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Golden Parachutes and the Wealth of Shareholders

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Abstract

Golden parachutes have attracted much debate and substantial attention from investors and public officials for more than two decades. We use IRRC data for the period 1990-2006 to provide a comprehensive analysis of the relationship that golden parachutes have both with the evolution of firm value over time and with shareholder opportunities to obtain acquisition premia. We obtain three main sets of findings. First, golden parachutes are associated with increased likelihood of receiving an acquisition offer, as well as increased probability of being acquired, and this association is present across firms that vary in size, relative performance, and industry competitiveness. Second, consistent with the view that golden parachutes lower the premium threshold over which an acquisition would be in managers' interest, we find that golden parachutes are associated with lower acquisition premia. Third, tracking the evolution of firm value over time in firms adopting GPs, we find that firms adopting a GP have a lower industry-adjusted Tobin's Q already in the IRRC volume preceding the adoption, but that their value continues to decline during the inter-volume period of adoption and, furthermore, continues to erode subsequently. An analysis of abnormal stock returns prior to the adoption of GPs, during the inter-volume period of adoption, and subsequently shows a similar pattern.

Keywords: Golden parachute, corporate governance, acquisitions, takeovers, executive compensation, acquisition likelihood, acquisition premiums, Tobin's Q.

JEL Classification: D23, G32, G38, J33, J44, K22, M14.

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1. Introduction

Golden parachutes (GPs) have attracted much debate and substantial attention from investors and public officials ever since their use became common in the midst of unprecedented takeover activities in the late '70s and early '80s.[1] In 1984, Congress enacted sections 280G and 4999 of the Internal Revenue Code, which seek to discourage GPs with large monetary value by imposing substantial tax penalties on their use.[2] Over the last fifteen years, precatory resolutions opposing GPs have been brought in significant numbers and have commonly passed.[3] More recently, President Obama and Treasury Secretary Geithner have voice strong criticisms of GPs[4]; and, following a proposal by the Obama administration, the House of Representatives passed a bill (which has yet to be taken up by the Senate) mandating shareholder votes on all adoptions of a GP by public firms.[5]

We aim in this paper to inform the ongoing evaluation of and debate on GPs. In particular, we seek to contribute to an understanding of the relationship that GPs have both with ongoing firm value and with shareholder opportunities to obtain acquisition premia. To the best of our knowledge, our paper is the first study focusing on GPs that takes advantage of the IRRC dataset, which enables us to track the GP status and other governance provisions of all public firms of significance in the US stock market for a long period of time. Using this dataset, we obtain and analyze three sets of finding, concerning the relationship that GPs have with (i) acquisition incidence, (ii) acquisition premiums, and (iii) the evolution of firm value over time.

We begin by analyzing the relationship of GPs and acquisition likelihood. We find that, controlling for publicly known financial characteristics that are known to be associated with higher ex ante likelihood of acquisition offers and acquisitions, GPs are associated with both a higher likelihood of receiving an acquisition bid and a higher likelihood of a completed

[1] For a review of the active debate on the subject taking place already in the 1980s, see Bress (1987).
[2] For recent comments on the legislative history, see Hankinson (2005) and Mullane (2009).
[3] See the annual proxy season reviews issued by Georgeson Shareholder.
[4] See the February 4, 2009 speech by President Obama and the June 11, 2009 statement on executive compensation by Treasury Secretary Geithner.
[5] See Corporate and Financial Institution Compensation Fairness Act of 2009 (Referred to Senate Committee after being Received from House)(H.R.3269).

acquisition. The association is economically meaningful; the presence of GPs is associated with a 25.4% proportional increase in the likelihood of takeover bids and a 28.4% proportional increase in the likelihood of acquisition. The association is present among both firms incorporated in and outside of Delaware, both high-value and low-value firms in an industry (as measured by positive and negative industry adjusted log Tobin's Q), both large and small firms in an industry (as categorized by whether a firm is above and below the industry median market capitalization), and firms in the most and least competitive industries (as indicated by whether a firm belongs to the highest or the lowest quartile of the Herfindahl Index).

We also explore the possibility that the identified association between GPs and acquisitions is driven solely by a "signaling" explanation (Lambert and Larcker (1985)) under which GPs are adopted when managers have private information indicating that, controlling for the firms' publicly known characteristics, the company is relatively more likely to become an acquisition target. If the association between GPs and acquisition likelihood is due to such a signaling explanation, then this statistical result should be driven by "fresh" GPs – that is, GPs that were recently adopted. We find, however, that both old and fresh GPs have a positive association with takeovers, with magnitudes that are statistically no different.

Our findings are consistent with the possibility that the positive association between GP is at least partially explained by the effect of GPs on managers' incentives. It has been long argued that GPs may bring about a higher acquisition likelihood by making an acquisition more attractive to managers (e.g. Lambert and Larcker (1985), Jensen (1988), Kahan and Rock (2002)). Our findings are not consistent with the hypothesis that, by "taxing" acquisitions in the form of required payments to target executives and thus reducing the surplus captured by target and acquirer shareholders in the event of an acquisition, GPs reduce the incidence of acquisitions.

We next investigate the relation between GPs and the premiums earned by the acquired firms' shareholders when acquisitions are completed. Our results show that, controlling for firm's governance structure, financial fundamentals and deal characteristics, the presence of GPs is negatively associated with the acquisition premiums earned by acquired firm shareholders. This statistical relation is economically meaningful: for the average firm in our data, the presence of GPs is associated with an average decrease in acquisition premiums of 6.03 percentage points, which translates to a 18.5% proportional decrease. Our findings are consistent with the

possibility that, by lowering the threshold above which accepting an acquisition premium would serve executives' private interests, GPs both weaken executives' bargaining position in acquisitions that would take place regardless of the presence of a GP and add lower-surplus acquisitions that are in executives' interests only due to the presence of a GP.

After completing the analysis of acquisition premiums, we proceed to examine the relationship between GPs and the evolution of firm value over time. Prior work has shown GPs to be negatively correlated with industry-adjusted Tobin's Q (Bebchuk, Cohen, and Ferrell (2009)). But when does this association arise? Might it be firms that which adopt GPs tend to have lower value already prior to the adoption of a GP? Might it be that firms adopting GPs experience decline in firm value after the adoption? These are the questions that we seek to answer.

We show that firms adopting a GP tend to have a lower industry-adjusted Tobin's Q already in the IRRC volume prior to the adoption. Such firms also experience negative abnormal stock returns during the inter-volume period ending with the IRRC volume preceding the adoption of a GP. These findings indicate that the negative association between GPs and firm value documented by prior work is not <u>fully</u> driven by value erosion that follows (and might be brought about by) the GP adoption. At least part of the association is driven by a selection effect, namely the higher inclination of low-value firms to adopt a GP.

Even though the negative association between GPs and firm value is not fully driven by value erosion that follows GP adoption, however, we show that it is <u>partly</u> and <u>substantially</u> driven by such value erosion. In particular, we show that the industry-adjusted Tobin's Q of firms adopting a GP (i) further erodes during the inter-volume period surrounding the GP adoption, and (ii) subsequently continues to erode over the next several years. Consistent with our findings concerning the erosion in industry-adjusted Q, we also find that (i) among firms that do not have a GP, those who adopt a GP by the next IRRC volume experience lower abnormal stock returns, compared with firms that do not do so, during the inter-volume period of adoption, and (ii) firms that adopt a GP and do not subsequently drop it experience lower abnormal stock returns during the two inter-volume periods following the adoption firms that do not have a GP and do not adopt one subsequently.

Our findings concerning the erosion of firm value after the adoption of a GP is consistent with the view that, by making managers less fearful of an acquisition, GPs weaken the discipline

of the market for corporate control and thereby lead to increased managerial slack (Shleifer and Vishny (1989) Gompers, Ishii, and Metrick (2003) and Bebchuk, Cohen, and Farrell (2008)). In contrast, these findings are not consistent with the view that, by weakening the pressures of the market for corporate control, GPs bring about an increased firm value by inducing more focus on the long-term and greater investment by the managers in firm-specific-human capital (see, e.g., Stein (1988), Shleifer and Vishny (1989).

Our work seeks to contribute to the existing body of empirical work on GPs. Much of this prior work has focused on the stock market returns associated with the announcement of GPs (see Lambert and Larcker (1985), Mogavero and Toyne (1995), Hall and Anderson (1997), and Born and Trahan (1993)). The results on the returns accompanying GP announcements have been mixed.[6] By contrast to this work, we examine the returns (and changes in Tobin's Q) in a much longer window – the two-three years between two IRRC volumes – around a GP adoption. Furthermore, we also study the evolution of firm value for firms adopting a GP both before this long window and following it. In this way we add novel findings to the literature, showing that the documented negative association between GPs and firm value is driven in part by the lower firm value of firms adopting a GP prior to the adoption and partly by the erosion of firm value after such adoption.

There has also been some prior work on how GPs are associated with acquisition likelihood and acquisition premia. Examination of the relationship with acquisition likelihood was done with mixed results by early work using largely 1980s data; Machlin, Choe, and Miles (1993) and Born and Trahan (1994) find a positive association between GPs and acquisition likelihood, but Cotter and Zenner (1994) and Hall and Anderson (1997) do not. Machlin, Cohe, and Miles (1993) report a positive correlation between GPs and acquisition premia. Current work by Fich, Tran, and Walkling (2009) reports a negative association between GPs and acquisition premia

[6] Lambert and Larcker (1985) found a positive announcement period return around GP adoption announcements. Mogavero and Toyne (1995) and Hall and Anderson (1997)) document the announcement of GP adoption to be associated with a negative net effect on shareholder wealth. Born and Trahan (1993)) find no abnormal returns around the adoption of GPs.

but, unlike our work, does not examine or explain this effect in the context of GPs' effect on acquisition likelihood.[7]

Finally, our results complement the literature on how governance indices and the provisions included therein are related to firm value (see, e.g., Gompers, Ishii, and Metrick (2003), Bebchuk, Cohen, and Ferrell (2009)). By focusing on one significant provisions that changes over time with some frequency, we are able to track the evolution of firm value before and after the adoption of this provision and thus contribute to understanding the origins of the association between this provision, and the governance indices including it, and firm value. Similarly, our results complement the significant literature that shows how acquisition decisions are influenced by managers' private interests and, more generally, by insiders' agency problems (see, e.g., Brickley, Coles, and Terry (1994), Cotter and Zenner (1994), Cotter, Shivdasani, and Zenner (1997), Grinstein and Hribar (2004), and Wulf (2004)). Our findings that GPs, which have a substantial effect on managers' private interests, have in turn substantial effect on acquisition outcomes is consistent with and reinforces the lessons from that literature.

The remainder of the paper will proceed as follows. Section II describes our data sources and provides some summary statistics. We then to proceed to analyze the relationship that GPs have with bid and acquisition likelihood (Section III), acquisition premia (Section IV) and the evolution of firm value over time (Section V). Section VI concludes.

[7] Hartzell, Ofek, and Yermack (2004) find that CEOs negotiating an acquisition who are also receiving special acquisition benefits, with the explicit or implicit consent of the acquirer, sell their firms for lower acquisition premia. However, as will be discussed in section 4 below in detail, such ex post payments can be expected to affect premia in a different way than the GPs adopted ex ante that are the subject of our paper.

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TABLE I: SUMMARY STATISTICS – STOCK AND ADOPTION OF GPs

Panel A: Stock of Golden Parachutes

IRRC Volume	# Firms in IRRC Volume	Firms w/ GP	% of Firms w/ GP
1990	1,467	740	50.44%
1993	1,463	780	53.32%
1995	1,496	802	53.61%
1998	1,913	1060	55.41%
2000	1,886	1223	64.85%
2002	1,894	1282	67.69%
2004	1,982	1455	73.41%
2006	1,897	1473	77.65%

Panel B: Adoption of Golden Parachutes

Years	Total Firms	Firms with no GP beginning of period	Num of Adopters	% of Adopters
1990~1993	1272	639	101	15.81%
1993~1995	1344	641	79	12.32%
1995~1998	1214	594	142	23.91%
1998~2000	1667	768	214	27.86%
2000~2002	1416	533	160	30.02%
2002~2004	1654	529	131	24.76%
2004~2006	1656	455	100	21.98%

TABLE II: SUMMARY STATISTICS – FIRMS WITH AND WITHOUT GPs

	All Firms	GP	No GP	Difference
Relative Market Cap	4.273	3.374	5.811	-2.4376 ***
	(14.650)	(9.112)	(20.878)	
Industry-Relative Q (SIC2)	0.4658	0.3440	0.6624	-0.3184 ***
	(1.481)	(1.231)	(1.796)	
Industry-Relative Debt / Asset (SIC2)	0.0575	0.0659	0.0432	0.0227 ***
	(0.176)	(0.174)	(0.180)	
Delaware Incorporation	0.5582	0.5487	0.5742	-0.0255 ***
	(0.497)	(0.498)	(0.495)	
Herfandal Index	0.1628	0.1601	0.1674	-0.0073 ***
	(0.147)	(0.145)	(0.150)	
Classified Board	0.5833	0.6438	0.4804	0.1634 ***
	(0.493)	(0.479)	(0.500)	
Poison Pill	0.5339	0.6464	0.3425	0.3039 ***
	(0.499)	(0.478)	(0.475)	
# of Provisions in Eindex other than GP	1.6826	1.8936	1.3238	0.5698 ***
	(1.143)	(1.102)	(1.120)	
Gindex - Eindex	6.7097	6.9048	6.3778	0.5270 ***
	(1.935)	(1.886)	(1.972)	
Receive Bid Next Year (*)	0.0596	0.0671	0.0472	0.0199 ***
	(0.237)	(0.250)	(0.212)	
Acquired Next Year (*)	0.0454	0.0521	0.0344	0.0177
	(0.208)	(0.222)	(0.182)	
Acquired by Next Volume	0.0960	0.1134	0.0664	0.0471 ***
	(0.295)	(0.317)	(0.249)	
Number of Firms	13,998	8,815	5,183	

TABLE III: SUMMARY STATISTICS -- INCIDENCE OF ACQUISITION

	% Receiving Initial Bid in the Next Year			% Acquired in the Next Year		
	No GP	**GP**	**Diff**	**No GP**	**GP**	**Diff**
1990	4.6%	4.7%	+	2.5%	2.3%	-
1991	2.7%	3.6%	+	1.9%	2.6%	+
1992	3.0%	3.4%	+	2.8%	3.1%	+
1993	3.2%	4.6%	+	1.9%	2.1%	+
1994	5.8%	8.0%	+	1.9%	5.5%	+
1995	4.0%	7.4%	+	2.6%	4.4%	+
1996	4.8%	9.9%	+	3.9%	8.6%	+
1997	8.4%	9.1%	+	5.0%	7.3%	+
1998	7.8%	12.7%	+	6.3%	10.2%	+
1999	6.2%	9.7%	+	6.5%	9.4%	+
2000	3.7%	5.1%	+	3.7%	5.6%	+
2001	1.9%	2.6%	+	1.1%	2.8%	+
2002	3.5%	3.9%	+	2.3%	2.6%	+
2003	3.2%	4.7%	+	3.0%	4.0%	+
2004	4.3%	6.1%	+	1.8%	4.6%	+
2005	7.0%	8.1%	+	5.4%	4.8%	-
2006	5.3%	9.8%	+	5.6%	8.2%	+
Mean	4.7%	6.7%	2.01% ***	3.4%	5.2%	1.76% ***
SD	(0.03)	(0.02)		(0.02)	(0.03)	

TABLE IV: GOLDEN PARACHUTES AND ACQUISITION LIKELIHOOD

Panel A: Acquisition Likelihood – the Full Sample

This table reports the results for pooled probit regressions. For Columns (1) and (2), the dependent variable is an indicator equaling one if the firm receives a takeover bid in the next calendar year and zero otherwise; for columns (3) and (4) the dependent variable is an indicator equaling one if the firm is acquired in the next calendar year and zero otherwise. Standard controls are used in these specifications. (1) and (2) differ based on how the industry effect is taken into account. All models estimated use robust cluster standard errors and have year fixed effects. Coefficients for industry and year fixed effects, as well as the constant term, are not displayed. We report (*) the marginal effect associated with GP, using average values for all other controls. Significance levels are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Probit Dependent Var	Receive Bid Next Year		Acquired Next Year	
	(1)	(2)	(3)	(4)
Golden Parachute	0.0148 ***	0.0154 ***	0.0128 ***	0.0136 ***
	(0.003)	(0.003)	(0.002)	(0.002)
EIndex-GP	-0.0046 ***	-0.0048 ***	-0.0015	-0.0017
	(0.001)	(0.001)	(0.001)	(0.001)
GIndex - EIndex	0.0003	0.0004	0.0004	0.0004
	(0.001)	(0.001)	(0.001)	(0.001)
Log Rel Q	-0.0196 ***	-0.0174 ***	-0.0074 ***	(0.006) **
	(0.004)	(0.004)	(0.003)	(0.003)
Ind Rel Market Cap	(0.001) ***	-0.0012 ***	-0.0009 ***	-0.0011 ***
	(0.000)	(0.000)	(0.000)	(0.000)
Ind Rel Debt/Asset	0.0143	0.0122	-0.0014	-0.0038
	(0.009)	(0.009)	(0.007)	(0.007)
Delaware Inc	0.0133 ***	0.0109 ***	0.0076 ***	0.0066 ***
	(0.003)	(0.003)	(0.002)	(0.002)
Log(CEO Age)	-0.0060	-0.0015	-0.0050	-0.0002
	(0.015)	(0.014)	(0.012)	(0.012)
Log(CEO Tenure)	-0.0044 ***	-0.0044 ***	-0.0020	-0.0021 *
	(0.001)	(0.001)	(0.001)	(0.001)
Herfindahl Index	-0.0190 *		-0.0152 *	
	(0.011)		(0.009)	
Dependent Var Mean	0.0567	0.0569	0.0398	0.0401
Proportional Marginal Effect	0.2609	0.2706	0.3220	0.3388
Year Controls	Yes	Yes	Yes	Yes
Industry Controls	No	Yes	No	Yes
Cluster SE	Yes	Yes	Yes	Yes
Pseudo R-squared	0.0500	0.0640	0.0700	0.0840
Observations	19,747	19,683	19,747	19,554

Panel B: Acquisition Likelihood in Different Groups of Firms

This table reports results of likelihood of acquisition by next year as in column (3) and (4) of Table VI, where the GP variable is interacted with binary variables indicating whether a firm A) is incorporated in Delaware, B) has Tobin's Q greater than the industry median, C) has market capitalization greater than the market median, and D) belongs to a highly competitive industry (HHI in the top quartile in a given year). We report only the coefficients on the interacted GP variables. For each interaction variable two sets of coefficients are reported which differ based on how we control for industry: (1) uses HHI as industry control, and (2) uses industry fixed effects. Marginal effects are reported in the table, with standard errors reported in parentheses below. All models estimated use robust standard errors clustered by firm and have year fixed effects. Significance levels are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

A) Delaware Incorporated vs. None Delaware Incorporated			
	GPxDEInc	GPxNotDEInc	Diff
(1) Using HHI as Ind Control	0.0117 ***	0.0098 ***	0.0019 ***
	(0.003)	(0.005)	(0.005)
(2) Using FE as Ind Control	0.0133 ***	0.0130 ***	0.0003 ***
	(0.003)	(0.006)	(0.005)
B) Positive Industry Relative Q vs. Negative Industry Relative Q			
	GPx +IndRelQ	GPx -IndRelQ	Diff
(1) Using HHI as Ind Control	0.0138 ***	0.0167 ***	-0.0029 ***
	(0.003)	(0.005)	(0.005)
(2) Using FE as Ind Control	0.0142 ***	0.0160 ***	-0.0018 ***
	(0.003)	(0.005)	(0.005)
C) Positive Industry Relative Mcap vs. Negative Industry Relative Mcap			
	GPx +IndRelSize	GPx -IndRelSize	Diff
(1) Using HHI as Ind Control	0.0125 ***	0.0128 ***	-0.0003 ***
	(0.003)	(0.004)	(0.005)
(2) Using FE as Ind Control	0.0135 ***	0.0139 ***	-0.0004 ***
	(0.003)	(0.004)	(0.005)
D) Top Quartile HHI vs. Low Quartile HHI			
	GPxHiHHI	GPxLowHHI	Diff
(1) Using HHI as Ind Control	0.0125 ***	0.0125 ***	0.0000 ***
	(0.003)	(0.004)	(0.005)
(2) Using FE as Ind Control	0.0127 ***	0.0103 ***	0.0024 ***
	(0.003)	(0.004)	(0.005)

TABLE V: ACQUISITION LIKELIHOOD: OLD VS. FREHS GPs

This table reports marginal effects from pooled Probit results. Results from columns (1) and (2) are comparable to those in Table VI, with the difference that the dependent variable is an indicator for whether or not a firm is acquired by the current date of the next IRRC volume. Columns (3) and (4) represent the same models as (1) and (2), respectively, but splits GP into Old and Fresh GP, where Fresh GP equals 1 if a firm does not have GP in the previous IRRC volume and has GP in the current volume, and Old GP equals 1 if a firm has GP in both the previous and current IRRC volume. All models estimated use robust cluster standard errors. Specifications (1) and (3) use the Herfindahl Index has industry control, while (2) and (4) use 2-digit SIC industry fixed effects. Standard errors are reported below marginal effects in parentheses. Marginal effects for industry and year fixed effects, as well as the constant term, are

Probit Dependent Var	Acquired by Next IRRC Vol		Acquired by Next IRRC Vol	
	(1)	(2)	(3)	(4)
Golden Parachute	0.0337 ***	0.0353 ***		
	(0.005)	(0.005)		
Old GP			0.0392 ***	0.0406 ***
			(0.013)	(0.013)
Fresh GP			0.0345 ***	0.0377 ***
			(0.006)	(0.006)
Eindex-GP	-0.0012	-0.0016	-0.0002	-0.0006
	(0.002)	(0.002)	(0.002)	(0.002)
Gindex - Eindex	0.0021	0.0021	0.0016	0.0016
	(0.001)	(0.001)	(0.001)	(0.001)
Log Rel Q	-0.0057	-0.0040	-0.0039	-0.0021
	(0.005)	(0.005)	(0.005)	(0.005)
Ind Rel Market Cap	-0.0011 ***	-0.0013 ***	-0.0012 ***	-0.0014 ***
	(0.000)	(0.000)	(0.000)	(0.000)
Ind Rel Debt/Asset	-0.0039	-0.0053	-0.0007	-0.0028
	(0.013)	(0.013)	(0.013)	(0.014)
Delaware Inc	0.0155 ***	0.0133 ***	0.0173 ***	0.0150 ***
	(0.005)	(0.005)	(0.005)	(0.005)
CEO Age	-0.0235	-0.0121	-0.0249	-0.0132
	(0.028)	(0.027)	(0.028)	(0.028)
CEO Tenure	-0.0054 *	-0.0060 **	-0.0055 *	-0.0062 **
	(0.003)	(0.003)	(0.003)	(0.003)
Herfindahl Index	-0.0163		-0.0171	
	(0.018)		(0.018)	
Dependent Var Mean	0.0950	0.0956	0.0950	0.0956
Proportional Marginal Effect	0.3548	0.3694	.4127/.3632	.4249/.3946
Year Controls	Yes	Yes	Yes	Yes
Industry Controls	No	Yes	No	Yes
Cluster SE	Yes	Yes	Yes	Yes
Pseudo R-squared	0.1750	0.1870	0.1730	0.1860
Observations	10,422	10,361	10,422	10,361

indicated by *, **, and *** for 10%, 5%, and 1% respectively.

TABLE VI: GOLDEN PARACHUTES AND ACQUISITION PEMIA

This table reports pooled regression results of 1-week and 4-week acquisition premiums on target firms' governance characteristics, fundamentals, and deal characteristics. Columns (1) and (2) use 1-week premium and log of 1-week premium as the dependent variable; columns (3) and (4) use 4-week premium and log of 4-week premium as the dependent variable. All models include estimated with 2-digit SIC industry and year fixed effects, and all estimations use cluster robust standard errors, clustering by 2-digit SIC industries, and have year and SIC2 industry fixed effects. Coefficients for year and industry fixed effects and the constant term are suppressed. Significance levels are indicated by *, **, and *** for 10%, 5%, and 1% respectively; [a] denotes statistical significance at the 11% level.

Dependent Var	1Wk Prem	ln(1Wk Prem)	4Wk Prem	ln(4Wk Prem)
	(1)	(2)	(3)	(4)
Golden Parachute	-0.0357 **	-0.1280 [a]	-0.0433 **	-0.1921 **
	(0.017)	(0.077)	(0.020)	(0.093)
EIndex-GP	0.0166 **	0.0428	0.0124	0.0311
	(0.007)	(0.026)	(0.009)	(0.029)
Delaware Inc	0.0062	0.0194	0.0002	(0.002)
	(0.004)	(0.019)	(0.005)	(0.015)
GIndex-EIndex	0.0092	-0.0418	0.0140	-0.0193
	(0.015)	(0.059)	(0.017)	(0.070)
Log Rel Q	-0.0303	-0.0242	-0.0368	-0.0142
	(0.028)	(0.075)	(0.035)	(0.077)
Inside Ownership	-0.0014	0.0006	-0.0025	-0.0053
	(0.002)	(0.006)	(0.002)	(0.008)
Log(Assets)	-0.0179 *	-0.0377	-0.0221 **	-0.0625 *
	(0.009)	(0.034)	(0.010)	(0.032)
Debt/Asset	0.0590	0.1813	0.0462	0.2567
	(0.049)	(0.206)	(0.047)	(0.173)
Hostile Bid	0.0930 *	0.2503 *	0.0545	0.2869 ***
	(0.053)	(0.139)	(0.040)	(0.105)
Tender Offer	0.0591 *	0.2175 **	0.1031 ***	0.2771 **
	(0.034)	(0.089)	(0.037)	(0.114)
Toehold	-0.0011	-0.0036	-0.0021	-0.0026
	(0.002)	(0.006)	(0.001)	(0.005)
Termination Fee	-0.0068	-0.0027	0.0005	0.1233
	(0.023)	(0.071)	(0.021)	(0.091)
Stock Swap	-0.0125	-0.1606 *	-0.0183	-0.1640 *
	(0.026)	(0.083)	(0.026)	(0.085)
Log(Time)	0.0180	0.0528	0.0152	0.0443
	(0.021)	(0.065)	(0.023)	(0.067)
Log(CEO Age)	-0.0910	-0.4395	-0.1810	-0.8681 **
	(0.134)	(0.489)	(0.127)	(0.413)
Log(CEO Tenure)	0.0180	0.1000 **	0.0130	0.0636
	(0.019)	(0.046)	(0.021)	(0.049)
Adjusted R-squared	0.1140	0.0780	0.1530	0.0720
Observations	756	756	753	753

TABLE VII: GOLDEN PARACHUTES AND THE EVOLUTION OF TOBIN'S Q

Panel A: Tobin's Q Prior to Adoption

This table reports OLS coefficients from a regression log industry-relative Q on an indicator for future GP adopter (does not have GP in the current IRRC volume and has GP in the following IRRC volume), controlling for EIndex, GIndex, and other firm characteristics. The estimation is performed on a sample of firms that are either future adopters of GP or non-adopters of GP (has no GP in current and next IRRC). All cluster robust standard errors are clustered by 2-digit SIC industries; standard errors are reported in parentheses below the coefficient estimates. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Dependent Var	Log(Industry Relative Q)		
	(1)	(2)	(3)
Future GP Adopter	-0.0494 **	-0.0554 **	-0.0475 *
	(0.024)	(0.024)	(0.025)
Other Provisions in E	-0.0352 ***	-0.0308 **	-0.0350 ***
	(0.009)	(0.013)	(0.013)
Other Provisions in G	0.0172 ***	0.0132 *	0.0171 **
	(0.005)	(0.008)	(0.008)
ROA	0.4928 ***	0.4724 ***	0.4905 ***
	(0.186)	(0.179)	(0.187)
Log(Assets)	0.0058	0.0077	0.0055
	(0.007)	(0.013)	(0.011)
CAPEX / Assets	0.5411 ***	0.9536 ***	0.5525 ***
	(0.154)	(0.243)	(0.198)
Log(Age)	-0.1254 ***	-0.1139 ***	-0.1251 ***
	(0.014)	(0.020)	(0.019)
Rel Debt / Assets	-0.4504 ***	-0.4266 ***	-0.4504 ***
	(0.081)	(0.129)	(0.123)
R&D / Sales	0.0226	0.0261	0.0229
	(0.017)	(0.017)	(0.017)
Herfindahl Index			0.0761
			(0.103)
Industry FE	No	Yes	No
Year FE	Yes	Yes	Yes
SE	Robust	Cluster	Cluster
Adjusted R-squared	0.2197	0.2682	0.2198
Observations	2,540	2,540	2,540

Panel B: Changes in Q during the Inter-Volume Period of GP Adoption

This table reports OLS coefficients from a changes regression of volume-to-volume change in log industry-relative Q on an indicator for future GP adopter (does not have GP in the current IRRC volume and has GP in the following IRRC volume), changes in other provisions in EIndex and GIndex, and changes in firm characteristics. The estimation is performed on a sample of firms that are either future adopters of GP or non-adopters of GP (has no GP in current and next IRRC). All cluster robust standard errors are clustered by 2-digit SIC industries; standard errors are reported in parentheses below the coefficient estimates. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Dependent Var	ΔLog(Industry Relative Q)					
	(1)		(2)		(3)	
Future GP Adopter	-0.0582	***	-0.0475	**	-0.0581	***
	(0.020)		(0.021)		(0.020)	
Δ Other Provisions in E	-0.0218		-0.0200		-0.0216	
	(0.022)		(0.022)		(0.022)	
Δ Other Provisions in G	-0.0031		-0.0050		-0.0032	
	(0.011)		(0.011)		(0.011)	
Δ ROA	0.2038	**	0.2122	**	0.2038	**
	(0.096)		(0.102)		(0.096)	
Δ Log Assets	-0.1055	***	-0.1061	***	-0.1053	***
	(0.030)		(0.031)		(0.030)	
Δ CAPEX / Assets	0.3373	*	0.3497		0.3386	
	(0.198)		(0.222)		(0.216)	
Δ Log Rel Debt / Assets	-0.3212	***	-0.2803	***	-0.3201	***
	(0.060)		(0.061)		(0.059)	
Δ Log Age	-0.4800	***	-0.4867	***	-0.4803	***
	(0.090)		(0.094)		(0.093)	
Δ R&D / Sales	-0.0001		-0.0003		-0.0001	
	(0.009)		(0.008)		(0.008)	
Δ Herfindahl Index					0.0612	
					(0.115)	
Industry FE	No		Yes		No	
Year FE	Yes		Yes		Yes	
SE	Robust		Cluster		Cluster	
Adjusted R-squared	0.1386		0.1346		0.1383	
Observations	2,429		2,429		2,429	

Panel C: Evolution of Q After GP Adoption

This table reports OLS coefficients from a changes regression of volume-to-volume change in log industry-relative Q on an indicator for LT GP adopter (having GP in the previous, current, and succeeding IRRC volumes), changes in other provisions in EIndex and GIndex, and changes in firm characteristics. The estimation is performed on a sample of firms that are either LT adopters or LT non-adopters of GP (does not have GP in the previous, current, and next IRRC volumes). All cluster robust standard errors are clustered by 2-digit SIC industries; standard errors are reported in parentheses below the coefficient estimates. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Dependent Var	ΔLog(Industry Relative Q)		
	(1)	(2)	(3)
LT GP Adopter	-0.0484 [a]	-0.0619 *	-0.0531 *
	(0.031)	(0.032)	(0.030)
Δ Other Provisions in E	0.0121	0.0124	0.0106
	(0.024)	(0.026)	(0.025)
Δ Other Provisions in G	-0.0019	-0.0031	-0.0015
	(0.011)	(0.012)	(0.012)
Δ ROA	1.0137 ***	1.0136 ***	1.0123 ***
	(0.147)	(0.158)	(0.155)
Δ Log Assets	-0.1033 **	-0.116 **	-0.1049 **
	(0.044)	(0.045)	(0.043)
Δ CAPEX / Assets	-0.0775	-0.0342	-0.0774
	(0.206)	(0.240)	(0.231)
Δ Log Rel Debt / Assets	-0.4042 ***	-0.3849 ***	-0.4039 ***
	(0.120)	(0.123)	(0.121)
Δ Log Age	-0.2035	-0.2503 *	-0.2075 *
	(0.129)	(0.129)	(0.121)
Δ R&D / Sales	-0.0494 ***	-0.0495 ***	-0.0495 ***
	(0.011)	(0.011)	(0.011)
Δ Herfindahl Index			-0.3045 **
			(0.137)
Industry FE	No	Yes	No
Year FE	Yes	Yes	Yes
SE	Robust	Cluster	Cluster
Adjusted R-squared	0.1631	0.1567	0.1645
Observations	1,410	1,410	1,410

Panel D: Changes in GP and Changes in Q

This table reports OLS coefficients from a changes regression of volume-to-volume change in log industry-relative Q on changes in GP, as well as changes in other provisions in EIndex and GIndex, and changes in firm characteristics. A change in GP of 1(-1) means an adoption(dis-adoption) of GP from one volume to the next. All cluster robust standard errors are clustered by 2-digit SIC industries; standard errors are reported in parentheses below the coefficient estimates. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Dependent Var	ΔLog(Industry Relative Q)					
	(1)		(2)		(3)	
Δ GP	-0.0460	***	-0.0435	**	-0.0460	***
	(0.016)		(0.017)		(0.017)	
Δ Other Provisions in E	-0.0218	*	-0.0190		-0.0216	*
	(0.012)		(0.012)		(0.012)	
Δ Other Provisions in G	0.0001		-0.0003		0.0002	
	(0.007)		(0.008)		(0.008)	
Δ ROA	0.3285	**	0.3322	**	0.3285	**
	(0.149)		(0.149)		(0.149)	
Δ Log Assets	-0.1816	***	-0.1811	***	-0.1813	***
	(0.020)		(0.022)		(0.022)	
Δ CAPEX / Assets	0.4300	***	0.4313	***	0.4318	***
	(0.138)		(0.151)		(0.150)	
Δ Log Rel Debt / Assets	-0.2681	***	-0.2656	***	-0.2685	***
	(0.061)		(0.067)		(0.067)	
Δ Log Age	-0.2155	***	-0.184	***	-0.2147	***
	(0.038)		(0.036)		(0.036)	
Δ R&D / Sales	-0.0004		-0.0004		-0.0004	
	(0.006)		(0.006)		(0.006)	
Δ Herfindahl Index					0.0799	
					(0.062)	
Industry FE	No		Yes		No	
Year FE	Yes		Yes		Yes	
SE	Robust		Cluster		Cluster	
Adjusted R-squared	0.1280		0.1288		0.1280	
Observations	6,287		6,287		6,287	

TABLE VIII: STOCK RETURNS AND GOLDEN PARACHUTES

Panel A: Stock Returns Prior to GP Adoption

This table reports the monthly abnormal returns, and their associated robust standard errors in parenthesis for the period of September 1990 - December 2005. Abnormal returns were calculated by regressing the return associated with a particular trading strategy on the three Fama-French (Fama & French 1993) factors: the HML factor which captures book-to-market effects, the SMB factor which captures firm size effects, and RMRF factor which captures the value-weighted market return in excess of the risk-free rate for further explanation. Additionally we include a momentum factor which is calculated using the procedures described in Carhart (1997). The trading strategy is to long a portfolio of stocks that adopt golden parachute two volumes from the current one (i.e. does not have GP in the current and next IRRC volumes but has GP in the following one) while, simultaneously, shorting another portfolio of stocks that do not have golden parachute in the current and the succeeding two IRRC volume. These long and short portfolios were adjusted when updated information on firms' corporate governance provisions became available: July, 1993; July, 1995; February 1998; February 2000; February 2002; January 2004; January 2006. The long and short portfolios of stocks were constructed using equal weightings of each stock (equal-weight) and by weighting the holding of a stock in the portfolio by its common stock market capitalization (value-weight). Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Dependent Var	**Monthly Portfolio Returns**			
	(1)		(2)	
	VW		EW	
Alpha	-0.0059	***	-0.0035	***
	(0.002)		(0.001)	
Rm-Rf	0.0034		0.0153	
	(0.056)		(0.030)	
SMB	0.0834		0.1219	***
	(0.067)		(0.037)	
HML	0.2827	***	0.1256	***
	(0.096)		(0.042)	
Carhart	-0.0175		-0.0169	
	(0.043)		(0.027)	
N	160		160	
Adj. Rsq	0.0861		0.0852	

Panel B: Stock Returns during the Inter-volume Period of GP Adoption

This table reports the monthly abnormal returns, and their associated robust standard errors in parenthesis for the period of September 1990 - December 2005. Abnormal returns were calculated by regressing the return associated with a particular trading strategy on the three Fama-French (Fama & French 1993) factors: the HML factor which captures book-to-market effects, the SMB factor which captures firm size effects, and RMRF factor which captures the value-weighted market return in excess of the risk-free rate for further explanation. Additionally we include a momentum factor which is calculated using the procedures described in Carhart (1997). The trading strategy is to long a portfolio of stocks that adopt golden parachute in the next IRRC volume, simultaneously, shorting another portfolio of stocks that do not have golden parachute between the current and the succeeding IRRC volume. These long and short portfolios were adjusted when updated information on firms' corporate governance provisions became available: July, 1993; July, 1995; February 1998; February 2000; February 2002; January 2004; January 2006. The long and short portfolios of stocks were constructed using equal weightings of each stock (equal-weight) and by weighting the holding of a stock in the portfolio by its common stock market capitalization (value-weight). Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Dependent Var	**Monthly Portfolio Returns**			
	(1)		(2)	
	VW		EW	
Alpha	-0.0037	**	-0.0020	*
	(0.002)		(0.001)	
Rm-Rf	-0.0320		-0.0195	
	(0.040)		(0.027)	
SMB	0.2017	***	0.1310	***
	(0.050)		(0.037)	
HML	0.2120	***	0.0942	*
	(0.066)		(0.051)	
Carhart	-0.0585	**	-0.1262	***
	(0.025)		(0.024)	
N	184		184	
Adj. Rsq	0.1185		0.2695	

Panel C: Stock Returns of GP Adopters

This table reports the monthly abnormal returns and their associated robust standard errors in parenthesis for the period of July 1993 - December 2005. Abnormal returns were calculated by regressing the return associated with a particular trading strategy on the three Fama-French (Fama & French 1993) factors: the HML factor which captures book-to-market effects, the SMB factor which captures firm size effects, and RMRF factor which captures the value-weighted market return in excess of the risk-free rate for further explanation. Additionally we include a momentum factor which is calculated using the procedures described in Carhart (1997). The trading strategy is to long a portfolio of stocks has golden parachute as of the current date in the previous IRRC volume as well as in the current and next IRRC volumes, while simultaneously shorting another portfolio of stocks that do not have golden parachutes in the previous, current, and the next IRRC volumes. Columns (3) and (4) differ from (1) and (2) by including all firms that were acquired between the current and the following IRRC volume, and re-investing towards the rest of the respective portfolio on the long and the short side. These long and short portfolios were adjusted when updated information on firms' corporate governance provisions became available: July, 1993; July, 1995; February 1998; February 2000; February 2002; January 2004; January 2006. The long and short portfolios of stocks were constructed using equal weightings of each stock (equal-weight) and by weighting the holding of a stock in the portfolio by its common stock market capitalization (value-weight) in the beginning of each month. Levels of significance are indicated by *, **, and *** for 10%, 5%, and 1% respectively.

Dependent Var	**Monthly Portfolio Returns**			
	Firms in Both Volumns		Including Acquired Firms	
	(1)	(2)	(3)	(4)
	VW	EW	VW	EW
Alpha	-0.0037 **	-0.0028 ***	-0.0032 **	-0.0024 **
	(0.001)	(0.001)	(0.001)	(0.001)
Rm-Rf	0.0183	0.0127	0.0155	0.013
	(0.039)	(0.021)	(0.040)	(0.023)
SMB	0.1203 ***	0.0242	0.1189 ***	0.0141
	(0.040)	(0.028)	(0.041)	(0.030)
HML	0.5274 ***	0.2904 ***	0.5306 ***	0.2866 ***
	(0.062)	(0.031)	(0.062)	(0.033)
Carhart	0.0285	0.0063	0.0269	0.0133
	(0.028)	(0.013)	(0.028)	(0.013)
N	150	150	150	150
Adj. Rsq	0.5094	0.4876	0.5156	0.4755