved in more than two sample transactions, and (iii) lawyer fixed effects. Detailed variable definitions are in the Data Appendix. Year indicators and constants are included but not reported. *t*-statistics for standard errors clustered at the drafting-law-firm level are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Negotiation Index			
	(1)	(2)	(3)	(4)
Relative Lawyer Expertise	2.62***	6.49***	1.98***	2.34***
	(6.08)	(3.94)	(6.10)	(3.60)
Relative Size	0.02	0.22**	0.03	0.10
	(0.71)	(2.48)	(0.88)	(1.54)
Cross-Country Deal	-0.99**	-1.77***	-0.81**	-0.70
	(-2.55)	(-7.12)	(-2.52)	(-1.50)
Log(Target Book Value)	-0.25***	-0.73***	-0.18***	-0.27*
	(-3.45)	(-9.42)	(-3.00)	(-1.83)
Asset Deal	-0.63**	0.07	-0.49*	0.04
	(-2.15)	(0.09)	(-1.87)	(0.04)
Seller Bank Top 10	0.09	1.09**	0.08	0.36
	(0.18)	(1.97)	(0.18)	(0.47)
Buyer Bank Top 10	0.34	1.24***	0.28	0.53*
	(1.13)	(3.62)	(1.01)	(1.82)
Warranties	0.00**	-0.01	0.00**	0.00
	(2.43)	(-1.22)	(2.37)	(0.40)
Approvals Required	-0.00	0.17*	-0.02	0.03
	(-0.03)	(1.95)	(-0.44)	(0.26)
Model	Ordered Probit	Ordered Probit	OLS	OLS
Controlling for Fixed Effects:				
Drafting-Law-Firm	No	Yes	No	Yes
Client	No	Yes	No	Yes
Lawyer	No	Yes	No	Yes
Obs.	105	105	105	105
Adjusted/Pseudo R^2	0.205	0.511	0.365	0.310

TABLE VII
SUBSAMPLE ANALYSIS:
REPEAT DEALS AND DEALS WITHOUT CLIENT-LAW FIRM SWITCHES

This table presents regressions that replicate the OLS, Logit (marginal effects), and Ordered Probit specifications of Table IV, but restrict these regressions to the sample of deals where concerns over endogenous lawyer assignments are ameliorated. In Panel A, the sample contains only those deals where we can verify that the law firm that provided the data had established a relation with the client prior to the current transaction (i.e., the client did not switch to the law firm for this transaction). In Panel B, the sample is further restricted to those deals where we know that neither the buyer nor the seller has switched to a new law firm. Detailed variable definitions are in the Data Appendix. t-statistics for standard errors clustered at the drafting-law-firm level are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Contract Design			Bargaining Process		
	%Wts. w/o Kn. Qual.	*Wts. Not Material*	*MAC Clause*	*First Draft By Buyer*	*Closing Time*	*Negotiation Index*
	(1)	(2)	(3)	(4)	(5)	(6)
PANEL A: SUBSAMPLE — REPEAT DEALS WITH OUR LAW FIRM ONLY						
Relative Lawyer	0.23**	0.20**	0.81***	0.42	-118.19*	2.60***
Expertise	(2.49)	(2.13)	(3.03)	(1.36)	(-1.93)	(3.86)
Model	OLS	Logit	Logit	Logit	OLS	Ordered Probit
Obs.	67	63	43	67	67	67
Adj./Pseudo R^2	0.154	0.313	0.282	0.367	0.387	0.269
PANEL B: SUBSAMPLE — EXCLUDE DEALS WITH CLIENT LAW-FIRM SWITCHES						
Relative Lawyer	0.18**	0.01	1.76*	0.04**	-123.17*	3.34***
Expertise	(2.89)	(0.61)	(1.67)	(2.33)	(-2.14)	(2.99)
Model	OLS	Logit	Logit	Logit	OLS	Ordered Probit
Obs.	49	46	33	49	49	49
Adj./Pseudo R^2	0.147	0.619	0.390	0.431	0.589	0.328

TABLE VIII
NEGOTATION INDEX AND RELATIVE LAWYER EXPERTISE:
INSTRUMENTAL-VARIABLES MODELS

This table presents first- and second-stage estimates from an IV model relating *Relative Lawyer Expertise* to the *Negotiation Index*. We exclude cases with in-house lawyers. The IV regressions use the LIML estimator and measures of client-law-firm distance as instruments. The measures in Column 1 are the distances between the buyer and her law firm and the seller and her law firm. Column 2 additionally uses the distance ratio (*Log(Distance Buyer Law Firm+1)*/*Log(Distance Seller Law Firm+1)*)) and allows for nonlinearities by interacting the distance ratio with three bins that capture whether a buyer uses a law firm nearby (<50km), at moderate distance (>50km but <100km), or further away (>100km). All regressions include year indicators. The second-stage regression in Column 3 uses Column 2 as the first-stage regression. For comparison, the second-stage regressions in Columns 4 and 5 are based on first-stage regressions that bin at distances of 25km and 150km (Column 4), or use only two bins with a separation at 150km (Column 5). For reference, in Column 6, we present a second-stage regression on the same sample but without our IV procedure. Detailed variable definitions are in the Data Appendix. *t*-statistics for standard errors clustered at the drafting-law-firm level are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Log(Relative Lawyer Expertise)		Negotiation Index			
	(1)	(2)	(3)	(4)	(5)	(6)
Log(Relative Lawyer Expertise)			0.90***	0.91***	0.77***	0.40***
			(3.15)	(3.11)	(3.17)	(3.14)
Log(Distance Buyer Law Firm+1)	0.05***	0.11**				
	(2.81)	(3.92)				
Log(Distance Seller Law Firm+1)	0.05	-0.01				
	(1.52)	(-0.43)				
Relative Size	0.06**	0.03**	-0.02	-0.02	-0.01	0.02
	(2.44)	(1.99)	(-0.44)	(-0.45)	(-0.20)	(0.48)
Cross-Country Deal	-0.07	-0.16*	-0.97**	-0.97**	-0.95**	-0.91**
	(-0.69)	(-1.71)	(-2.37)	(-2.40)	(-2.32)	(-2.01)
Log(Target Book Value)	-0.02	-0.03	-0.21***	-0.21***	-0.21***	-0.22***
	(-0.51)	(-0.66)	(-3.04)	(-3.04)	(-3.09)	(-2.84)
Asset Deal	-0.26	-0.49**	-0.13	-0.13	-0.16	-0.25
	(-1.50)	(-2.29)	(-0.54)	(-0.52)	(-0.66)	(-0.77)
Seller Bank Top 10	0.01	0.05	0.15	0.14	0.15	0.18
	(0.06)	(0.32)	(0.33)	(0.33)	(0.37)	(0.42)
Buyer Bank Top 10	-0.01	-0.03	0.29	0.29	0.28	0.26
	(-0.11)	(-0.21)	(1.12)	(1.12)	(1.10)	(0.93)
Warranties	0.00	0.00	0.01**	0.01*	0.01*	0.01*
	(1.47)	(1.12)	(1.77)	(1.73)	(1.92)	(1.89)
Approvals Required	0.06**	0.06**	-0.01	-0.01	-0.00	0.02
	(3.34)	(2.54)	(-0.17)	(-0.17)	(-0.06)	(0.24)
Distance Ratio	No	Yes	Yes	Yes	Yes	No
Distance-Bin Fixed Effects	No	Yes	Yes	Yes	Yes	No
Distance Ratio x Distance-Bin FE	No	Yes	Yes	Yes	Yes	No
Model	First Stage	First Stage	Second Stage	Second Stage	Second Stage	Ordered Probit
Obs.	88	88	88	88	88	88
Adjusted R^2	0.127	0.284				0.158

TABLE IX
NEGOTATIONS AND RELATIVE LAWYER EXPERTISE:
CONTROLLING FOR ABSOLUTE EXPERTISE

This table presents Ordered Probit regressions relating *Relative Lawyer Expertise* to the *Negotiation Index*. Detailed variable definitions are in the Data Appendix. Year indicators and constants are included but not reported. *t*-statistics for standard errors clustered at the drafting-law-firm level are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Negotiation Index		
	(1)	(2)	(3)
Relative Lawyer Expertise	2.62***	3.18**	2.70***
	(6.08)	(2.52)	(2.75)
Buyer Lawyer Expertise		-0.45	
		(-0.60)	
Seller Lawyer Expertise		0.31	
		(0.31)	
Relative Size	0.02	0.02	0.01
	(0.71)	(0.66)	(0.39)
Cross-Country Deal	-0.99**	-0.97**	-1.01***
	(-2.55)	(-2.50)	(-2.87)
Log(Target Book Value)	-0.25***	-0.26***	-0.26***
	(-3.45)	(-3.42)	(-3.94)
Asset Deal	-0.63**	-0.62**	-0.70**
	(-2.15)	(-2.07)	(-2.35)
Seller Bank Top 10	0.09	0.09	0.07
	(0.18)	(0.18)	(0.15)
Buyer Bank Top 10	0.34	0.37	0.42
	(1.13)	(1.18)	(1.43)
Warranties	0.00**	0.00**	0.00**
	(2.43)	(2.39)	(2.36)
Approvals Required	-0.00	0.00	0.00
	(-0.03)	(0.01)	(0.00)
Model	Ordered Probit	Ordered Probit	Ordered Probit
Controlling for Fixed Effects:			
Buyer Lawyer Expertise Quartiles	No	No	Yes
Seller Lawyer Expertise Quartiles	No	No	Yes
Obs.	105	105	105
Pseudo R^2	0.205	0.206	0.214

TABLE X
PLACEBO REGRESSIONS

This table presents OLS and Logit (marginal effects) regressions that relate *Relative Lawyer Expertise* to four measures of contract design for which incentives of buyers and sellers are likely to be aligned: *Warranties*; *Covenants*; *Earnout*; and *Purchase Price Adjustment*. The regressions in Columns 2 and 4 only contain deals where signed and closed on different date as covenants and purchase price adjustments are otherwise not relevant. Detailed variable definitions are in the Data Appendix. Year indicators and constants are included but not reported. *t*-statistics for standard errors clustered at the drafting-law-firm level are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Warranties	*Covenants*	*Earnout*	*Purchase Price Adjustment*
	(1)	(2)	(3)	(4)
Relative Lawyer Expertise	-2.48	-3.51	0.06	0.30
	(-0.14)	(-0.60)	(0.77)	(0.81)
Relative Size	1.34	0.85*	0.00	0.00
	(0.71)	(1.76)	(0.11)	(0.11)
Cross-Country Deal	20.11	-0.21	0.09*	0.09
	(1.42)	(-0.09)	(1.89)	(0.91)
Log(Target Book Value)	-4.21**	1.17*	-0.09***	-0.03
	(-2.31)	(1.98)	(-3.94)	(-1.12)
Asset Deal	-38.25***	-11.75***	0.28	0.09
	(-3.52)	(-5.97)	(0.72)	(0.40)
Seller Bank Top 10	13.07	4.10	0.07	-0.20*
	(0.92)	(1.67)	(0.70)	(-1.74)
Buyer Bank Top 10	6.49	1.52	0.17**	0.30
	(0.98)	(1.05)	(2.12)	(1.45)
Target EBIT / Assets			-0.12*	-1.00*
			(-1.86)	(-1.66)
Approvals Required			0.03***	0.02
			(3.34)	(0.51)
Model	OLS	OLS	Logit	Logit
Obs.	105	74	105	74
Adjusted/Pseudo R^2	0.117	0.135	0.344	0.169

TABLE XI

ACQUISITON PRICES AND RELATIVE LAWYER EXPERTISE

This table presents OLS regressions relating *Relative Lawyer Expertise* to the prices paid for the targets (*Acquisition Premium*). Detailed variable definitions are in the Data Appendix. Year indicators and constants are included but not reported. *t*-statistics for standard errors clustered at the drafting-law-firm level are reported in parentheses. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Acquisition Premium				
	(1)	(2)	(3)	(4)	(5)
Relative Lawyer Expertise	-2.01**	-2.20**	-1.95**	-1.83**	-1.96**
	(-2.55)	(-2.54)	(-2.37)	(-2.52)	(-2.41)
Relative Size	0.18*	0.18*	0.18*	0.19**	0.19**
	(1.97)	(1.94)	(2.02)	(2.08)	(2.07)
Cross-Country Deal	0.57	0.61	0.55	0.57*	0.60*
	(1.60)	(1.61)	(1.54)	(1.93)	(1.83)
Log(Target Book Value)	-0.49***	-0.48***	-0.50***	-0.50***	-0.49***
	(-5.46)	(-5.03)	(-5.86)	(-5.56)	(-5.27)
Asset Deal	0.69	0.66	0.65	0.59	0.53
	(1.17)	(1.10)	(1.03)	(1.05)	(0.87)
Target EBIT/Assets	1.76***	1.79**	1.76***	1.65**	1.68**
	(3.00)	(2.79)	(2.85)	(2.80)	(2.52)
Approvals Required	0.12*	0.11	0.12**	0.14**	0.14**
	(1.91)	(1.71)	(2.13)	(2.17)	(2.10)
Seller Bank Top 10	0.52	0.54	0.53	0.59	0.62*
	(1.17)	(1.18)	(1.20)	(1.67)	(1.76)
Buyer Bank Top 10	0.11	0.08	0.11	0.26	0.23
	(0.47)	(0.33)	(0.48)	(0.93)	(0.82)
%Warranties w/o Know. Qual.		1.32			1.21
		(1.26)			(1.15)
Warranties Not Material			-0.19		-0.15
			(-0.67)		(-0.64)
MAC Clause				-0.65***	-0.64***
				(-4.57)	(-4.60)
Model	OLS	OLS	OLS	OLS	OLS
Obs.	105	105	105	105	105
Adjusted R^2	0.346	0.345	0.340	0.373	0.364
Specifications with interaction term(s): *p*-values for joint sig. with					
… target size	(0.02)	(0.03)	(0.05)	(0.03)	(0.05)
… cross-country	(0.02)	(0.01)	(0.02)	(0.04)	(0.02)
… both interaction terms	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

TABLE XII

THE COSTS OF LAWYER EXPERTISE

This table presents in Columns 1 to 4 OLS regressions that explain different measures of the costs of law firms to buyers and sellers. *Fee Seller Lawyer* and *Fee Buyer Lawyer* proxy for the legal fees paid by the seller or buyer to their law firms, based on (i) the number of days between the start of negotiations and the signing of a contract; (ii) the number of lawyers of the legal teams; (iii) a daily fee. Column 5 reports OLS regressions that explain the duration of negotiations. *Negotiation Time* is the number of days between the start of negotiations over a transaction and the signing of a contract. Detailed variable definitions are in the Data Appendix. Year indicators and constants are included but not reported. We report in parentheses *t*-statistics, calculated using robust standard errors. *** indicates significance at 1%, ** at 5%, and * at 10%.

	Log(Fee Seller Lawyer)	Log(Fee Buyer Lawyer)	Seller-Lawyer Fee/ Purch. Price	Buyer-Lawyer Fee/ Purch. Price	Negotiation Time
	(1)	(2)	(3)	(4)	(5)
Seller Lawyer Expertise	0.54		-0.15		53.08
	(1.46)		(-1.02)		(0.96)
Buyer Lawyer Expertise		-0.35		-0.27	-177.87**
		(-0.81)		(-0.79)	(-2.40)
Relative Size	-0.02	0.00	-0.00	-0.01	-6.40
	(-0.72)	(0.06)	(-0.11)	(-0.30)	(-1.21)
Cross-Country Deal	0.45**	0.16	0.07	0.03	73.42**
	(2.43)	(0.98)	(1.18)	(0.18)	(2.33)
Log(Target Book Value)	0.15***	0.19***	-0.05***	-0.02	7.48
	(2.94)	(4.99)	(-3.49)	(-0.49)	(1.19)
Asset Deal	0.27	-0.09	0.28	-1.58	8.69
	(1.28)	(-0.34)	(1.14)	(-1.16)	(0.31)
Model	OLS	OLS	OLS	OLS	OLS
Obs.	101	117	101	117	101
Adjusted R^2	0.132	0.260	0.091	0.091	0.154