

An inconsistency in SEC disclosure requirements? The case of the “insignificant” private target

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Abstract

Although the SEC’s main charge is to ensure the disclosure of material information, the SEC has not always consistently defined materiality. We show that acquisitions of privately-held targets classified as “insignificant” by the SEC appreciably affect market prices, and therefore are “material” by the SEC’s definition. We find significant returns in transactions with targets as small as 2% -- compared with the SEC’s disclosure threshold of 20% -- of the acquirer. Further, an average of 19 undisclosed private acquisitions per year exceed the median IPO value in the same year for our sample period. However, because the SEC deems these transactions insignificant, information like target financial statements remains undisclosed to the market. Disclosure rules regarding target financial statements thus create a regulatory disconnect, in which information that is “material” is “insignificant” and therefore not disclosed.

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1. Introduction

The stated mission of the U.S. Securities and Exchange Commission (“SEC” or “Commission”) is “to protect investors and maintain the integrity of the securities markets.”¹ The SEC implements its mission primarily by requiring public companies to disclose information to the public. Of course, information is not costless and as noted by Stigler (1964b), “no society is rich enough to get all the available information.” As a result of these disclosure costs, the SEC limits disclosure to only “material” information.

Although the SEC’s main charge is to enforce the disclosure of material information, the SEC has

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¹ <http://www.sec.gov/about/whatwedo.shtml>.

not articulated consistent standards for materiality. In some contexts, it uses a flexible, standards-based approach. For example, in securities fraud cases “material” information is what a reasonable shareholder would consider important; it is also information causing a substantial market impact (Mitchell and Netter, 1994). Other times it uses a more rigid, rules-based approach: some definitions of “material” information relate to the quality and variability of a firm’s earnings and cash flows. Still other times it is keyed to some specified level above a hard numerical or bright-line threshold. In short, there is no consistent SEC definition of materiality.

We analyze SEC disclosure regulation and materiality in the context of mergers and acquisitions. The trillions of dollars devoted to these transactions underscore their importance. Yet in spite of a large literature, surveyed by authors such as Mulherin and Boone (2000), Andrade et al (2001), Fuller et al (2002), and Moeller et al (2004) there is little or no empirical research on the impact of SEC disclosure policy on acquisitions. Our analysis focuses on the acquisition of private targets by publicly traded corporations. The SEC uses standards based on the relative size of the target to determine which transactions are “significant”, and where therefore financial information about the target must be disclosed. These standards for significance have been relaxed over time, allowing us to study how the changing policy has affected both the number of transactions requiring disclosure as well as the impact on investor reaction to private acquisitions.

We demonstrate empirically that approximately 80% of the acquisitions of privately held firms that the SEC classifies as insignificant are nonetheless economically important to acquirer shareholders. We also document a significantly positive relation between acquisition announcements returns and both the presence of target financial statements and the subsequent returns around the release of target financial statements. Furthermore, because in 1996 and 2000 the SEC reduced the level of required disclosure of target financial statements, we have specific opportunities to measure the effect of a reduction in reporting requirements. We find that reducing the threshold for disclosure of financial statements is associated with an increase in the absolute magnitude of abnormal returns around the acquisition announcement and a reduction in gains to acquirer stockholders. In sum, our findings show that in the context of private

acquisitions the SEC's current standard of financial reporting does not mandate the disclosure of value-relevant information and recent changes increase the noise around takeover announcements by reducing the available financial information for the target.

We acknowledge that increased disclosure has associated costs that, although real, are difficult to quantify. Ultimately one might question, as Stigler (1964a) does, whether the benefits of not disclosing target financials outweighs the costs to acquirer shareholders -- and the market in general -- of not having this information. At the time of the 1996 rule change, the SEC concluded: “[a]lthough investors will receive less information about some business acquisitions under the revised rules, the Commission believes that the benefits of the amendments outweigh that cost.” However, the SEC offered no evidence for this assessment, beyond the simple observation that “[t]he instances in which financial statements of acquired businesses ... are required will be reduced, enabling issuers to avoid the cost of preparing and auditing those statements.”² Whether the costs of increased disclosure outweigh the benefits is a question that the SEC has left largely unexamined. We contend that our data merits a revisiting of this question, because the disclosure requirements are inconsistent with what the SEC has mandated elsewhere.

2. SEC disclosure rules and resulting inconsistencies

We now examine the SEC's current rules and how they have changed since 1996 and how they are inconsistent with disclosure rules in other areas.

2.1. SEC disclosure rules

The SEC mandates that acquirer's disclose financial information on private targets that will be a “significant subsidiary” of the acquirer. Currently, a subsidiary is significant if

- i. the company's (including any of its subsidiaries') investments in and advances to the subsidiary as of the end of the last fiscal year exceed 10% of the company's total assets;
- ii. the company's (including any of its subsidiaries') proportionate share of the total assets of the

² Streamlining Disclosure Requirements Relating to Significant Business Acquisitions, Securities Act Release No. 33-7355 (Oct. 10, 1996) (hereinafter, “1996 Release”).

subsidiary exceed 10% of the company's total assets; or

- iii. the company's (including any of its subsidiaries') share of the subsidiary's income exceeds 10% of the company's total income.³

Although the definition of "significant subsidiary" is tied to a 10% threshold, the thresholds for determining whether the acquirer must report an acquired significant subsidiary's financial statements are considerably higher. If none of the above thresholds exceed 20%, the SEC does not require the disclosure of financial statements of the target. If any of the thresholds are between 20% and 40%, the financial statements of the target for the most recent fiscal year must be disclosed. If any of the thresholds are between 40% and 50%, financial statements for the past two fiscal years must be disclosed; over 50%, and the SEC requires financial statements for the past three fiscal years.⁴

The SEC rules were not always so generous regarding disclosure of a target's financials. In 1996, the SEC took several steps that relaxed the disclosure requirements for target financials.⁵ First, before 1996 the current thresholds of 20%, 40%, and 50% were 10%, 20%, and 40%, respectively. This change was instituted to reduce the perceived burden of disclosing target financials. Second, in 1996 the SEC allowed companies making public offerings 75 days to provide the required target financials following consummation of any acquisitions falling within the 20-50% thresholds, rather than requiring disclosure at the time of the offering.⁶ In part, this change stemmed from a concern that the earlier, more burdensome disclosures had prompted companies to avoid public U.S. offerings altogether in favor of private or offshore offerings. Finally, prior to 1996 an aggregation principle applied: if a company made a series of insignificant acquisitions, none of which individually approached the then-applicable 10% level, but taken together exceeded the 20% level, then the company had to furnish financial statements for a majority of the individually insignificant businesses.⁷ Post-1996, the SEC retained the 20% aggregation threshold, but only with respect to "related businesses." Current rules provide that acquisitions of "related

³ 17 C.F.R. § 210.1-02(w).

⁴ 17 C.F.R. § 210.3-05(b)(2).

⁵ 1996 Release.

⁶ 17 C.F.R. § 210.3-05(b)(4).

⁷ 1996 Release, n. 22 and accompanying text.

businesses” are to be treated as if they were a single business transaction.⁸ Unrelated targets are not subject to disclosure unless they exceed 50% in the aggregate.⁹

In 2000, the SEC further loosened its disclosure requirements by eliminating the requirement that a target’s financials be disclosed where (1) payments to the target shareholders are solely cash and (2) the acquirer’s shareholders are not voting on the transaction.¹⁰ The SEC continues to require disclosure of target financial statements in which the acquirer’s shareholders do vote. However, in two of the most popular merger techniques, forward and reverse triangular mergers, such votes are generally not required (see Rothman, 2002) because either the target company merges into a subsidiary of the acquirer (forward triangular merger) or a subsidiary of the acquirer merges into the target company (reverse triangular merger).

The SEC promulgated new rules requiring disclosure of material definitive agreements that are not made in the ordinary course of business in 2004.¹¹ As the SEC pointed out, the disclosure requirement parallels Item 601(b)(10) of Regulation S-K, which already required such agreements to be disclosed. The SEC’s change pushed up the timing of disclosure; now the date of signing, the identities of the parties, and a brief description of material terms and conditions must be disclosed when the agreement is signed. However, the requirements regarding disclosure of target financials did not change.

2.2. Resulting inconsistencies

The definitions of significance create three inconsistencies that collectively cast doubt on whether the SEC’s central mandate -- ensuring disclosure of material information to all investors -- is being met. First, a transaction that the SEC considers to be “insignificant” can be “material” to stockholders. “Materiality” is a fundamental concept in disclosure regulation, and market impact is one standard courts use to assess materiality. Materiality, as defined by the U.S. Supreme Court in *Basic, Inc. v. Levinson*,

⁸ 17 C.F.R. § 210.3-05(a)(3) & (b)(2)(i).

⁹ 17 C.F.R. § 210.3-05(b)(1).

¹⁰ Regulation of Takeovers and Security Holder Communications, Securities Act Release No. 33-7760 (Oct. 26, 1999).

¹¹ Additional Form 8-K Disclosure Requirements and Acceleration of Filing Date, Securities Act Release No. 33-8400; Exchange Act Release No. 34-49424 (Mar. 16, 2004).

exists “if there is a substantial likelihood that a reasonable shareholder would consider it important.”¹² Another definition of materiality further illuminates the concept. Mitchell and Netter (1994) note that in *SEC v. Texas Gulf Sulfur Co.* the U.S. Court of Appeals for the Second Circuit defined materiality as “those situations which are essentially extraordinary in nature and which are reasonably certain to have a substantial effect on the market price of the security.”¹³

Three different examples illustrate the first inconsistency in determining significance. First, some single deals are extremely large in absolute size, but do not require SEC disclosure due to the large size of the acquirer. An example is Lucent Technologies’ May 2000 purchase of Chromatis Networks for \$4.8 billion. The abnormal return in the three days around the acquisition was 3.9%, and the median offer price of initial public offerings in the same year was \$436 million (Loughran and Ritter, 2004). The financial details of this enormous acquisition – more than 11 times the size of the average contemporary IPO – was relegated to a footnote in a quarterly report, which stated little more than that stock was the method of payment and 89% of the purchase price was goodwill.

Secondly, large companies can make a series of relatively small acquisitions that have a substantial aggregate impact. For example, from 1995 to 2004 Cisco Systems acquired 47 firms valued at more than \$100 million each, and no financials were filed for any of the targets (see the Appendix). As further evidence that relatively small deals in aggregate can be important to the reasonable shareholder (if the *Wall Street Journal* signals what reasonable investors find important), then a February 4th, 2002 article is enlightening (Maremont, 2002). The story’s headline reads: “Tyco Made \$8 Billion of Acquisitions Over 3 Years but Didn’t Disclose Them.” The 700 unannounced transactions comprising this sum were not disclosed because individually they were deemed insignificant by the SEC. Tyco was so large that only potential targets worth more than \$13 billion in value would have triggered the SEC’s disclosure requirements for target financials. Eventually, of course, the market learned the extent of the acquisitions and valued the information accordingly.

¹² *Basic, Inc. v. Levinson*, 485 U.S. 224, 231 (1988) (quoting *TSC Indus.*, 426 U.S. at 449).

¹³ 401 F.2d 833 (2d Cir. 1968), cert. denied, 394 U.S. 976 (1969).

Third, some private acquisitions have significant abnormal returns. For example, in the 3 days around the announcement (October 1, 2002) of NetIQ's purchase of PentaSafe Security for \$281 million, NetIQ's CAR was -12.2%. The only announcements on LexisNexis for NetIQ were regarding the transaction. While the deal value was similar to the market value of numerous initial public offerings, the relative size (11%) was considerably less than that required by the SEC for target financial reporting. Indeed, no financials were filed by NetIQ.

The second inconsistency that the SEC's definition of a "significant" acquisition creates is an absence of, or at the very least a delay in, the disclosure of relevant financial information with respect to the target. The SEC's current disclosure regime allows managers to engage in what amounts to undetected corporate misconduct: managers can pursue self-serving acquisitions safe from market scrutiny.

For example, in January of 2002, Corvis Corporation announced its purchase of Dorsal Networks for \$90 million (6.5% of Corvis' assets). Dorsal Networks had a net loss from the previous 13 months of \$27.7 million and total assets of \$24.8 million (1.2% of Corvis' assets). On January 29th and 30th, the day of and the day after the takeover announcement, Corvis' stock fell 9.9%. Although the SEC did not require the disclosure of target financials, a Nasdaq rule required their release when "any director, officer or substantial shareholder of the issuer has a 5% or greater interest ... directly or indirectly, in the company or assets to be acquired."¹⁴ David Huber, Corvis' CEO, owned 31% of Dorsal and Dorsal was believed to be near bankruptcy. On February 12th, the day that Dorsal's financials were released, Corvis' stock fell an additional 6.5%. In effect, the initial announcement of the Dorsal acquisition did not provide all of the relevant information; it was only on February 12th that Corvis' shareholders learned the acquisition was motivated primarily by the CEO's financial problems and was a worse deal than at first understood. Importantly, the disclosure of target financial statements only occurred due to Nasdaq (not SEC) rules.

Finally, the SEC's definition of significance creates a third inconsistency: there is an internal disconnect among the SEC's own rules, a clash between a rules-based model defining significance and a

¹⁴ Nasdaq Marketplace Rules 4350-(i)-1.C.i.

standards-based model defining materiality. This disconnect creates a contradictory result in which information that arguably should be made public (because it is material) is not disclosed because it falls below the threshold of significance. The SEC's own statements regarding the need for transparent communication with the public sets forth a nuanced standard that contradicts its rules regarding target financials disclosure. In an SEC interpretation, the Commission states that one purpose of the discussion and analysis of financial condition is to "provide information about the quality of, and potential variability of, a company's earnings and cash flow, so that investors can ascertain the likelihood that past performance is indicative of future performance."¹⁵ The acquisition of a business that comprises 15% of the acquirer's net income can and often does have an impact on the earnings and future cash flows of the firm. Financial information on the target is therefore extremely important to acquirer shareholders. In fact, it is precisely the financial characteristics of the target (i.e., the target's net income in this example) that the SEC uses to assess the significance of the transaction. But such information is excluded by the bright-line 20% threshold.

Even outside the realm of financial data, the SEC has generally avoided bright-line rules for materiality, stating, "magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment." Indeed, according to the Commission "a matter is 'material' if there is substantial likelihood that a reasonable person would consider it important." The Commission further states that in the context of financial misstatements, which are material at a level of 5% or more, "[q]ualitative factors may cause misstatements of quantitatively small amounts to be material."¹⁶ In other words, in some aspects of mandatory disclosure the SEC takes a more nuanced approach to materiality, but in the acquisition of a private company, a bright-line numerical threshold determines significance.

One possible response to these findings is: so what? If the market is already responding to acquisitions under the 20% threshold, then the inconsistencies have no practical effect. We document

¹⁵ SEC Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations.

¹⁶ SEC Staff Accounting Bulletin: No.99 – Materiality (quoting FASB).

specific instances in which disclosure of financial statements does matter, *i.e.*, in which the market reacts to an acquisition at the time of the transaction, but then reacts further once the target's financial data is disclosed. For a subset of private acquisitions in which financial disclosure *is* required for the target, we find evidence that pertinent information is contained in the release of target financial statements.

3. Sample description

To consider the effects of these inconsistencies in the SEC's disclosure rules, we analyze all takeovers reported by Securities Data Company's (SDC) Mergers and Acquisitions database of privately held firms and subsidiaries of privately held firms from 1983 to 2004 in which the acquirer is a U.S.-based firm traded on the Nasdaq, Amex, or NYSE. We narrow the field of acquisitions by limiting acquirers to those with assets reported on Compustat in the year of, or prior to, the acquisition announcement and return data on the Center for Research in Security Prices U.S. Stock Database (CRSP) for the three days surrounding the acquisition announcement. There are 10,342 such transactions. Since we are interested in the acquisition of businesses, we remove all transactions that appear to be acquisitions of assets or in which SDC lumps several businesses together. In particular, we consider the following types of targets to be either asset sales or an indeterminate business: generically named firms (e.g., "Undisclosed Oil & Gas Company"), drilling rigs, "certain assets", hotels, specific radio or television stations, specific divisions, product lines, and multiple-asset targets (e.g., Grocery Stores (5)). This screen leaves 8,588 firms for our main sample.

Our sample of 8,588 firms is comprised of "reported" transactions (*i.e.*, those takeovers of which SDC reports a deal value for the target), some of which are formally disclosed to the SEC and some of which are not. Two examples illustrate the many kinds of acquisitions that do not appear in our analysis. First, a large number of deals are either not reported by SDC or are eliminated from the sample with normal screening devices (e.g., the requirement of a target deal value). For example, for the three years that Tyco made over 700 unannounced acquisitions, we find 76 nonpublic deals reported by SDC. Of these transactions, only 38 have a target deal value; we analyze only those 38 transactions. Second, in the

Appendix we show that Cisco disclosed seven nonpublic targets in 1995 to the SEC; SDC, and consequently our analysis, includes only four of the seven. Since we limit our sample to SDC, our analysis inevitably misses a significant number of disclosed transactions that are unreported. Further, there are a significant number of transactions which are neither reported (by SDC) nor disclosed (to the SEC). We believe that unreported transactions are likely to be only the very smallest targets (less than 1% of the acquirer's assets), which we show have no impact on acquirer value.

Table 1 describes the characteristics of the acquirer and target in terms of value, period, and Fama and French (1997) industry. In Panel A, we observe that the mean (median) acquirer and target values are \$5.7 billion (\$402 million) and \$77 million (\$20 million), respectively. Acquirer market value is the product of shares outstanding and the price on CRSP the day of the announcement; deal value is that reported by SDC. We adjust the value of the target and the acquirer by the 2004 Consumer Price Index (CPI) so that all values are in 2004 dollars.

Panel A shows that for one of the SEC's measures for materiality – target deal value scaled by acquirer assets (hereafter, $investment_T/assets_A$) – the average (19.8%) and the median (7.5%) transaction falls below the current cut off for significance. We use only one of the SEC's measure of significance, $investment_T/assets_A$, as our main measure because, since financials are not required for most deals, we have no means to compute target assets scaled by acquirer assets (hereafter, $assets_T/assets_A$) or target net income scaled by acquirer net income (hereafter, $income_T/income_A$). Using the $investment_T/asset_A$ measure, 77% of our sample transactions are insignificant by current SEC standards. Panel B shows that in no sub-period is the median $investment_T/asset_A$ greater than 8.4%. Further, approximately 50% (4,212 of 8,588) of our sample acquisitions occur from 1996 to 2000.

Panels C and D show that the target and acquirer industry is most often Business Services: 31% of targets and 27% of acquirers. Business Services include a large percentage of technology firms: of targets with “software”, “.com”, “net”, or “technology” in their names, 91%, 66%, 50%, and 46%, respectively, are contained in Business Services. If Business Services for targets is further divided by four digit SIC we find that the top two classifications are Prepackaged Software (38.4%) and Online Information Services

(10.8%). These technology related targets could be the firms for which disclosure of financials provides the most relevant incremental information (i.e., they have the most uncertainty to reduce). But it is precisely firms in the Business Services industry that Lev and Zarowin (1999) argue uncover the least amount of information from financial statements.

4. Empirical results

In this section we explore materiality in general, the relation between size and materiality, and the impact of the disclosure of financial statements on acquirer announcement returns.

4.1. The materiality of “significant” and “insignificant” targets

We examine cumulative abnormal returns (CAR) and the absolute value of CAR (ACAR) in which abnormal returns are measured as the firm return minus the value weighted CRSP index. These returns are cumulated from day -1 to day +1, where day 0 is the day of the takeover announcement. In many securities fraud cases, CARs determine materiality (Macey et al., 1991). Bailey et al. (2005) use ACAR as a reflection of the average change in investor expectations related to the economic importance of public information. Further, ACAR measures the magnitude of an event without regard to whether the event is perceived by investors as good or bad. In the context of securities fraud, Fischel (1982) argues that material information is information that causes “a security to trade at an artificially high or low price.” Even outside the context of fraud, information that affects prices (positively or negatively) is important given that investors rely on the integrity of market prices. Thus, an absolute measure of abnormal movement in prices is relevant for determining what information is important to investors.

In Table 2, we present abnormal returns for significant and insignificant targets. We classify a target as SEC-significant (SEC-insignificant) if it meets any (none) of the following conditions (based on SEC rules):

1. The product of target deal value scaled by acquirer market value (hereafter, $investment_T/value_A$) and the percentage of the method of payment comprised of stock is 20% or greater. When the acquirer issues 20% of its own stock for an acquisition a stockholder

vote is required; accordingly the SEC requires the disclosure of target financials.

2. Any of $investment_T/assets_A$, $income_T/income_A$, or $asset_T/asset_A$ is equal to 20% or more.
3. Any of $investment_T/assets_A$, $income_T/income_A$, or $asset_T/asset_A$ is 10% or greater either (1) for any payment before October 1996 or (2) between October 1996 and January 2000 if the method of payment is all cash.

Panel A of Table 2 shows positive CARs to acquirers of private firms. The mean CAR for our sample of acquirers, 1.9%, is similar to that found in Fuller et al. (2002) and Faccio et al. (2006), which found mean CARs of 2.08% and 1.51%, respectively. Our mean CAR is also similar to that found by Chang (1998) if one interpolates an overall CAR from his mean CARs from 131 cash offers (0.09%) and 150 stock offers (2.64%). Our sample CAR is smaller than the 3.8% CAR found in Officer et al. (2006), but they examine only SEC-significant targets (i.e., those for which financial statements are filed).

Panel B shows that the acquisition of an SEC-insignificant target is material to acquirer shareholders. SEC-insignificant targets (i.e., 5,628 firms from 1983 to 2004) garner statistically significant mean (median) CARs of 0.9% (0.4%). The CAR surrounding the acquisition of an SEC-insignificant target is less than the mean (median) CAR for a SEC-significant target which is 4% (2.1%). This difference is consistent with the finding of Asquith et al. (1983), Jarrell and Poulsen (1989), and many others, that relatively larger acquisitions garner larger acquirer returns.

The SEC focus on relative size of acquirer and target to determine materiality is justified given that transactions that are more material are more likely to have disclosure. However, if materiality is a determinant of target financials disclosure and if target financial statements provide value-relevant information, then it is inconsistent to leave *all* relatively smaller deals out of the regulatory framework. Further, the results for ACAR show that SEC-insignificant targets can cause considerable movement in the acquirer's stock price: the absolute value of the acquirer changes, on average, by five percent and more than half of the SEC-insignificant target acquisitions cause a change in acquirer absolute value of over three percent.

Panels C, D, and E, of Table 2, relate abnormal returns by the regulatory periods in which the

significance standard changes. As expected, the proportion of transactions classified as SEC-insignificant increases in each sub-period: 53% are SEC-insignificant from January 1983 to September 1996; 67% are SEC-insignificant from October 1996 to December 1999; 79% are SEC-insignificant from January 2000 to December 2004. In each sub-period SEC-insignificant transactions garner statistically significant CARs. In all but the first sub-period the majority of SEC-insignificant targets change the acquirer's absolute market value by 3% or more.

4.2. Materiality as it relates to the absolute and relative size of the target

If the acquisition of a relatively large private firm is a material event for an acquirer's shareholders, then at what size might the acquisition become too small to be material? In Table 3 we provide evidence by which we can better answer this question.

In Panel A of Table 3, we relate acquisition CAR to relative size as defined by one of the SEC's measure of significance: $investment_T/asset_A$. Panel A shows that only deals with an $investment_T/asset_A$ level at or below 1% have a mean and median CAR that is not different from zero and are therefore immaterial. All other $investment_T/asset_A$ categories have statistically significant mean CARs. Acquisitions of targets in which $investment_T/asset_A$ is 20% or more (i.e., targets for which financial statement disclosure is currently, and has always been, required) garner a mean CAR of 4.7%. The range of $investment_T/asset_A$ for which the 1996 and 2000 SEC regulations changed reporting requirements, 10% to 19.9%, has a mean CAR of 1.9%. Acquisitions in which $investment_T/asset_A$ is between 1.1% and 9.9% have mean CARs ranging from 0.5% to 1.6%. Thus, our evidence suggests that only the smallest takeovers (those with an $investment_T/asset_A$ at 1% or less) are nonmaterial.

Panel B of Table 3 shows two specific instances of materiality in SEC-insignificant targets. In this panel, SEC-insignificant refers to targets with $investment_T/asset_A$ less than 20%. First, Panel B shows that SEC-insignificant targets have statistically significant returns regardless of the target's absolute size. Second, many acquisitions of private firms are large investments in terms of the dollar amount paid. Panel B shows the frequency of large absolute-size targets which are classified as insignificant by current SEC

rules. SEC-insignificant targets collectively account for an aggregate deal value of \$388 billion: almost half (47%) of the aggregate deal value is from 290 targets with deal values greater than \$250 million each. In addition, the majority of targets with a deal value greater than \$100 million are SEC-insignificant (826 transactions) rather than SEC-significant (584 transactions). Our findings that (1) the mean CAR for each segment of SEC-insignificant target is considerably different from zero and (2) that there is a large number of large absolute-size deals, support a conjecture that a reasonable investor would consider these transactions material.

Comparison of large absolute-size, yet insignificant, targets with initial public offerings (IPOs) provides more evidence that a reasonable investor would consider some insignificant targets to be material. On an annual basis, we compare our sample of SEC-insignificant targets to Loughran and Ritter's (2004) median IPO market value of equity (i.e., offer price multiplied by post-issue shares outstanding (adjusted to 2003 dollars)). We readjust deal values to 2003 dollars (for comparison) and find that there are, on average, 19 SEC-insignificant acquisitions per year with deal values that equal or exceed the median market value of equity of IPOs found in Loughran and Ritter (2004). The year with the largest number is 1997, in which there are 50 SEC-insignificant private targets with a deal value greater than \$128 million (the median IPO market value of equity). The lowest year is 2001, in which only 3 SEC-insignificant private targets have a deal value greater than the median IPO market value of equity of \$442 million. Thus, a nontrivial number of our sample transactions represent a purchase of the magnitude of a young public company. In addition, there are more big deals (\$250 million and above) from transactions not considered significant (290 deals) than from transactions that are (248 deals).

4.3. Does the disclosure of target financial statements matter?

In Table 4, we examine returns to transactions that are considered significant under one standard (and thus required to disclose target financial statements) but are not under another. Specifically, we only analyze transactions in which one of the three measures of target materiality (i.e., $assets_T/assets_A$, $income_T/income_A$, or $investment_T/asset_A$) is between 10% and 19.9%, but in which the period-specific

financial statement disclosure requirements are different. The set of transactions in which target financials are unreported, “Unreported Financials”, are those in which the acquisition announcement is in or after the month of the loosening of target financial statement disclosure requirements (October 1996 except those in which the method of payment is all cash and no shareholder vote is required, in which case the month is January 2000). In contrast, “Reported Financials” are those in which the financial statements of the target are reported (i.e., the acquisition announcement is prior to October 1996 for all transactions except those in which the method of payment is all cash, for which the date is January 2000). Further, we assume that financials are reported if (1) the SDC reports net income for the target, or (2) the product of $investment_T/Value_A$ and the percentage of the method of payment comprised of stock is 20% or greater (i.e., when the SEC requires target financial statement disclosure due to a stockholder vote).

Table 4 shows that whether or not target financial statements are reported, the deals impacted by regulatory changes (those at the 10-19.9% level) have positive and significant CARs. However, the mean CAR for transactions in which target financials are unreported (1.6%) are statistically different from the mean CAR for transactions in which target financials are reported (2.5%). We also find that mean and median ACARs are statistically different (at the one percent level); the mean return magnitudes in which there are no reported financials are higher than for those with reported financials, 7.4% versus 5.7%, respectively. Thus, we find that in transactions affected by changes in disclosure, the average abnormal announcement return approaches zero but remains significant, while the absolute magnitude of the abnormal returns significantly increases. One interpretation consistent with our observation of significantly falling CARs and significantly increasing ACARs across regulatory standards is that price movements become noisier around takeover announcements when financial data regarding the target will not be disclosed. Further, these results show that there are a large number of material transactions (932) that the SEC ignored when it loosened the limits on target financial statement disclosure.

In Panel B of Table 4, we use a multivariate framework to analyze the CARs from Panel A. In this setting we are able to control for variables that are known to influence acquisition announcement returns. Moeller et al. (2004) find that smaller acquirers gain more than larger acquirers do; we control for

acquirer size with *log acquirer market value* which is the natural log of the previously defined acquirer market value. Travlos (1987) and Fuller et al. (2002) show that method of payment affects acquirer returns for both public and private targets, respectively. Therefore, we include *stock* as a dummy variable equal to one when the method of payment of the acquirer is comprised of more than 90% stock. We also are able to control for any period-specific differences in announcement returns. *10/1996 – 12/1999* and *01/2000 – 12/2004* are dummies for the dates represented in the variable name and each beginning point for the variable coincides with the loosening of target financial disclosure regulation. *Reported financials* is a dummy equal to one if the target reports financial statements.

Consistent with Moeller et al. (2004) we find that *log acquirer market value* is significantly negative. We do not find a significantly positive coefficient for stock transactions as found in Fuller et al. (2002). The coefficients for the period dummies are both positive, but only the coefficient for *10/1996 – 12/1999* is significantly so. Importantly, the coefficient for *reported financials* is positive and significant. This result indicates that target financials provide (positive) material information to investors. Therefore, in Panels A and B of Table 4, we find that transactions that disclose target firm financials provide more (and more positive) information to investors.

In Table 5 we show that the release of target financial statements, by itself, materially moves acquirer prices. We analyze the market response (CAR) of acquirers in the 3 days surrounding the release of target financials for a sample of firms from Officer et al. (2006) for which target financial statement disclosure is mandated. We analyze 621 acquirers that release target financials more than 5 days after the takeover announcement so that there is no overlap with the takeover announcement period. The restriction of nonoverlapping takeover announcement and financial statement release dates is the reason for the loss of 114 firms from the Officer et al. (2006) sample of 735 private firm acquisitions. If target financials provide valuable information to acquirer shareholders, then we expect systematic variation in the CAR surrounding the release of target financial data.

Panel A of Table 5 shows that the takeover announcement CAR is a statistically significant 3.8%, and the financial statement release CAR is not different from zero. The ACAR associated with the release

of target financial information is 5.5%; this ACAR is higher than the “insignificant” ACARs, but lower than the “significant” ACARs, in Table 2. So, while the CAR associated with the release of target financial information is not different from zero, the magnitude of returns suggests that there is new valuable and unexpected information contained in target financial statements. These two apparently contradictory results (i.e., large absolute returns and trivial signed returns) show that target financial information is important, but is not systematically good or bad news.

In Panel B of Table 5, we analyze the variation in financial statement release CARs in a multivariate framework to observe whether or not there is systematic variation in the CAR surrounding the release of target financials. If such variation exists and is related to the acquisition, then this relation would bolster an argument that target financial statements are important to a reasonable investor. Again, we control for variables shown to influence acquirer returns and related to returns associated with the release of target financial information. If target financial statements contain valuable information about the target, then the CAR surrounding the revelation of this information should be positively related to target size. We control for target size with *log target deal value* which is the natural log of the target deal value. We also control for acquirer size, with *log acquirer market value*, in this regression because Berk (1995) demonstrates that firm size matters in explaining returns. We do not control for stock here because there is no reason to believe that stock (as opposed to cash) payment for the acquisition should influence the returns around the release of financial statements of the target. Lastly, we include the takeover CAR as an independent variable on the grounds that our dependent variable is providing additional information related to the original announcement which is captured in the takeover CAR.

Our results in Panel B confirm that the disclosure of target financials provide information related to the acquisition. We find that both target size and the takeover announcement CAR are positively, and significantly, related to the returns associated with the release of target financial information. As expected, we find that the larger the target, the greater the return is that is associated with the revelation of new information. More importantly, the financials announcement returns mimic the acquisition announcement returns, suggesting that the returns around the release of target financial statements provide

material information relating to the acquisition. Therefore, our findings show that pertinent information is included in target financials and this information will presumably not be incorporated evenhandedly into the price of the acquirer if the financials are not disclosed.

5. Conclusion

The SEC's mandate is to provide disclosure of all material information to the market. In the takeover realm, it fulfills that mandate in part by requiring that the financials of significant private targets be disclosed. The SEC's focus on target financials is well founded: we find target financials to be one source of material information to acquirer shareholders. The 1996 and 2000 loosening of the financial statement reporting standards for private targets is associated with an increase in the movement of prices around the acquisition announcement without a related increase in wealth to acquirer stockholders, further underscoring the importance of this financial data.

Additionally, the SEC's definition of a "significant" acquisition relies solely on the relative size of the target to the acquirer. Although the SEC's disclosure framework captures the most material takeovers (i.e., targets that are 20% or more of the acquirer's assets), by setting a threshold that is 1) relative and 2) high, it misses targets that are economically important to acquiring stockholders. We show that targets that are large in absolute size, and comparable to or larger than contemporary IPOs, may not be disclosed if the acquirer's investment does not exceed the regulatory threshold. Equally problematic, investors consider the acquisition of private firms to be material at a threshold as low as two percent. Thus, the SEC requirements for target financials disclosure are inconsistent with the SEC's policy of requiring the disclosure of material information.

This regulatory disconnect also creates an inconsistency with the SEC's disclosure requirements in other contexts, such as securities fraud cases, in which the emphasis is on disclosing information that is important to shareholders. Generally, the SEC endorses a similar policy of requiring disclosure that a reasonable investor would deem important. That nuanced, standards-based approach contrasts sharply with the bright-line 20% threshold that the SEC employs in the takeover arena.

Our data suggests a revisiting of the costs and benefits of mandating target financial statement disclosure. The costs may not be high at all. As the SEC has observed, “Many private companies are contractually required to prepare audited financial statements that comply with generally accepted accounting principles.”¹⁷ If this observation is correct, then little additional cost should arise from disclosure. Furthermore, most acquirers are likely to obtain audited financials in the course of due diligence, even if financial statement disclosure is not mandatory.

Even if target financials are readily available, there are costs associated with obtaining consents and representations from the target’s auditors to use those financials and assuring acquirers that they are disclosure-ready (e.g., preparing pro forma information and ascertaining compliance with all filing requirements). The commenters to the SEC’s 1996 Release rule change articulated all of these costs, but only in requesting a longer window to prepare target financials for disclosure. They did not argue for eliminating disclosure completely. Thus, given that the SEC did not perform a detailed cost-benefit analysis when it changed the disclosure rules and that we show a potential benefit from increased disclosure, the issue of the disclosure of target financial data merits a fuller reexamination.

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¹⁷ Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002, Securities Act Release Nos. 33-8177; 34-47235

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Table 1
Descriptive statistics for private takeovers from 1983 to 2004

<i>Panel A: Statistics</i>				
	25 th percentile	50 th percentile	75 th percentile	Average
Deal value	\$7.1	\$20.0	\$59.0	\$76.8
Acquirer market value	\$120.8	\$401.5	\$1,358.7	\$5,667.0
Investment _T / Value _A	1.9%	5.6%	14.7%	18.5%
Investment _T / Asset _A	2.6%	7.5%	18.0%	19.8%

<i>Panel B: By period</i>				
	Deal value	Investment _T / Asset _A	Investment _T / Value _A	Acquirer market value
1983 – 1987 (N=457)	\$34.5	7.0%	7.8%	\$473.3
1988 – 1995 (N=2,173)	\$13.5	8.4%	7.3%	\$196.8
1996 – 2000 (N=4,212)	\$21.2	8.1%	5.2%	\$455.7
2001 – 2004 (N=1,746)	\$24.5	5.6%	4.3%	\$580.6

<i>Panel C: By target industry</i>				
	Deal value	Investment _T / Asset _A	% sample	N
Business Services	\$18.4	8.4%	31.4%	2,694
Wholesale	\$13.8	6.6%	6.3%	538
Electronic Equipment	\$28.0	7.5%	6.1%	525
Retail	\$22.2	5.9%	4.5%	386
Computers	\$28.7	9.4%	4.4%	378

<i>Panel D: By acquirer industry</i>				
	Deal value	Investment _T / Asset _A	% sample	N
Business Services	\$18.0	9.8%	26.5%	2,279
Electronic Equipment	\$35.9	5.3%	7.5%	642
Computers	\$18.4	7.9%	5.1%	438
Wholesale	\$19.2	7.9%	4.7%	402
Communication	\$23.0	4.6%	4.3%	366

This table describes 8,588 takeovers in which the acquirer is a publicly-traded company and the target is a privately-held firm. Panel A describes acquirer and target size and the frequency of acquirer bids. *Deal value* is the value paid for the target provided by SDC. *Acquirer market value* is the product of the acquirer's price and the number of shares outstanding on the day of the acquisition announcement. Both *deal value* and *acquirer market value* are adjusted by the CPI into 2004 dollars. $Investment_T / Value_A$ is *deal value* scaled by *acquirer market value*. $Investment_T / Assets_A$ is *deal value* scaled by acquirer assets. Panel B describes the sample by period. The number of acquisitions per period is reported next to the period description in the first column. Panels C and D report the top five industries (Fama and French, 1997) of targets and acquirers, respectively. *% sample* is the number of firms in a given industry divided by the number of sample acquisitions. Medians are reported in Panels B, C, and D for *deal value*, $investment_T/assets_A$, *acquirer market value*, and $investment_T/value_A$. Dollars are in millions.

Table 2
Abnormal returns of private takeovers from 1983 to 2004 sorted by regulatory period and whether classified as significant by the SEC

	CAR	ACAR	N
<i>Panel A: All sample takeovers</i>			
	1.9% ^a [0.9% ^a]	6.1% [3.7%]	8,588
<i>Panel B: All sample takeovers by SEC significance</i>			
Insignificant	0.9% ^a [0.4% ^a]	5.0% [3.2%]	5,628
Significant	4.0% ^a [2.1% ^a]	8.2% [5.1%]	2,960
<i>Panel C: January 1983 – September 1996</i>			
Insignificant	1.0% ^a [0.5% ^a]	3.9% [2.6%]	1,672
Significant	3.7% ^a [2.0% ^a]	7.1% [4.4%]	1,489
<i>Panel D: October 1996 – December 1999</i>			
Insignificant	0.8% ^a [0.4% ^a]	5.4% [3.6%]	1,910
Significant	4.5% ^a [2.9% ^a]	8.8% [5.5%]	940
<i>Panel E: January 2000 – December 2004</i>			
Insignificant	0.8% ^a [0.4% ^a]	5.7% [3.4%]	2,046
Significant	3.5% ^a [1.8% ^a]	10.0% [6.5%]	531

This table presents mean [median] cumulative abnormal returns (CAR) and the absolute value of CAR (ACAR) by whether the SEC considers the target significant or not, thereby requiring, and not requiring, respectively, the disclosure of target financial statements. A target is significant if any of the following measures are 10% or greater prior to October 1996: (1) target deal value or assets scaled by acquirer total assets or (2) target net income scaled by acquirer net income. In October 1996 the SEC allowed acquirers to withhold target financials when the target was less than 20% of the acquirer; this loosening of disclosure did not include all-cash deals until January 2000. Thus, the aforementioned measures must be 20% or greater starting in October 1996 (January 2000 for all-cash deals) for the target to be classified as significant. We also classify a target as significant if the product of deal value scaled by acquirer market value and the proportion of the target price paid for with the acquirer's stock is 20% or greater; these transactions require shareholder vote and the SEC would therefore require the target financials disclosure. The superscript letter "a" represents significance at the one percent level. *t*-tests are used for means and the Wilcoxon signed rank test is used for medians. The number of observations is in the last column.

Table 3
CARs by relative and absolute target size private takeovers from 1983 to 2004

Panel A: Mean and median CAR by $Investment_T / Asset_A$

$Investment_T / Asset_A$	CAR	N
0.0% - 1.0%	0.1% [-0.0%]	981
1.1% - 2.0%	0.7% ^a [0.5% ^a]	797
2.1% - 3.0%	0.5% ^c [0.4%]	623
3.1% - 4.0%	0.7% ^b [0.6% ^a]	517
4.1% - 5.0%	0.8% ^b [0.7% ^b]	469
5.1% - 9.9%	1.6% ^a [0.8% ^a]	1,648
10% - 19.9%	1.9% ^a [1.0% ^a]	1,633
≥ 20%	4.7% ^a [2.8% ^a]	1,920

Panel B: Mean CAR and ACAR by $Investment_T / Asset_A$ and target deal value

Target deal value (in millions)	0% - 19.9%	≥ 20%
\$1 - \$100	1.2% ^a [5.4%] 5,842	4.7% ^a [9.2%] 1,336
\$100.1 - \$250	0.9% ^a [4.2%] 536	4.5% ^a [9.1%] 336
\$250	0.5% ^c [3.7%] 290	4.7% ^a [10.2%] 248
Total target deal value	\$387,652 6,668	\$272,380 1,920

All significance measures in this table use one measure of the SEC's definition of significance, $investment_T/asset_A$, which is target deal value, as reported by SDC, scaled by the acquirer's total assets. Panel A presents cumulative abnormal returns (CAR) by $investment_T/asset_A$. The second column reports mean CARs on top and median CARs below in brackets. The number of observations per segment is in the last column. Panel B reports mean CAR and mean absolute value of CAR (ACAR) sorted by $investment_T/asset_A$ in columns and inflation-adjusted deal value in rows. The inflation-adjusted deal value is the deal value provided by SDC adjusted by the CPI into 2004 dollars. The mean CAR is the first number presented and the number of observations per segmentation is below the mean ACAR which is in brackets. Superscript letters a, b, and c represent significance at the 1%, 5% and 10% levels, respectively. Significance is assessed by *t*-tests for means and the Wilcoxon signed rank test for medians (in Panel A).

Table 4

Analysis of cumulative abnormal returns by different disclosure regimes for transactions in which the target is 10% to 19.9% of the acquirer for at least one measure of significance

<i>Panel A</i>			
(1)	(2)	(3)	(4)
	Unreported financials	Reported financials	Test of difference
CAR	1.6% ^a [0.8% ^a]	2.5% ^a [1.2% ^a]	.076 [.020]
ACAR	7.4% [4.9%]	5.7% [3.8%]	.000 [.000]
N	932	938	
<i>Panel B</i>			
Dependent Variable	CAR		
Intercept	0.048 (.015)		
Log acquirer market value	-0.004 (.008)		
Stock	0.001 (.823)		
Reported financials	0.022 (.001)		
10/1996 – 12/1999	0.014 (.024)		
01/2000 – 12/2004	0.012 (.127)		
N	1,870		
F	4.74		
Adj. R ²	.010		

All takeovers in this table are those in which any of the SEC's three measures of significance (target deal value or assets scaled by the acquirer's total assets, or target net income scaled by acquirer net income) are between 10% and 19.9%. Panel A of this table reports the mean [median] cumulative abnormal returns (CAR) and absolute value of CAR (ACAR). We assume that target financial statements are reported if any of the following conditions hold: 1) one of the SEC's three measure of significance (defined above) is between 10% and 19.9% before October 1996 (January 2000 for all-cash deals), 2) the product of deal value scaled by acquirer market value and the proportion of the target price paid for with the acquirer's stock is 20% or greater, 3) SDC reports net income for the target. If the aforementioned conditions are met, then we assume that the acquirer *reported financials* of the target. All other transactions are not required to file target financials and are thus *Unreported financials*. The superscript letter "a" represents significance at the one percent level, using *t*-tests for means and the Wilcoxon signed rank test for medians. Column (4) presents the *p*-values from tests of differences in means (*t*-test) and medians (Wilcoxon test) between columns (2) and (3). The *p*-values for differences in means (medians) are reported on top (below in brackets). Results from an OLS regression in which the takeover CAR is the dependent variable are in Panel B. *Log acquirer market value* is the natural logarithm of the product of the acquirer's price and the number of shares outstanding on the day of the acquisition announcement. *Stock* is a dummy equal to one if the acquirer used greater than 90% stock in the method of payment. *10/1996 – 12/1999* and *01/2000 – 12/2004* are dummies for the dates represented in the variable name. *p*-values are in parentheses.

Table 5
 Analysis of cumulative abnormal returns around the release of target financial statements

<i>Panel A</i>			
	CAR	ACAR	N
Takeover	3.8% ^a	8.7%	621
Financials	-0.2%	5.5%	621

<i>Panel B</i>	
Dependent variable	Financials CAR
Intercept	-0.034 (.135)
Log acquirer market value	-0.009 (.180)
Log target deal value	0.025 (.037)
Takeover CAR	0.120 (.000)
N	621
F	8.99
Adj. R ²	.037

This table analyzes the three-day cumulative abnormal returns (CAR) around the announcement of a takeover. The sample is from Officer, Poulsen, and Stegemoller (2006). Their sample is composed of 735 takeovers of privately-held firms by publicly-traded firms in which disclosure of target financials is mandated. This table analyzes 621 of these firms in which the target-financials release date is more than 5 days after the takeover announcement date. Panel A presents the mean CAR for the takeover announcement (first row of Panel A) and the financial release date (second row of Panel A) in the first column of data. The superscript letter “a” represents statistical significance at the 1% level. The second and third column of data in Panel A presents the absolute value of CAR (ACAR) and the number of observations, respectively. Panel B presents OLS regressions in which the dependent variable is *Financials CAR* - the CAR around the release of target financial statements. *Log acquirer market value* is the natural log of the acquirer’s market value of equity five days prior to the acquisition announcement. *Log target deal value* is the natural log of the target’s deal value as reported by SDC. *Takeover CAR* is the CAR around the announcement of a takeover. *p*-values are in parentheses.

Appendix

Acquisitions of private targets by Cisco Systems from 1995 to 2004

Target	Purchase \$	CAR	Material	Target	Purchase \$	CAR	Material
1995:				2000:			
LightStream ^{b,c}	121	NA	NA	SightPath	800	-2.1%	2.4%
Combinet	114	6.5%	6.5%	InfoGear Technology	301	-5.2%	0.9%
Grand Junction Networks	348	-0.1%	19.8%	Cocom A/S	66	3.5%	0.7%
Internet Junction	6	3.3%	0.5%	V-Bits	128	8.7%	0.9%
NTI ^{a,c,d}	NA	NA	NA	Growth Networks	355	-0.9%	1.1%
Newport Systems Solutions ^{b,c}	91	NA	NA	Altiga Networks	335	4.3%	1.7%
Kalpana ^{b,c}	204	3.1%	19.3%	Compatible Systems	232	4.3%	0.7%
1996:				2001:			
Netsys Technologies	85	-0.9%	2.2%	Monterey Networks	517	5.0%	3.4%
Metaplex ^{a,c,d}	NA	NA	NA	Atlantech Technologies	179	-1.3%	0.5%
1997:				2002:			
Nashoba Networks	129	1.9%	3.6%	JetCell	203	-5.2%	0.6%
Granite Systems	220	1.2%	6.1%	PentaCom	102	-5.3%	0.8%
Skystone Systems	92	-3.3%	1.6%	Qeyton Systems	887	-6.4%	2.4%
Ardent Communications	165	0.8%	2.9%	Other	228	NA	NA
Global Internet Software Group	40	0.8%	1.1%	Netiverse ^{a,d}	210	-1.8%	0.6%
Telesend ^{a,c,d}	NA	NA	NA	Komodo Technology ^{a,d}	175	4.2%	0.5%
1998:				2003:			
Precept Software	84	1.3%	0.9%	Exio Communications ^{a,d}	155	-1.3%	0.5%
DAGAZ Technologies	130	NA	NA	IPmobile	422	-5.0%	1.3%
LightSpeed International	161	-1.9%	3.2%	NuSpeed	463	0.4%	1.4%
WheelGroup	124	NA	NA	IPCell Technologies ^c	213	NA	NA
NetSpeed International	252	NA	NA	PixStream	395	-0.0%	1.1%
CLASS Data Systems	51	0.0%	0.9%	Radiata	211	2.8%	0.9%
1999:				2004:			
Fibex Systems ^c	314	NA	NA	Allegro Systems	164	-2.6%	0.6%
Sentinet Networks ^c	131	NA	NA	AuroraNetics	51	2.0%	0.5%
American Internet	58	3.6%	1.0%	Hammerhead Networks	175	-7.5%	0.5%
Clarity Wireless	153	0.4%	1.8%	Navarro Networks	85	-7.5%	0.2%
Selsius Systems	134	1.7%	1.6%	2005:			
PipeLinks	118	2.9%	2.0%	AYR Networks	96	-18.6%	0.3%
Amteva Technologies	159	-5.0%	1.2%	Okena	152	3.2%	0.4%
StratumOne Communications	435	-3.8%	3.2%	Psionic Software	11	4.6%	0.0%
TransMedia Communications	407	0.8%	3.0%	SignalWorks	16	-2.9%	0.0%
Cerent	6,900	5.0%	46.6%	The Linksys Group	480	-6.8%	1.3%
WebLine Communications	325	2.0%	2.2%	2006:			
Other	58	NA	NA	Riverhead Networks	36	1.8%	0.0%
Calista ^{a,d}	55	-2.4%	0.6%	Twingo Systems	5	6.2%	0.0%
MaxComm Technologies ^{a,d}	143	-1.0%	1.0%	<i>All</i> <i>sum=20,634</i> <i>-2.2%</i> <i>159.9%</i>			
Tasmania Network Systems ^{a,d}	25	4.6%	0.3%	^a Reported by SDC, but not found in 10K			
Worldwide Data Systems ^{a,d}	26	-0.4%	0.3%	^b Reported by 10K, but not found on SDC			
Internet Engineering Group ^{a,d}	25	6.1%	0.3%	^c No deal or transaction value reported by SDC			
				^d No deal or transaction value reported in 10K			

The data in this table are from SDC, the Cisco's 10-K, and in LexisNexis. For transactions in SDC, targets must have 100% of their shares acquired, be a privately held company, and the transaction must have an effective date. The last row presents the sum of purchases, the sum of the cumulative abnormal returns (CAR), and the sum of the materiality measure of target deal value scaled by acquirer total assets. Dollars are in millions.