

What Drives Acquisition Premiums and Why do Targets Reject Offers? – Evidence from Failed Acquisition Offers

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Abstract

Using a unique hand-collected sample of 1,195 failed acquisition offers from 1979 to 2012, we investigate two research questions. The first focuses on whether it is the synergy hypothesis or the information hypothesis that drives acquisition premiums, while the second focuses on whether a target's rejection of an acquisition offer is consistent with rent extraction or incentive alignment between management and shareholders. A key factor in addressing these two questions is to partition the sample into acquisition offers that fail due to the target's rejection (rejection group) and those that fail due to other reasons (other-reasons group). With respect to our first question, we find that the information hypothesis dominates in the rejection group, while the synergy hypothesis dominates in the other-reasons group. With respect to our second question, our analyses focus on only the rejection group because unlike the other-reasons group, in the rejection group the CEO likely plays a key role in the rejection decision. Therefore, this setting potentially has the largest conflict of interest between managers and shareholders. Using the rejection group, we test for the efficacy of different corporate governance measures in facilitating managerial rent extraction or incentive alignment. We find that the existence of a poison pill provision and, to a lesser extent, CEO share ownership, exacerbate managerial rent extraction. In contrast, we find that the existence of a staggered board and higher levels of CEO option ownership enhance incentive alignment.

Keywords: Mergers and acquisitions; Failed acquisitions; Corporate governance; Incentive alignment; Rent extraction.

1. Introduction

In this paper, we make use of a unique hand-collected database of failed acquisition offers to address two fundamental research questions. First, what are the drivers of acquisition premiums? Second, do commonly used measures of corporate governance facilitate incentive alignment or exacerbate rent extraction?

Empirical research analyzing the reasons for acquisition premiums accruing to target firm shareholders in unsuccessful acquisitions offers two explanations. One explanation is that these premiums are due to potential synergies with the acquiring firm (termed the synergy hypothesis). Another explanation is that the premiums reflect undervaluation of the target in the marketplace (termed the information hypothesis). Differentiating between these two hypotheses is difficult in the context of successful acquisitions.¹ However, inherent in failed acquisitions are post-failure histories that enable us to discern which of the two explanations is more likely.

A key factor in distinguishing which of the two hypotheses may apply lies in understanding why an offer is unsuccessful. Assuming that management acts in shareholders' best interest, an acquisition offer that fails due to the target's rejection suggests that either the target's management or board of directors believes that the offer is inadequate. In contrast, cases where the acquisition fails due to other reasons suggests that, by not rejecting the offer, management or the board implicitly agreed with the valuation reflected by the offer. To test whether the synergy or information hypothesis apply to each of our groups, we construct a comprehensive sample of 1,195 failed acquisition offers between 1979 and 2012 that we partition into two groups: 635

¹ In successful acquisitions, it is difficult to disentangle organic improvements in the target's future performance from those that arise from synergies originating from the acquisition.

observations of acquisitions that fail due to rejection of the offer by either the target's management or the board of directors (rejection group), and 560 observations of acquisitions that fail due to other reasons (other-reasons group).

We find that the returns starting 25 trading days prior to an acquisition offer and ending 25 trading days after the failure date (the proposal period) are significantly positive for the rejection group and significantly negative for the other-reasons group. While the results of positive revaluation for the rejection group cannot definitively support only one of the two hypotheses (i.e., synergy or information), the results documenting a negative revaluation for the other-reasons group are only supportive of the synergy hypothesis, as they suggest that investors perceive that those target firms are only valuable if they are acquired. Additional results for long-term returns, long-term financial performance, and future probability of delisting and takeover of target firms predominantly support the information hypothesis for the rejection group and solely support the synergy hypothesis for the other-reasons group. These results are novel and are in contrast with prior literature (e.g., Bradley, Desai, and Kim, 1983; Davidson, Dutia, and Cheng, 1989).

With respect to our second research question, prior literature has been unable to reach a consensus regarding the efficacy of commonly used corporate governance measures in facilitating managerial rent extraction or incentive alignment.² We add to this literature by focusing on a new setting in which the manager's decision likely has a substantial impact on his career prospects and wealth. Specifically, we focus on the rejection group because, unlike in the other-reasons group, in a rejection, the CEO likely plays a key role.³ Therefore, relative to settings used in prior

² For a comprehensive list of papers offering differing views on commonly used corporate governance measures, please see section 3.3.

³ In a rejection decision, shareholders' approval is not required.

literature, this setting can probably result in a larger conflict of interest between management and shareholders. In this group we examine whether corporate governance measures facilitate managers acting in their own interest (termed rent extraction), or in shareholders' best interest (termed incentive alignment). Observing a negative association between the use of corporate governance measures and post-rejection firm performance would support the rent extraction hypothesis and would indicate that these measures are of weak corporate governance. Alternatively, observing a positive or no association would support the incentive alignment hypothesis and would indicate that these measures are of strong corporate governance.

We examine the four most commonly adopted corporate governance measures: a staggered board, the presence of a poison pill provision, CEO share ownership, and CEO option ownership.⁴ We measure performance in two ways. First, we calculate the target's stock return during the five-day window surrounding the rejection date. During this time investors learn that management rejected the acquisition offer; thus, the market reaction reflects investors' assessment of whether the rejection is consistent with shareholders' interest. Second, we examine the target's long-term operating profits subsequent to the rejection of the offer in order to discern whether the rejection is aligned with shareholders' interests. We find that the existence of a poison pill provision, and to a lesser extent CEO share ownership, exacerbate the rent extraction problem. In contrast, we find that the existence of a staggered board and higher levels of CEO option ownership facilitate incentive alignment.

Analyzing failed acquisitions and separating between the rejection and other-reasons

⁴ We do not analyze the G-index as it only applies to a relatively small number of firms in our sample (98 observations).

groups, we significantly contribute to two streams of literature. The first stream documents a positive revaluation to target firms in failed acquisition offers only if they are subsequently acquired, concluding that only the synergy hypothesis is supported in the context of failed acquisitions. For example, Bradley et al. (1983) show that the positive revaluation found for targets in 112 failed tender offers is solely attributable to firms that receive a future successful tender offer, consistent with the synergy hypothesis. Furthermore, Davidson et al. (1989), using a sample of 169 failed acquisition offers, also find support for the synergy hypothesis by documenting that regardless of the reason for the merger failure, no permanent share revaluation exists for firms that are not subsequently acquired. Results from our comprehensive sample of 1,195 failed acquisition offers do not support this conclusion. Rather, we show that the information hypothesis dominates the synergy hypothesis for our rejection group. In this aspect, our results support Malmendier et al. (2016) who compare cash- and stock-financed failed takeover bids, and provide, in their setting, evidence consistent with the information hypothesis. Furthermore, in contrast to prior literature that documents a positive (zero) revaluation for firms that are subsequently acquired (remain independent), we find a permanent negative revaluation for our other-reasons group irrespective of whether they are acquired in the future. Our results indicate that identifying the reason for the acquisition failure is crucial for distinguishing between the synergy hypothesis and the information hypothesis.

Our paper also contributes to a second stream of literature that focuses on the effectiveness of corporate governance measures. This literature (detailed in section 3.3) has been unable to conclusively determine which corporate governance measures enhance shareholders' value. Since we condition on the reason for the failed offer, we can concentrate our analysis on the rejection group where the acquisition failure is primarily attributable to the target's management. By

employing the four commonly used corporate governance measures (i.e., staggered board, poison pill provision, CEO share ownership, and CEO option ownership) in our unique setting, we are able to draw sharper inferences in identifying which corporate governance measures enhance shareholders' value.

Our paper also makes a contribution by offering a unique dataset for future research on mergers and acquisitions. Since the Thompson Reuters Securities Data Company (SDC) Mergers and Acquisitions database does not provide reasons for failed acquisitions, we hand-collected data on such reasons from newspaper articles to construct a comprehensive dataset encompassing 1,195 failed acquisition offers in the United States between 1979 and 2012. To our knowledge, this is by far the largest and most detailed dataset on failed acquisition offers, opening new research avenues to future research in mergers and acquisitions.

The remainder of this paper is organized as follows. In section 2 we describe the sample. The results of our empirical analyses are reported in section 3. Section 4 provides a summary and conclusions.

2. Sample

Our sample construction method is detailed in Appendix 2. We begin with a sample of 58,327 acquisition offers identified by the SDC database. This sample includes firms whose merger or acquisition was announced between January 1, 1979 and December 31, 2012, and whose target is a publicly traded U.S. company. We exclude 52,596 successful acquisitions, leaving us with a potential sample of 5,731 failed acquisition offers. Then, using information provided by the SDC database, we exclude observations for which: (1) the percentage ownership sought is less than 50 percent, (2) the target market value is less than \$10 million, (3) the status of the deal is

“Seeking Buyer Withdrawn” or “Dis Rumor”, (4) the target is missing a CRSP permanent number or a COMPUSTAT gvkey number, (5) the target is not traded as of 25 trading days prior to the acquisition announcement date, (6) the target is missing a COMPUSTAT gvkey number, (7) the deal is classified as a share repurchase, (8) the acquirer and the target are the same firm, or (9) the target stock price is less than \$1. These additional steps leave us with 3,018 failed acquisition offers identified using the SDC database.

Addressing our research questions necessitates identifying the reason and date for each failed acquisition offer. Despite the extensive use of the SDC database by prior literature, SDC does not specify the reason behind failed acquisition offers, documenting only whether an acquisition offer is successful. To obtain this information, we manually download from the Factiva database all press releases and news articles pertaining to the 3,018 failed acquisition offers over the period starting six months prior to the SDC acquisition announcement date and ending one year after the SDC withdrawn date. Reading through these news articles allows to both identify the reason behind failed acquisition offers and correct for mistakes in the SDC database.⁵ This extensive process results in a reduction of 465 observations that are misclassified by SDC and 192 observations for which we can find no press release. Additionally, following Bates and Lemmon (2003) and Bates and Becher (2016), we combine multiple bidders that seek to acquire the same target into one observation if all bidding parties fail in acquiring the target, resulting in the elimination of 241 observations. Further, we remove 593 failed acquisition offers with multiple bidders where one bidder successfully acquired the target. Finally, we exclude 105 observations for which we did not have COMPUSTAT or CRSP information available and 87 observations

⁵ SDC is found to be erroneous regarding information pertaining to acquirers (Barnes, Harp and Oler, 2014).

where the acquisition process lasted for more than two years. This reduced sample consists of 1,335 observations for which we could identify the announcement date, the cash and stock amount of the initial offer price, the amount and date of any revised offers, the date of and reason for any rejections, and the final termination date and reason.

We categorize each failed acquisition offer into one of two groups. The first group consists of all failed acquisition offers that were rejected by either the target's management or its board of directors (rejection group). The second group includes all other reasons for the failed acquisition (other-reasons group). During this categorization process, we further remove 140 observations that contain multiple reasons for the failure and therefore could not be exclusively assigned to either group, leaving us with a final sample of 1,195 observations. Table 1 provides the classification of the failure reasons. As shown in the table, the rejection group consists of 635 observations. Within this group, the main categories for rejection are (1) the offer price was too low (189 observations), (2) the target board rejected without providing a specific reason (168 observations), and (3) the target firm stating that the offer was not in shareholders' best interest (136 observations). Our other-reasons group is comprised of 560 observations and includes 189 failed acquisition offers where the acquirer withdrew the offer, 131 observations where there was mutual consent by the acquirer and target to cease the acquisition process, 25 observations where the acquisition was terminated due to intervention by regulators, and 215 observations where failure was due to miscellaneous reasons.

[Insert Table 1 about here.]

3. Empirical analyses

Our analyses in sections 3.1 and 3.2 investigate whether the acquisition offer premium is

attributable to the synergetic value of the target or to its undervaluation in the market as a stand-alone company. In Section 3.1, we examine the revaluation during the proposal period for the rejection group and the other-reasons group. In section 3.2, we further test for the synergy versus information hypotheses for both groups using future stock returns, future financial performance, and future probability of delisting and takeover. In Section 3.3, we examine our second research question by focusing on the rejection group and testing whether different corporate governance measures facilitate managerial rent extraction or incentive alignment. Under rent extraction, we expect to observe a negative association between corporate governance measures and firm performance. Under incentive alignment, we expect to observe either a positive or no association between corporate governance measures and firm performance.

3.1 Revaluation during the proposal period

In this sub-section, we investigate the returns during the proposal period for the rejection and other-reasons groups. Figure 1 plots the cumulative market-adjusted returns (CAR) starting 25 trading days prior to the acquisition announcement date and ending 25 trading days following the failure date. For the rejection group, the failure date is defined as the last rejection date identified from newspaper articles and press releases. For the other-reasons group, we define the failure date as the first press release that provides information about the reason for the acquisition failure.⁶ To account for differences in the length of the proposal period across acquisition offers, we follow the procedure described in detail by Malmendier et al. (2016) and express our trading days as a percentage of the proposal period. For example, the 50 percent day

⁶ For both groups we verify that there are no further events that are related to the acquisition process by reading news articles regarding the target firm up to one year following the failure date.

in the figure reflects trading day 50 if a bid fails after 100 trading and trading day 20 if a bid fails after 40 trading days. The pattern of returns over the proposal period reflects a continuous updating by investors of the probability of the failure, as well as changes in the valuation of the target conditional on success.

[Insert Figure 1 about here.]

As shown in Figure 1, for our entire sample, the mean abnormal return is about 5 percent over the 25 trading days preceding the acquisition announcement date. This is consistent with prior literature documenting pre-announcement stock price run-ups. Also consistent with prior research, we observe a mean abnormal return of about 10 percent at the acquisition announcement date. As time progresses, there is a gradual decline in the mean CAR, as investors lower the probability of the acquisition's success. By the failure date, the positive revaluation that occurred prior to and at the acquisition announcement date almost fully dissipates. In the 25 trading days following the acquisition failure date, there is an insignificant downward drift in the mean CAR. Over the entire proposal period, the mean abnormal return for the full sample is insignificantly different than zero.

A comparison of the rejection group and the other-reasons group over the proposal period provides striking differences. During the pre-announcement and announcement periods, the mean abnormal returns of firms in the rejection group is only slightly higher than that of firms in the other-reasons group. However, during the period between the announcement and failure dates, the positive revaluation completely reverses for the other-reasons group, while it decreases only slightly for the rejection group. Further, the stock price declines significantly for the other-reasons group around the failure date, but does not decline for the rejection group. Overall, over

the entire proposal period, we observe a positive and significant revaluation for the rejection group and a negative and significant revaluation for the other-reasons group.

Prior research finds that the positive revaluation over the proposal period exists only for firms that are subsequently acquired. In Figure 2, we plot the mean abnormal return over the proposal period for both groups, conditioning on whether firms remain independent or are acquired within five years following the failure date. Panel A of Figure 2 shows a positive revaluation over the proposal period for firms in the rejection group irrespective of whether they are acquired. In untabulated results we find that the positive revaluation over the proposal period is a significant 6.21 percent for rejection targets that remain independent and a significant 8.59 percent for targets who are acquired within the next five years. The difference in means between these two sub-groups is significant at the 1 percent level. Our finding of a positive revaluation for target firms that rejected an acquisition offer and remain independent is novel and is in contrast to prior literature.

Panel B of Figure 2 plots the mean abnormal return over the proposal period for the other-reasons group, conditioning on whether firms remain independent or are acquired within five years following the failure date. As shown in the panel, we find a negative revaluation over the proposal period for firms in the other-reasons group irrespective of whether they are acquired. In untabulated results, we find a negative permanent revaluation over the proposal period of -17.43 percent for target firms that remain independent and -10.35 percent for target firms that are subsequently acquired. The difference in means between these two sub-groups is significant at the 1 percent level. Our finding of a negative revaluation for target firms in the two sub-groups is also novel and is in contrast to prior literature.

[Insert Figure 2 about here.]

Since Figure 1 does not provide economic and statistical significance for the differences in CARs between the rejection and other-reasons groups, we report both univariate results (Table 2) and multivariate results (Table 3) for the returns over different windows during the proposal period for each group and difference in returns between the groups.

[Insert Table 2 about here.]

Table 2 shows that during the period starting 25 trading days and ending 2 trading days prior to the acquisition announcement date (A-25, A-2), there is a significant positive abnormal return of 4.12 percent for the rejection group and 2.06 percent for the other-reasons group, consistent with a pre-announcement stock price run-up; however, the difference in the mean abnormal returns between the two groups is not significantly different than zero. In addition, the abnormal return over the five-day window around the acquisition announcement date (A-2, A+2) is a significant 14.24 percent for the rejection group and a significant 13.56 percent for the other-reasons group. Here again, the mean abnormal returns are insignificantly different from each other. Moreover, the offer premium for the two groups is similar at around 30 percent. These results highlight that within failed acquisition offers, investors, *a priori*, do not differentiate between the rejection and other-reasons groups.

Moving to the intermediate period that starts 2 trading days following the acquisition announcement date and ending 2 trading days prior to its failure (A+2, F-2), we find negative and significant abnormal returns for both groups. Specifically, the abnormal return is -6.15 percent for the rejection group and -15.65 percent for the other-reasons group. These results

provide evidence that during the intermediate period investors continuously update the probability of the acquisition offer to be successful. Furthermore, we find that the difference between the abnormal returns of the two groups during this period is statistically significant, indicating that investors are able to anticipate the reason for the deal failure. This observation is confirmed by observing the 5-day abnormal return around the failure date (F-2, F+2). In particular, for the rejection group we observe an insignificant abnormal return of 0.46 percent, while for the other-reasons, we observe a negative and significant abnormal return of -11.87 percent.⁷ Last, we observe that over the entire proposal period there is a significant positive revaluation of 7.06 percent for the rejection group and a significant negative revaluation of -16.02 percent for the other-reasons group.

We complement our univariate results by estimating the following multivariate regression:

$$CAR_j(X_i) = Rejection_j + Cash_j + Stock_j + Mix_j + Target_size_j + Offer_premium_j + \varepsilon_j, \quad (1)$$

where $CAR_j(X_i)$ is the cumulative average abnormal return for firm j over six different return windows X_i : the entire proposal period (A-25,F+25), the pre-acquisition announcement period $CAR(A-25,A-2)$, the acquisition announcement period $CAR(A-2,A+2)$, the intermediate period $CAR(A+2,F-2)$, the failure period $CAR(F-2,F+2)$, and the post-failure period $CAR(F+2,F+25)$. The indicator variable, $Rejection_j$, takes the value 1 if target firm j belongs to the rejection group and the value 0, otherwise. $Cash_j$ ($Stock_j$) is an indicator variable equal to 1 if the consideration

⁷ Of the 635 observations in our rejection group, 177 observations have a first rejection date that is different from the final failure date.

for the acquisition of target firm j consists of 100 percent cash (100 percent stock), and 0 otherwise. Mix_j is an indicator variable equal to 1 if the consideration for the acquisition of target j consists of both cash and stock, and 0 otherwise. $Target_size_j$ is calculated as the logarithm of target j 's market value as of 26 trading days prior to the acquisition announcement date. $Offer_premium_j$ is the ratio of the initial offer price to target j 's stock price as of 26 trading days prior to the acquisition announcement date, minus one. All of our regressions include year- and industry-fixed effects (based on the Fama-French 48-industry classification). We provide descriptive statistics regarding our control variables in Table 2. As shown in the table, a target firm in the rejection group is significantly more (less) likely to receive an all-cash (all-stock) offer than is a target firm in the other-reasons group. In addition, target firms in the rejection group have a mean market value that is slightly higher than that of firms in the other-reasons group (\$850 million versus \$690 million).

[Insert Table 3 about here.]

Table 3 reports the results of estimating equation (1). The multivariate results are consistent with the univariate results in Table 2, indicating that deal characteristics and firm attributes do not impact our conclusion from the univariate results. In particular, as shown in columns 1 and 2 of Table 3, during the pre-announcement period and at the acquisition announcement date, the coefficient on the rejection indicator is insignificantly different from zero. These results are consistent with investor inability to differentiate between the two groups. In columns 3 and 4, the coefficient on the rejection indicator is positive and significant, indicating a divergence between the two groups conditional on the reason for the acquisition failure. In the post-failure period (column 5), the coefficient is insignificant, consistent with

market efficiency. As shown in column 6, over the entire proposal period the mean CAR is a significant 21.4 percent higher for the rejection group relative to the other-reasons group. This compares to 23.08 percent found in our univariate results in Table 2.

Overall, our univariate and multivariate results are consistent with the synergy hypothesis being the dominant explanation for the premium offered to firms in the other-reasons group. One interpretation of the negative revaluation experienced by firms in the other-reasons group is that prior to the acquisition announcement date, investors considered these firms as attractive targets due to their synergetic value, which resulted in a higher market value relative to their stand-alone value. Therefore, when the acquisition failed due to reasons such as the acquirer deciding not to proceed with the acquisition, regulatory intervention, or exogenous deterioration in market conditions, this acquisition premium disappeared, resulting in a negative revaluation following the acquisition failure. However, the result of positive revaluation documented for the rejection group does not definitively support either of the information hypothesis or the synergy hypothesis. Hence, in the next sub-section, we further investigate these two hypotheses.

3.2 Information hypothesis versus synergy hypothesis

In this sub-section we examine whether the synergy hypothesis or the information hypothesis is consistent with the positive revaluation we observe for the rejection group and provide further evidence that the synergy hypothesis dominates the information hypothesis for the other-reasons groups. With regard to the positive revaluation found for the rejection group, if the information hypothesis holds, we can also examine two forms of the information hypothesis. The first is that the undervaluation can be corrected without the need for any operational improvements by the target (this situation is referred to as “sitting on a gold mine”).

The second is that the target management takes steps to improve its operations, as suggested by Safieddine and Titman (1999) (referred to as a “kick in the pants”). In order to separate between the various possibilities, we examine long-term stock returns, long-term financial performance, and the future probability of delisting and takeover.

3.2.1 Long-term stock returns

In this sub-section, we test whether the revaluation of the two groups during the proposal period persists over the long term. We estimate long-term abnormal returns using the Fama-French four-factor model:

$$R_{p,t} - R_{f,t} = \alpha_j + \beta_j (R_{m,t} - R_{f,t}) + \delta_j SMB_t + \sigma_j HML_t + \phi_j UMD_t + \varepsilon_{j,t} \quad (2)$$

where $R_{p,t}$ is the return on of an equally-weighted portfolio p formed for each of the groups in calendar time for each month t between January 1979 and December 2012; $R_{f,t}$ is the risk free rate, measured as the one-month treasury bill rate; $R_{m,t}$ is the market portfolio return, measured using CRSP value weighted index; SMB_t , HML_t , UMD_t are the size, market-to-book, and momentum factor returns, respectively. The intercept (Jensen’s alpha) is the abnormal return unexplained by the four factors. Portfolio and factor returns are measured for the 12, 24, 36, 48, and 60 month periods starting one month after the failure date.

[Insert Table 4 about here.]

Table 4 reports the alphas from estimating the Fama-French four-factor regressions. For the rejection group, we do not find any significant alphas except for the 36-month window, where there is marginal significance (t-statistic of 1.76) but not economically meaningful (an

average annual abnormal return of 3.6 percent). For the other-reasons group, none of the alphas are significantly different from zero.

Overall, our results indicate that the revaluations documented during the proposal period for both groups do not reverse over the long-term, consistent with market efficiency. According to the synergy hypothesis, a positive revaluation for the rejection group stems from the expectation that these firms will be acquired in the future. Since our long-term returns are calculated only for firms that remain independent during the various horizons (12, 24, 36, 48, and 60 months) and since the positive revaluation over the proposal period does not reverse for these firms, we find no support for the synergy hypothesis. Rather, our results support the information hypothesis. The evidence that the negative revaluation for the other-reasons group does not reverse in the long-term supports the synergy hypothesis. Having established that the revaluations over the proposal period for both groups are permanent, we further investigate the synergy versus information hypotheses by testing for changes in the financial performance of both groups.

3.2.2 Future financial performance

In this subsection we test for changes in future financial performance. In contrast to stock returns that are conditional on market efficiency, firms' future financial performance provides an additional insight for differentiating between the two hypotheses. Our tests pertain to firms that remain independent in the various horizons (12, 24, 36, 48, and 60). Thus, for targets in our rejection group, a long-run deterioration in financial performance is consistent with the synergy hypothesis, while financial performance which improves or remains the same in the long-run supports the information hypothesis. Furthermore, under the information hypothesis, an

improvement in the target's financial performance that is due to the company acting in response to the acquisition offer supports the kick-in-the-pants hypothesis. In contrast, an improvement in the financial performance that is unrelated to changes in the investment and financing policy of the company supports the sitting-on-a-gold-mine hypothesis. Similar predictions apply to our other-reasons group.

[Insert Table 5 about here.]

To test these predictions, we measure the future changes in target firms' operating, investing, and financing policies. We proxy for the changes in these policies using net income, sum of short and long-term debt, number of employees, capital expenditures, R&D expense, and logarithm of total assets. For each of these variables, we compute the cumulative change starting one fiscal year prior to the acquisition announcement year and up to five years after. All measures, except for total assets, are scaled by the firm's total assets as of the end of the fiscal year prior to the acquisition announcement year. Using the Propensity Score Matching (PSM) process, we then match each target firm to its closest match based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.⁸ We investigate the changes in each of these variables for the rejection and other-reasons groups, separately.

Table 5, panel A reports the changes in the long-term financial performance for our rejection group compared to a matched sample. Focusing on changes in net income, we find that the rejection group performs similarly to a matched sample up to five years following the acquisition announcement year. However, as reported earlier, the rejection group exhibits a

⁸ The matched sample includes the entire COMPUSTAT database after excluding our final sample of 1,195 failed acquisition offers.

positive revaluation during the proposal period that does not reverse over the next five years. Therefore, we interpret both of these results as if the market perceives that, during the acquisition process, firms in the rejection group are undervalued irrespective of future improvement in their accounting performance, supporting the information hypothesis. Next, we find a significant decrease in the target firm's debt level starting two years and up to five years following the acquisition announcement year compared to a matched sample. We also observe a significant reduction in the operating and investing measures. In particular, we observe a significant reduction in the target firm's number of employees up to five years following the acquisition announcement year, in its capital expenditure up to four years following the acquisition announcement year, and in its firm size up to five years following the acquisition announcement year, all in comparison to their matched sample. Overall, these results support the kick-in-the-pants hypothesis, as firms improve their financing, operating, and investment decisions following a failed acquisition offer without a corresponding decrease in net income. Interestingly, the improvement in operating efficiency of the rejection group is mainly concentrated in variables that are under management control such as number of employees, debt level, and capital expenditure. This indicates that although the market's perception of the undervaluation over the proposal period is correct, the undervaluation is unlocked due to the acquisition attempt. Specifically, in response to the acquisition attempt, management aggressively acts to reduce costs and increase firm efficiency justifying investors' positive reaction during the proposal period.

Table 5, panel B reports the results for the other-reasons group. Focusing on changes in net income, we find a significant and consistent deterioration in net income relative to a matched

sample up to five years following the acquisition announcement year. This result provides strong support for the synergy hypothesis and strengthens our earlier finding that firms in the other-reasons group exhibit a negative revaluation during the proposal period that does not reverse over the next five years. Moreover, the result provides corroborating evidence that these firms are not attractive on a stand-alone basis. Next, we find no change in the target firm's total debt and R&D expense up to five years following the acquisition announcement year. We do, however, find a significant reduction in the number of employees and capital expenditure for up to two years following the acquisition announcement year and firm size up to five years following the acquisition announcement year, all in comparison to their matched sample. Overall, while firms in the other-reasons group attempt to improve their operational efficiency, similar to target firms in the rejection group, they are unable to increase their earnings relative to both the rejection group and a matched sample. To summarize, the results in Table 5 support our previous conclusion that only the synergy hypothesis is applicable for the other-reasons group. With regard to the rejection group, our results are again consistent with the previous findings that the information hypothesis dominates the synergy hypothesis while adding that the kick-in-the-pants explanation dominates the sitting-on-a-gold-mine explanation for firms that remain independent up to five years following the acquisition announcement year. However, the sitting-on-a-gold-mine explanation can still be valid for firms that are subsequently acquired. To further our understanding, in the next sub-section we examine future probability of takeover and delisting.

3.2.3 Future probability of delisting and takeover

In this sub-section, we investigate future probability of delisting and takeover as a direct

test for the synergy hypothesis. Prior research supports the synergy hypothesis by documenting that the positive revaluation over the proposal period is solely explained by future takeover activity. To test for this, we compare each target firm to a matched firm based on industry (Fama-French 48 industry classifications), year, total assets, and return on assets, as described in 3.1. We categorize firms as delisted using the CRSP codes that include both liquidation and termination of trading on stock exchanges.⁹ Similarly, we identify firms that were subsequently acquired using CRSP codes 200 through 300.

Table 6 reports the future probability of delisting and takeover for each of the two groups relative to a matched sample. Panel A of Table 6 reports no significant difference in delisting between the rejection group and a matched sample in each of the five years following the failure year. With respect to future takeover activity, we find a significantly higher likelihood of firms in the rejection group to be acquired in the first, second, and third years following the failure year relative to a matched sample. This result is consistent with prior literature attributing the entire positive revaluation during the proposal period to being acquired in the future. However, the economic and statistical magnitude of the increase in the probability of being acquired during the next five years is insufficient to reconcile our results that the information hypothesis dominates with prior literature.

Panel B reports the results for the other-reasons group. As shown in this panel, the probability of a target firm to become delisted is significantly higher in the second, third, and

⁹ Our delisting codes are: 400-490, 552, 560, 561, 572, 574, 580, 584, 585, 587, and 591.

fourth years relative to a matched sample. Additionally, the likelihood of a target firm to be acquired is significantly higher in the first, third, fourth, and fifth years following the failure year relative to a matched sample. These results again suggest that only the synergy hypothesis is relevant to target firms in the other-reasons group.

[Insert Table 6 about here.]

Overall, our results using a comprehensive sample of 1,195 failed acquisition offers do not support prior literature. In contrast to prior literature, our paper is the first to show that the information hypothesis dominates the synergy hypothesis for the rejection group. Despite the fact that targets in our rejection group have a higher likelihood of being acquired in the future, on a stand-alone basis these firms sustain their positive revaluation up to five years following the acquisition failure date. Furthermore, our results show a permanent negative revaluation for the other-reasons group, supporting the synergy hypothesis. We add to the literature by showing that the synergy hypothesis is valid for this group irrespective of subsequent acquisitions.

3.3 Corporate governance

Prior literature has been unable to reach a consensus regarding the efficacy of commonly used corporate governance measures as to whether they facilitate managerial rent extraction or incentive alignment. We add to this debate by examining the extent to which commonly used measures facilitate rent extraction or incentive alignment in the setting of failed acquisition offers. Within this setting, we limit ourselves to the rejection group because only in this group does the target's CEO play a key role in the decision to reject the acquisition, which does not require shareholders' approval. Furthermore, an acquisition offer strongly impacts the CEO's career

prospects and wealth and thus presents an ideal setting to examine whether managers' interests significantly diverge from those of shareholders (rent extraction) or managers act in shareholders' best interests (incentive alignment).

To test for rent extraction and incentive alignment, we make use of four commonly applied corporate governance measures (i.e., staggered board, poison pill provision, CEO share ownership, and CEO option ownership). With respect to staggered board, several studies find a negative association between a staggered board and firm value (e.g., Mahoney and Mahoney, 1993; Bebchuk, Coates, and Subramanian, 2002a, 2002b; Bebchuk and Cohen, 2005; Faleye, 2007; Masulis, Wang, and Xie, 2007). In contrast, Bates et al. (2008) and Amihud and Stoyanov (2017) show that a staggered board provision does not harm firm value or performance. Furthermore, Cremers and Ferrell (2014) and Cremers, Litov, and Sepe (2014) provide evidence that the adoption of a staggered board provision significantly increases firm value.

With respect to a poison pill provision, early studies report negative abnormal stock returns around the announcements of poison pill adoptions (Malatesta and Walkling, 1988; Ryngaert, 1988). Alternatively, other studies find that the existence of a poison pill enhances the target value (Brickley, Coles, and Terry, 1994; Comment and Schwert, 1995).

With respect to CEO share ownership, several studies find a positive relation between CEO share ownership and firm performance (Mehran, 1995; Core and Larcker, 2002; Benson and Davidson, 2009), or a positive relation at low levels of ownership and a negative relation at higher levels (Stulz, 1988; McConnell and Servaes, 1990). In contrast, other studies find no relation between managerial ownership and firm performance (Palia, 2001; Cheung and Wei, 2006). With respect to CEO option ownership, several papers provide evidence that managers exploit options for their own benefit, consistent with rent extraction (Cai and Vijh, 2007; Fich,

Cai, and Tran, 2011). In contrast, the majority of papers following the theoretical work of Jensen and Meckling (1976) find that options align managerial incentives with those of shareholders (Core and Guay, 1999; Rajgopal and Shevlin, 2002; Hanlon, Rajgopal, and Shevlin, 2003).

As prior literature provides mixed evidence, we are agnostic as to whether the four corporate governance measures discussed above are associated with rent extraction or incentive alignment in our setting. Under rent extraction, we expect these measures to be negatively associated with lower short- and long-term performance. With respect to staggered board, poison pill, and CEO share ownership, managers might use the existence of these measures to reject an acquisition in order to preserve their high-paying jobs at the expense of shareholders. With respect to CEO option ownership, acquisitions allow target CEOs to cash out of their illiquid holdings, as in almost all cases the options become vested upon a change in control (Cai and Vija, 2007). Therefore, if managers believe that their personal benefits from accepting an acquisition are inadequate, they will likely prefer to reject the acquisition offer at the expense of shareholders. Alternatively, under incentive alignment, we expect these measures to be associated with similar or superior short- and long-term performance.

3.3.1 Descriptive statistics

We obtain information on the four corporate governance measures from several sources. Using proxy statements, we manually obtain information on staggered board for 273 observations, on CEO share ownership for 258 observations, and on CEO option ownership for 260 observations. Additionally, using the Factset Shark Repellent Database, we obtain information on poison pill provisions for 295 observations. The main reason for the decrease in the sample size of 635 target firms in the rejection group is due to our inability to obtain proxy statements prior to 1993. Table 7 reports the statistics regarding the corporate governance measures. As shown in

the table, we find that 137 target firms (50 percent) have a staggered board and 147 target firms (50 percent) have a poison pill provision. With regard to CEO ownership (shares and options), we find that CEOs hold, on average, a significant ownership of their firm's outstanding shares (7.88 percent). Interestingly, CEO ownership is mainly comprised of shareholdings (6.07 percent) compared to option ownership (1.81 percent). Hence, our sample consists of CEOs who hold a significant amount of undiversified wealth.

[Insert Table 7 about here.]

3.3.2 Short-term stock returns

If weak corporate governance increases the probability that managers act in their own interest at the expense of shareholders, we expect that a rejection decision will be associated with a reduction in shareholders' value. Hence, observing a negative price reaction to the rejection decision will be consistent with rent extraction. Alternatively, if the corporate governance strength is unrelated to the decision to reject an offer, then we expect no significant price reaction to the rejection decision. To investigate the two conjectures, we estimate the following regression:

$$CAR_j(R - 2, R + 2) = Gov_{j,g} + Cash_j + Stock_j + Mix_j + Target_size_j + Offer_premium_j + \varepsilon_j, \quad (3)$$

where $GOV_{j,g}$ represents corporate governance g for firm j a year before the acquisition announcement date. These measures include staggered board, poison pill provision, CEO share ownership, and CEO option ownership. Table 8 reports the results of these regressions. Columns 1 through 4 show that the results for staggered board, poison pill provision, CEO share ownership, and CEO option ownership are all not significantly associated with the five-day CAR around the rejection date. These insignificant results are consistent with a contention that shareholders

perceive neither antitakeover provisions (i.e., staggered board and a poison pill provision) nor CEO compensation as measures that facilitate managerial rent extraction.

[Insert Table 8 about here.]

3.3.3 Long-term accounting performance

The evidence in Section 3.3.2 provides little support for the rent extraction hypothesis. Therefore, to validate these results, we also examine long-term accounting performance. If corporate governance measures are negatively associated with future accounting performance, this would lend strong support for managerial rent extraction and would indicate that these measures are of weak corporate governance. This conflict of interest between management and shareholders is only possible because of weak oversight by the board. Alternatively, if corporate governance measures are associated with either no change or an improvement in future accounting performance this would lend strong support for incentive alignment and would indicate that these measures are of strong corporate governance. To test these conjectures, we estimate the following regression:

$$\begin{aligned} & (\Delta_{j,y-1}^{y+k}(NI)/TA_{j,y-1})_j & (4) \\ & = Gov_{j,g} + Cash_j + Stock_j + Mix_j + Target_{size_j} + Offer_premium_j + \varepsilon_j. \end{aligned}$$

Panels A through D of Table 9 report the results of this regression for the four corporate governance measures. As shown in panel A, there is no significant association between firms with a staggered board and long-term accounting performance. This result is consistent with the five-day window returns around the rejection date. Overall, we find no evidence that a CEO's rejection of an acquisition offer is associated with staggered board. Panel B shows that for firms with a poison pill provision, future accounting performance deteriorates significantly two years after the

acquisition failure date and continues to deteriorate for up to five years. Specifically, after two years the accounting performance is 4.4 percent lower for firms with a poison pill provision compared to those without, while after five years it is 6.3 percent lower. These results are in contrast to the contemporaneous returns around the rejection date, indicating that investors ignore the observation that poison pill provisions enhance management entrenchment.

Panel C reports the results for CEO share ownership. As shown in this panel, in the first year following the acquisition failure, we find a significantly negative association between share ownership and accounting performance. This negative performance slowly reverses and turns marginally significantly positive five years following the failure date. Overall, these results support the notion that CEOs with large share ownership display rent extraction behavior.

In panel D, we look at CEO option ownership. A priori, higher CEO option ownership should be associated with incentive alignment. In contrast to shares, options do not provide CEOs with control rights as they do not carry any voting rights. Therefore, option holdings are only valuable if the firm's future stock price increases. Hence, if the acquisition offer is properly valued, the CEO and shareholders maximize their wealth by agreeing to the acquisition. However, if the CEO has private information that the acquisition offer undervalues the firm, a rejection of the offer maximizes shareholders' value. Thus, higher CEO option ownership should coincide with incentive alignment. Consistent with this conjecture, the results in panel D show that CEO option ownership is positively and significantly associated with an increase in accounting performance up to four years following the acquisition failure year. This positive relation is consistent with our conjecture that option ownership facilitates incentive alignment.

[Insert Table 9 about here.]

4. Summary

In this paper we show that the revaluation of target firms in failed acquisition offers is fundamentally dependent on the reason for the acquisition failure. Specifically, we document a permanent positive revaluation if the failure is due to rejection by the target's management or board of directors. In addition, we document a permanent negative revaluation if the failure is due to other reasons that are not under the direct control of the target. Prior literature documents a positive revaluation for both groups, but only for firms that are subsequently acquired, supporting the synergy hypothesis. In contrast, we find that the information hypothesis dominates in the rejection group, while the synergy hypothesis dominates in the other-reasons group irrespective of subsequent acquisitions.

Our paper also contributes to the extant literature that investigates managerial rent extraction versus incentive alignment in various settings. Specifically, by focusing on failed acquisitions that are due to management rejection, we offer a new setting that is conducive to a conflict of interest between management and shareholders. We find that the existence of a poison pill provision, and to a lesser extent CEO share ownership, exacerbate the rent extraction problem. In contrast, we find that the existence of a staggered board and higher levels of CEO option ownership enhance incentive alignment.

Our results are limited to conclusions pertaining to our sample of failed acquisitions. We are unable to conclude whether targets that were successfully acquired are purchased due to their synergetic value to the acquirer or because they are undervalued. Unfortunately, acquired targets are rarely kept as a separate subsidiary with publicly available financial information, and hence, post-acquisition performance of successful acquisitions is impossible to evaluate. Despite this caveat, we believe that our comprehensive database of failed acquisition offers will generate

future research on new topics and revisit and test prior literature.

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APPENDIX 1
Variable Definitions

Variable	Definition
Rejection	A indicator variable equal to 1 if an acquisition is rejected by the target's management and 0, otherwise
CAR [A-25, A-2]	Cumulative market-adjusted returns of the target starting 25 trading days and up to 2 trading days before the acquisition announcement date
CAR [A-2, A+2]	Cumulative market-adjusted returns of the target over the five-day acquisition announcement window
CAR [A+2, F-2]	Cumulative market-adjusted returns of the target starting 2 trading days after the acquisition announcement date and ending 2 trading days before the acquisition failure date (acquisition failure date is defined as the first press release discussing the details of the acquisition failure)
CAR [F-2, F+2]	Cumulative market-adjusted returns of the target over the five-day acquisition failure window
CAR [F+2, F+25]	Cumulative market-adjusted returns of the target starting 2 trading days and up to 25 trading days following the acquisition failure date
CAR [A-25, F+25]	Cumulative market-adjusted returns of the target starting 25 trading days before the acquisition announcement date and ending 25 trading days after the acquisition failure date (termed proposal period)
CAR [R-2, R+2]	Cumulative market-adjusted returns of the five-day rejection window (this variable is only computed for target firms in the rejection group)
Cash	A indicator variable equal to 1 if the consideration for the acquisition consists of 100% cash and 0, otherwise
Stock	A indicator variable equal to 1 if the consideration for the acquisition consists of 100% stock and 0, otherwise
Mix	A indicator variable equal to 1 if the consideration for the acquisition consists of both stock and cash and 0, otherwise
Target_size	Logarithm of the market value of equity of the target as of 26 trading days prior to the acquisitions announcement date
Offer premium	The ratio of the initial offer price to the stock price of the target as of 26 trading days prior to the acquisition announcement date, minus one. For acquisition offer with missing initial offer prices, the initial offer price is approximated as the target's stock price two trading days after the acquisition announcement date
$\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$	The cumulative change in the target's net income starting in the fiscal year before the acquisition announcement year y ($Year_{y-1}$) and ending in the k^{th} fiscal year ($Year_{y+k}$) after the acquisition announcement (k is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$
$\Delta_{T,M} \Delta_{y-1}^{y+k}(NI)/TA_{y-1}$	The difference between the cumulative change in the target T 's net income starting in the fiscal year before the acquisition announcement year y ($Year_{y-1}$) and ending in the k^{th} fiscal year ($Year_{y+k}$) after the acquisition announcement (k is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm M . The matched firm is based on a Propensity Score Matching (PSM) based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.

Variable	Definition
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Debt) / TA_{y-1}$	The difference between the cumulative change in the target T 's sum of short- and long-term debt starting in the fiscal year before the acquisition announcement year y ($Year_{y-1}$) and ending in the k^{th} fiscal year ($Year_{y+k}$) after the acquisition announcement (k is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm M . The matched firm is based on a Propensity Score Matching (PSM) based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Emp) / TA_{y-1}$	The difference between the cumulative change in the target T 's number of employees starting in the fiscal year before the acquisition announcement year y ($Year_{y-1}$) and ending in the k^{th} fiscal year ($Year_{y+k}$) after the acquisition announcement (k is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm M . The matched firm is based on a Propensity Score Matching (PSM) based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}(CapEx) / TA_{y-1}$	The difference between the cumulative change in the target T 's capital expenditure starting in the fiscal year before the acquisition announcement year y ($Year_{y-1}$) and ending in the k^{th} fiscal year ($Year_{y+k}$) after the acquisition announcement (k is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm M . The matched firm is based on a Propensity Score Matching (PSM) based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k}(R\&D) / TA_{y-1}$	The difference between the cumulative change in the target T 's R&D expense starting in the fiscal year before the acquisition announcement year y ($Year_{y-1}$) and ending in the k^{th} fiscal year ($Year_{y+k}$) after the acquisition announcement (k is from +1 to +5), scaled by the target's total assets as of $Year_{y-1}$ and the same variable calculated for a matched firm M . The matched firm is based on a Propensity Score Matching (PSM) based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
$\Delta_{T,M}\Delta_{y-1}^{y+k} \log(TA)$	The difference between the cumulative change in the target T 's logarithm of total assets starting in the fiscal year before the acquisition announcement year y ($Year_{y-1}$) and ending in the k^{th} fiscal year ($Year_{y+k}$) after the acquisition announcement (k is from +1 to +5), and the same variable calculated for a matched firm M . The matched firm is based on a Propensity Score Matching (PSM) based on industry (Fama-French 48 industry classification), year, total assets, and return on assets.
Staggered board	A indicator variable equal to 1 if the target has a staggered board in the year prior to the acquisition announcement date and 0, otherwise
Poison pill provision	A indicator variable equal to 1 if the target has a poison pill provision in the year prior to the acquisition announcement date and 0, otherwise
CEO share ownership	The percentage of shares held by the target's CEO divided by the target's number of shares outstanding as of 25 trading days prior to the acquisition announcement date

Variable	Definition
CEO option ownership	The percentage of vested and unvested options held by the target's CEO divided by the target's number of shares outstanding as of 25 trading days prior the acquisition announcement date

APPENDIX 2
Sample Construction

Step 1 –Filtering using SDC information	Number of observations
Thompson Reuters Securities Data Company (SDC) Mergers and Acquisitions database sample that satisfies the following criteria: (1) the merger or acquisition is announced between January 1, 1979 and December 31, 2012, (2) the target is a U.S. company, and (3) the target is a publicly traded company	58,327
Excluding successful acquisitions (keeping observations that have the status of withdrawn or non-missing withdrawn date)	-52,596
Excluding observations in which the acquirer sought to acquire less than 50% (keeping observations with missing values)	-709
Excluding observations whose target’s market value is less than \$10 million as of 25 trading days prior to the acquisition announcement date	-416
Excluding observations that are classified by SDC as "Seeking Buyer Withdrawn" or "Dis Rumor"	-408
Excluding observations with missing CRSP permanent number	-380
Excluding observations in which the target is not traded as of 25 trading days prior to the acquisition announcement date	-379
Excluding observations with missing COMPUSTAT gvkey	-147
Excluding observations classified as share repurchase	-145
Excluding observations in which the target and acquirer are the same firm	-65
Excluding observations in which the target’s stock price less than \$1 as of 25 trading days prior to the acquisition announcement date	-64
Total observations after filtering using SDC information	3,018
Step 2 - Manual Filtering using news articles information	
Excluding observations that we identified as acquirers seeking less than 50%	-104
Excluding observations that we identified as seeking buyer and their intention was withdrawn	-72
Excluding observations that we identified as delisted during the acquisition process	-71
Excluding observations that we identified as rumors	-59
Excluding observations that we identified as going through a recapitalization/spin off/restructuring	-57
Excluding observations that we identified as successful acquisitions	-35
Excluding observations that we identified as duplicates	-27
Excluding observations that we identified as no formal offer was made	-24
Excluding observations that we identified as the acquirer already owning more than 50% of target	-8
Excluding observations that we identified as sales between different shareholders	-6

Excluding observations that we identified as private targets	-2
Total observations that we identified as inconsistent with SDC	465
Excluding failed acquisition offers with multiple bidders where one bidder successfully acquired the target	-593
Combining multiple bidders for the same target into one observation if all bidding parties fail in acquiring the target	-241
Excluding observations where we could not find a press release regarding the acquisition process	-192
Excluding observations with missing information on COMPUSTAT or CRSP	-105
Excluding observations where the acquisition process exceeds two years	-87
Total observations with a failure reason	1,335
Excluding observations with multiple reasons for the acquisition failure	-140
Final sample	1,195

TABLE 1
Classification of failure reasons

Code	Reason	N
Rejection Group		635
1	Offer price too low	189
2	Target board rejected not citing any specific reason	168
3	Not in shareholders' best interest	136
4	Shareholders objected and target board did not express an opinion	61
5	Target board rejected citing inability of acquirer to get financing	32
6	Target board rejected citing an anti-takeover mechanism	18
7	Target Board and target shareholders rejected	16
8	Target board rejected citing regulation	8
9	Managers' concerns about their personal fate	4
10	Failed proxy fight	3
Other-reasons group		560
Acquirer withdrew offer due to:		189
1	Acquirer's shareholders objected	43
2	Target had poor performance	41
3	Loss of interest	34
4	The target stock price became too high or the acquisition being dilutive to EPS	20
5	Deterioration in industry conditions	19
6	Due diligence	10
7	The acquirer itself became a target	8
8	Not in the acquirer shareholders' best interest	5
9	Acquirer was unable to receive a pooling treatment	5
10	The target is purchasing another firm	2
11	Acquirer's lenders objected	2
Mutual consent of acquirer and target to terminate the offer:		131
12	Mutual consent of termination (not citing specific reasons)	55
13	Disagreement over price	44
14	Recent stock market activity / decline in both companies' share prices	15
15	Acquirer and target offer differing views about the failure	9
16	Delay in regulation	4
17	Bad synergy	3
18	Both target and acquirer shareholders' objection	1
Regulatory obstacles that led to the failure of the acquisition offer:		25
19	Antitrust	15
20	Acquirer decided that regulation was excessive	5
21	Other regulatory obstacles	5

Code	Reason	N
	Miscellaneous reasons	215
22	Chapter 11, capital infusion to prevent insolvency, restructuring agreement with creditors	49
23	News reports indicating that the acquirer is unable to obtain financing	34
24	Acquirer poor performance	28
25	Other reasons	19
26	Unable to complete deal on time	9
27	No reason provided for withdrawal	76
Total number of failed proposed deals		1,195

This table presents the distribution of failure reasons for our sample of 1,195 failed acquisition offers. We identify the failure reason for each deal by reading related press releases and news articles using the Factiva database over the period starting six months prior to the SDC acquisition announcement date through one year after the SDC withdrawn date. We classify the 1,195 failed acquisitions into two groups – target’s management rejected the acquisition offer (rejection group), and failed acquisitions due to other reasons (other-reasons group).

TABLE 2
Descriptive statistics and univariate results

	Rejection group				Other-reasons group				p-value
	N	Mean	Median	STD	N	Mean	Median	STD	
CAR [A-25, A-2]	635	4.12%***	2.63%***	17.96%	560	2.06%**	0.93%*	21.31%	0.10*
CAR [A-2, A+2]	635	14.24%***	11.66%***	16.56%	560	13.56%***	10.63%***	23.12%	0.53
CAR [A+2, F-2]	635	-6.15%***	-6.30%***	20.41%	560	-15.65%***	-15.40%***	28.94%	0.00***
CAR [F-2, F+2]	635	0.46%	-0.59%	14.32%	560	-11.87%***	-10.09%***	20.28%	0.00***
CAR [F+2, F+25]	635	-4.21%***	-4.55%***	15.94%	560	-4.12%***	-4.55%***	25.61%	0.94
CAR [A-25, F+25]	635	7.06%***	5.18%***	31.82%	560	-16.02%***	-16.65%***	40.43%	0.00***
$\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	389	0.035	0.010	0.295	294	-0.022	0.012	0.413	0.04**
$\Delta_{y-1}^{y+5}(Emp)/TA_{y-1}$	362	0.003	0.000	0.021	275	0.005	0.000	0.020	0.10*
$\Delta_{y-1}^{y+5}(Debt)/TA_{y-1}$	386	0.297	0.075	1.283	291	0.260	0.006	0.844	0.67
$\Delta_{y-1}^{y+5}(CapEx)/TA_{y-1}$	362	0.030	0.000	0.203	272	0.051	0.003	0.204	0.19
$\Delta_{y-1}^{y+5}(R\&D)/TA_{y-1}$	160	0.039	0.000	0.251	111	0.069	0.005	0.256	0.34
$\Delta_{y-1}^{y+5} \log(TA)$	389	0.179	0.220	0.826	295	0.182	0.259	0.987	0.96
Cash	635	42.99%	0.00%	49.55%	560	22.14%	0.00%	41.56%	0.00***
Stock	635	8.98%	0.00%	28.61%	560	21.79%	0.00%	41.32%	0.00***
Mix	635	12.28%	0.00%	32.85%	560	15.54%	0.00%	36.26%	0.10*
Target MV in \$ billions	635	0.85	0.12	3.05	560	0.69	0.08	2.84	0.00***
Offer premium	635	31.21%	27.78%	32.98%	560	30.06%	25.00%	40.34%	0.59

This table provides descriptive statistics for variables used in the paper for the rejection and other-reasons groups. All variables are defined in Appendix 1. The last column presents the p-value for difference in means between the two groups. The sample period spans 1979 through 2012. ***, **, * denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

TABLE 3
Returns for different windows during the proposal period for the rejection and other-reasons group

	(1) CAR [A-25, A-2]	(2) CAR [A-2, A+2]	(3) CAR [A+2, F-2]	(4) CAR [F-2, F+2]	(5) CAR [F+2, F+25]	(6) CAR [A- 25, F+25]
Rejection	0.012 [1.18]	-0.007 [-0.60]	0.111*** [7.11]	0.127*** [11.72]	0.012 [0.93]	0.214*** [10.22]
Cash	-0.015 [-1.18]	0.027** [1.99]	-0.060*** [-3.16]	-0.057*** [-4.30]	-0.012 [-0.74]	-0.024 [-0.94]
Stock	-0.011 [-0.70]	-0.014 [-0.83]	0.014 [0.58]	-0.035** [-2.05]	0.046** [2.23]	-0.093*** [-2.88]
Mix	-0.013 [-0.78]	-0.016 [-0.96]	-0.054** [-2.25]	-0.041** [-2.49]	-0.006 [-0.30]	-0.104*** [-3.26]
Size	0.002 [0.76]	0.002 [0.60]	0.009* [1.81]	0.010*** [3.08]	0.004 [1.02]	0.031*** [4.80]
Offer premium	0.282*** [20.05]	0.250*** [16.85]	-0.039* [-1.88]	-0.002 [-0.12]	0.028 [1.57]	0.327*** [11.71]
Constant	-0.067 [-0.42]	-0.06 [-0.36]	-0.291 [-1.24]	-0.270* [-1.65]	-0.127 [-0.63]	-0.667** [-2.12]
Industry FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
No. of observations	1,195	1,195	1,195	1,195	1,195	1,195
Adjusted R ²	28.2%	22.3%	4.8%	13.1%	-1.0%	23.9%

This table reports the estimated coefficients for regression: $CAR_j(X_i) = Rejection_j + Cash_j + Stock_j + Mix_j + Target_size_j + Offer_premium_j + \varepsilon_j$, where $CAR_j(X_i)$ covers the six different return windows detailed in the column headings and described in Appendix 1 for firm j . All other variables are also defined in Appendix 1. The sample period spans 1979 through 2012. All regressions include Fama and French 48-industry dummies and year dummies. Below each coefficient value is the corresponding t-statistics. ***, **, * denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

TABLE 4
Long-run abnormal returns following the acquisition failure date

	(1)	(2)
	Rejection group	Other-reasons group
12-months		
Alpha	0.002 [0.76]	-0.001 [-0.39]
Adjusted R ²	0.599	0.393
No. of observations	411	399
24-months		
Alpha	0.002 [1.38]	-0.003 [-1.04]
Adjusted R ²	0.654	0.560
No. of observations	424	418
36-months		
Alpha	0.003* [1.76]	-0.001 [-0.28]
Adjusted R ²	0.708	0.648
No. of observations	430	424
48-months		
Alpha	0.002 [1.25]	-0.002 [-1.02]
Adjusted R ²	0.748	0.651
No. of observations	430	424
60-months		
Alpha	0.002 [1.36]	0.002 [1.38]
Adjusted R ²	0.757	0.654
No. of observations	430	424

This table reports the alphas of estimating the monthly regression of a four-factor Fama-French model:

$R_{p,t} - R_{f,t} = \alpha_j + \beta_j (R_{m,t} - R_{f,t}) + \delta_j SMB_t + \sigma_j HML_t + \phi_j UMD_t + \varepsilon_{j,t}$, where $R_{p,t}$ is the return of an equally-weighted portfolio p formed for each month t between January 1979 and December 2012; $R_{f,t}$ is the risk free rate, measured as the one-month treasury bill rate; $R_{m,t}$ is the market portfolio return, measured using CRSP value weighted index; SMB_t , HML_t , UMD_t are the size, market-to-book, and momentum factor returns, respectively. For brevity, the coefficient estimates of these variables are not tabulated. The intercept (Jensen's alpha) is the abnormal return unexplained by the four factors. Portfolio and factor returns are measured for the 12, 24, 36, 48, and 60 month periods starting one month after the failure date. Column 1 reports the results for the rejection group, while column 2 reports the results for the other-reasons group. Below each alpha value is the corresponding t-statistic. ***, **, * denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

TABLE 5

Long-term changes in the financial performance for the rejection and other-reasons groups

Panel A: Rejection group

	Match-adjusted change in operating metrics from Year $y-1$ to Year $y+k$					
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
$\Delta_{T,M}\Delta_{y-1}^{y+k}(NI)/A_{y-1}$	0.004 [0.50]	-0.007 [-0.67]	0.020 [1.10]	0.004 [0.24]	0.022 [0.96]	0.003 [0.12]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Debt)/A_{y-1}$	0.009 [0.85]	-0.010 [-0.49]	-0.076** [-2.28]	-0.112*** [-2.60]	-0.139** [-2.30]	-0.130* [-1.82]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Emp)/A_{y-1}$	-0.001*** [-4.26]	-0.002*** [-3.77]	-0.003*** [-3.33]	-0.004*** [-3.26]	-0.004*** [-2.87]	-0.005*** [-2.76]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(CapEx)/A_{y-1}$	-0.012*** [-2.73]	-0.016** [-2.33]	-0.023** [-2.41]	-0.020 [-1.61]	-0.031* [-1.92]	-0.029 [-1.54]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(R\&D)/A_{y-1}$	-0.005 [-0.92]	-0.009 [-1.22]	0.009 [1.08]	-0.012 [-0.96]	-0.025 [-1.21]	-0.031 [-1.03]
$\Delta_{T,M}\Delta_{y-1}^{y+k}\log(A)$	-0.046*** [-2.76]	-0.104*** [-3.56]	-0.152*** [-3.83]	-0.209*** [-4.11]	-0.226*** [-3.82]	-0.288*** [-4.20]

Panel B: Other-reasons group

	Match-adjusted change in operating metrics from Year $y-1$ to Year $y+k$					
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
$\Delta_{T,M}\Delta_{y-1}^{y+k}(NI)/A_{y-1}$	-0.038*** [-3.40]	-0.017 [-1.09]	-0.003 [-0.14]	-0.044* [-1.90]	-0.033 [-0.98]	-0.070* [-1.90]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Debt)/A_{y-1}$	-0.017 [-1.28]	-0.014 [-0.51]	-0.029 [-0.74]	-0.044 [-0.80]	-0.054 [-0.84]	-0.094 [-1.09]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(Emp)/A_{y-1}$	-0.001*** [-3.07]	-0.001** [-2.21]	-0.002*** [-2.75]	-0.002 [-1.63]	-0.002 [-1.02]	-0.002 [-0.91]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(CapEx)/A_{y-1}$	-0.015*** [-3.00]	-0.029*** [-4.15]	-0.023** [-2.23]	-0.017 [-1.30]	-0.017 [-1.01]	-0.031 [-1.32]
$\Delta_{T,M}\Delta_{y-1}^{y+k}(R\&D)/A_{y-1}$	-0.005 [-0.92]	-0.028* [-1.88]	-0.024 [-1.00]	-0.014 [-0.69]	-0.039 [-0.90]	-0.042 [-0.55]
$\Delta_{T,M}\Delta_{y-1}^{y+k}\log(A)$	-0.096*** [-4.69]	-0.136*** [-3.96]	-0.175*** [-3.59]	-0.193*** [-3.05]	-0.227*** [-2.87]	-0.232** [-2.39]

This table presents the mean of the cumulative match-adjusted changes of six financial performance measures. Panel A reports the long-term changes for the rejection group, while panel B reports them for the other-reasons group. All variables are defined in Appendix 1. The sample period spans 1979 through 2012. Below each coefficient value is the corresponding t-statistics. ***, **, * denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

TABLE 6

Future probability of delisting and takeover activity

Panel A: Rejection group

Delisting

Year	Rejection group		Matched sample		Difference in mean
	N	%	N	%	
0 to 1	13	2.14%	15	2.47%	-0.33%
1 to 2	17	3.21%	12	2.17%	1.04%
2 to 3	12	2.55%	12	2.33%	0.22%
3 to 4	11	2.68%	9	1.85%	0.83%
4 to 5	4	1.09%	8	1.76%	-0.67%

Takeover activity

Year	Rejection group		Matched sample		Difference in mean
	N	%	N	Mean	
0 to 1	61	10.03%	35	5.76%	4.27%***
1 to 2	40	7.55%	22	3.96%	3.59%**
2 to 3	46	9.79%	12	2.33%	7.46%***
3 to 4	21	5.12%	16	3.29%	1.83%
4 to 5	18	4.90%	18	3.97%	0.93%

Panel B: Other-reasons group

Delisting

Year	Other-reasons group		Matched sample		Difference in mean
	N	%	N	%	
0 to 1	29	5.59%	24	4.61%	0.98%
1 to 2	19	4.34%	9	1.94%	2.40%**
2 to 3	18	4.63%	10	2.31%	2.32%*
3 to 4	10	2.99%	4	1.02%	1.97%*
4 to 5	7	2.40%	10	2.68%	-0.28%

Takeover activity

Year	Other-reasons group		Matched sample		Difference in mean
	N	%	N	%	
0 to 1	48	9.25%	32	6.11%	3.14%*
1 to 2	28	6.39%	20	4.30%	2.09%
2 to 3	33	8.48%	24	5.54%	2.94%*
3 to 4	26	7.78%	13	3.30%	4.48%***
4 to 5	23	7.88%	14	3.75%	4.13%**

This table presents the probabilities of delisting and takeover activity for the rejection group (Panel A) and for the other-reasons group (Panel B) in each of the five years following the acquisition failure date (year 0). Our matched sample procedure is defined in Appendix 1. We categorize firms as delisted using the CRSP codes that include both liquidation and termination of trading on stock exchanges (the codes are: 400-490, 552, 560, 561, 572, 574, 580, 584, 585, 587, and 591). Similarly, we identify firms that were subsequently acquired using CRSP codes 200 through 300. The sample period spans 1979 through 2012. ***, **, * denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

TABLE 7
Descriptive statistics for the corporate governance sample

	N	Mean	Median	STD
Staggered board	273	50.18%	100.00%	50.09%
Poison pill provision	295	49.83%	0.00%	50.08%
CEO share ownership	258	6.07%	0.82%	11.65%
CEO option ownership	260	1.81%	1.03%	3.08%
Staggered board CAR [R-2, R+2]	273	4.36%	1.56%	17.16%
Poison pill provision CAR [R-2, R+2]	295	3.92%	1.16%	16.09%
CEO share ownership CAR [R-2, R+2]	258	4.47%	1.86%	17.10%
CEO option ownership CAR [R-2, R+2]	260	4.29%	1.71%	17.15%
Staggered board $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	133	0.0198	0.0134	0.2272
Poison pill provision $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	200	0.0318	0.0174	0.2010
CEO share ownership $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	122	0.0116	0.0084	0.2223
CEO option ownership $\Delta_{y-1}^{y+5}(NI)/TA_{y-1}$	123	0.0200	0.0087	0.2402
Cash	367	47.96%	0.00%	50.03%
Stock	367	8.45%	0.00%	27.85%
Mix	367	13.35%	0.00%	34.06%
Target MV in \$ billions	367	1.19	0.16	3.88
Offer premium	367	32.49%	26.32%	37.45%

The table provides descriptive statistics for target firms in the rejection group with available corporate governance information. All variables are defined in Appendix 1. The sample period spans 1993 through 2012.

TABLE 8
Five-day window return around the rejection date for target firms in the rejection group
conditional on corporate governance characteristics

	(1)	(2)	(3)	(4)
Staggered board	-0.012 [-0.53]			
Poison pill provision		-0.019 [-0.83]		
CEO share ownership			0.138 [1.05]	
CEO option ownership				-0.026 [-0.08]
Cash	-0.004 [-0.15]	0.03 [1.11]	-0.006 [-0.18]	-0.001 [-0.03]
Stock	-0.023 [-0.54]	-0.012 [-0.29]	-0.015 [-0.34]	-0.019 [-0.41]
Mix	0.023 [0.57]	0.054* [1.68]	0.024 [0.56]	0.024 [0.55]
Target_size	0.011 [1.53]	0.014** [2.21]	0.013* [1.80]	0.012 [1.61]
Offer premium	0.001 [0.04]	0.053 [1.39]	-0.013 [-0.38]	-0.017 [-0.49]
Constant	0.017 [0.19]	-0.087 [-0.97]	0.051 [0.46]	0.016 [0.20]
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
No. of observations	273	295	258	260
Adjusted R ²	5.6%	3.9%	5.0%	5.4%

This table reports the estimated coefficients for the following regression: $CAR_j(R - 2, R + 2) = Gov_{j,g} + Cash_j + Stock_j + Mix_j + Target_size_j + Offer_premium_j + \varepsilon_j$, where $GOV_{j,g}$ represents corporate governance measure g for firm j . The sample includes all firms with their relevant corporate governance information. All regressions include Fama and French 48 industry dummies and year dummies. All variables are defined in Appendix 1. The sample period spans 1993 through 2012. ***, **, * denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

TABLE 9
Long-term changes in the financial performance for target firms in the rejection group
conditional on corporate governance characteristics

Panel A: Staggered board

	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
Staggered board	-0.011	0.000	-0.031	-0.036	-0.064	-0.013
	[-0.66]	[-0.01]	[-0.95]	[-0.99]	[-1.35]	[-0.28]
No. of observations	263	234	203	177	152	133
Adjusted R ²	14.1%	14.7%	18.8%	19.7%	16.0%	17.1%

Panel B: Poison pill provision

	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
Poison pill provision	-0.013	-0.013	-0.044*	-0.032	-0.055*	-0.063*
	[-0.76]	[-0.64]	[-1.69]	[-1.07]	[-1.71]	[-1.90]
No. of observations	288	271	254	236	215	200
Adjusted R ²	14.0%	15.9%	19.0%	24.5%	26.5%	10.9%

Panel C: CEO share ownership

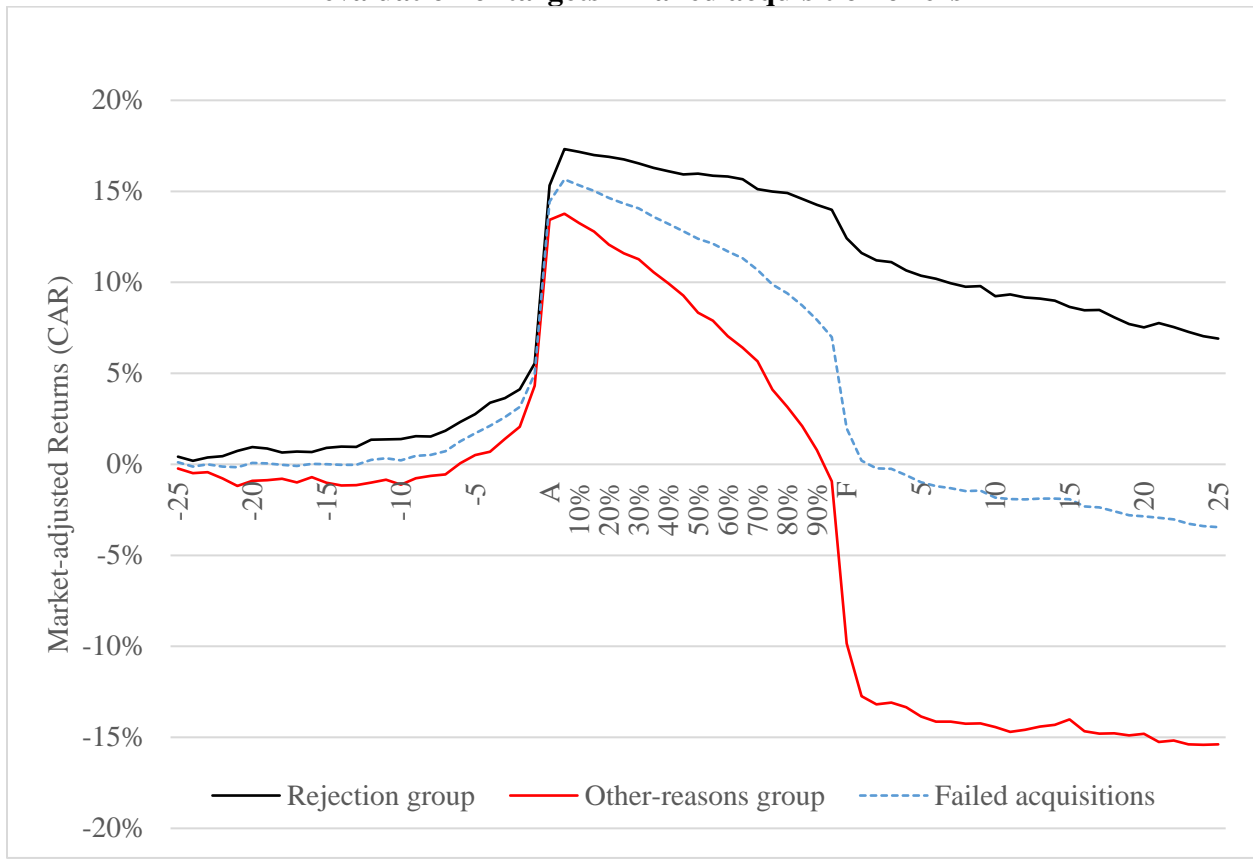
	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
CEO share ownership	-0.191**	-0.231*	-0.110	-0.199	0.144	0.649*
	[-2.27]	[-1.80]	[-0.56]	[-1.12]	[0.55]	[1.72]
No. of observations	248	222	190	165	140	122
Adjusted R ²	17.2%	16.9%	16.1%	21.7%	14.1%	30.3%

Panel D: CEO option ownership

	Dependent variable: $\Delta_{y-1}^{y+k}(NI)/TA_{y-1}$					
	(1)	(2)	(3)	(4)	(5)	(6)
	-1 to 0	-1 to 1	-1 to 2	-1 to 3	-1 to 4	-1 to 5
CEO option ownership	0.859**	0.602	1.040**	0.902*	0.998*	0.882
	[2.12]	[1.41]	[2.32]	[1.83]	[1.72]	[1.43]
No. of observations	250	224	192	167	141	123
Adjusted R ²	19.0%	16.6%	15.6%	22.6%	21.9%	37.9%

This table presents the coefficient estimates for the following regression: $(\Delta_{j,t-1}^{t+k}(NI)/TA_{j,t-1})_j = Gov_{ji} + Cash_j + Stock_j + Mix_j + Target_{size_j} + Offer_premium_j + \varepsilon_j$. For brevity, coefficient estimates for the deal and firm characteristics are not included. All regressions include Fama and French 48 industry dummies and year dummies. All variables are defined in Appendix 1. The sample period spans 1993 through 2012. Below each coefficient value is the corresponding t-statistics. ***, **, * denote significance at the 1%, 5%, and 10% level for a two-tailed test, respectively.

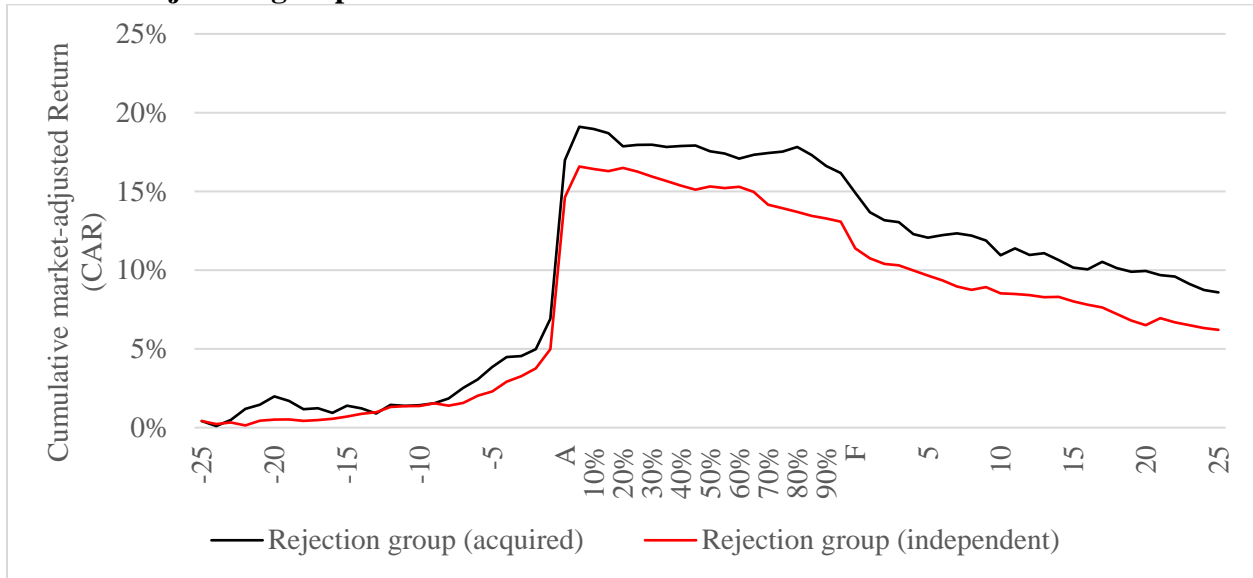
FIGURE 1
Revaluation of targets in failed acquisition offers



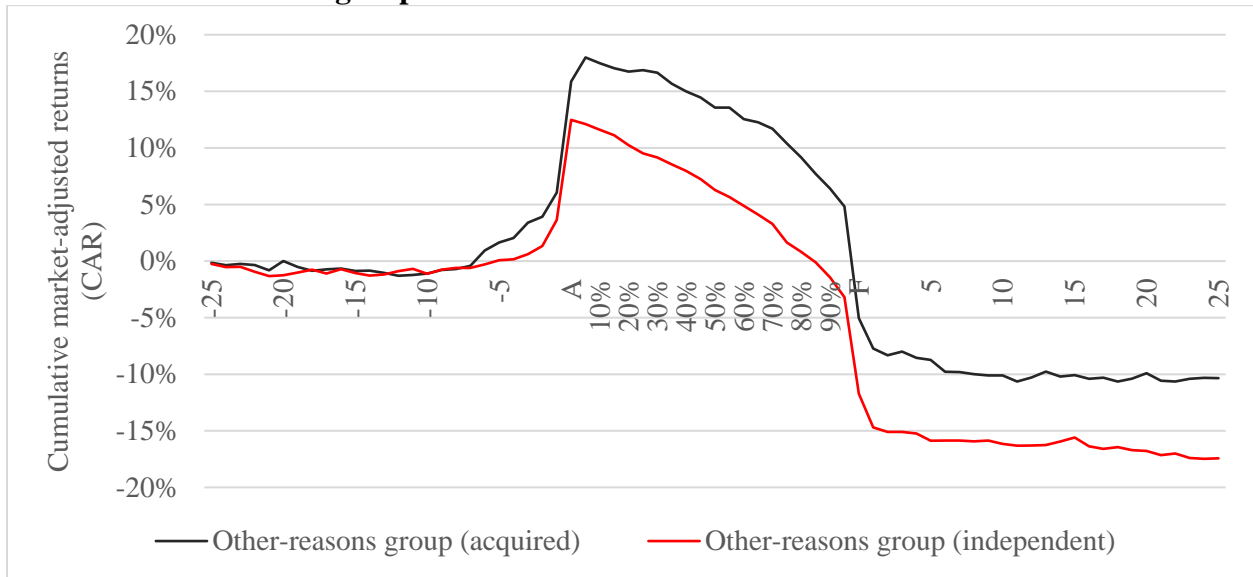
This figure plots the cumulative market-adjusted returns for failed acquisition offers from 25 trading days prior to the announcement of the acquisition offer (A) to 25 trading days after acquisition failure (F). The sample consists of 1,195 failed acquisition offers, including 635 rejected offers (rejection group) and 560 acquisition offers that fail due to other reasons (other-reasons group). The intermediate period between the deal announcement and failure date is normalized (in percent) since it varies across deals.

FIGURE 2
Revaluation of targets in failed acquisition offers for the rejection and other-reasons groups conditional on future acquisition activity

Panel A: Rejection group



Panel B: Other-reasons group



This figure plots the cumulative market-adjusted returns for failed acquisition offers from 25 trading days prior to the announcement of the acquisition offer (A) to 25 trading days after acquisition failure (F). The intermediate period between the deal announcement and failure date is normalized (in percent) as it varies across deals. Panel A plots the returns for the rejection group and includes 186 observations (449 observations) that are acquired (remain independent) during the five-year period starting half a year after the deal failure date. Panel B plots the returns for the other-reasons group and includes 158 observations (402 observations) that are acquired (remain independent) during the five-year period starting half a year after the deal failure date. We identify firms that were subsequently acquired using CRSP codes 200 through 300.