

How Does Financial Reporting Affect the Market for Corporate Control?

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Abstract

US listed firms with reduced financial reporting (“non-accelerated filers” and “smaller reporting companies”) are 20% less likely to become takeover targets, compared with other firms. This result holds across several empirical specifications, including regression discontinuity analyses (around the public float cutoff to qualify for reduced reporting) and difference-in-differences tests (using the 2007 regulatory change that introduced the “smaller reporting companies” classification). Reduced-reporting firms are sold for less cash but receive higher premia than other targets. However, we find no evidence (using both stock market and accounting performance metrics) that their acquirers are worse off than other acquirers. Consistent with the rationale that financial reporting alleviates asymmetric information, reduced-reporting firms are targeted later in merger waves relative to their industry peers and subject to a permanent stock price revaluation when M&A deals fail.

JEL classifications: G34, M41

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1. Introduction

The relation between the quality of public information about an asset and the probability (and speed) of trading the asset (i.e., the market liquidity) is theoretically ambiguous. Simple asymmetric information models (à la Akerlof) suggest that an increase in public information about an asset reduces the adverse selection faced by its potential buyers and thus increases the liquidity of the asset. Models with heterogeneous investors predict instead a negative correlation between financial disclosure and liquidity:¹ when some investors have limited ability to process information and assets are very complex to evaluate, releasing more public information might increase adverse selection for these investors, and thus reduce market liquidity.

In this paper, we want to shed light on the effect of financial reporting on trade by focusing on a specific market: the market for corporate control. In the US, smaller public firms can take advantage of lower disclosure requirements than larger firms. We therefore analyze whether financial reporting has any impact on the probability of being a target in an M&A deal, controlling for other determinants of being a target. In a nutshell, we find support for the simpler asymmetric information story (à la Akerlof) in mergers and acquisitions: less financial reporting is associated with a lower probability of becoming a target in an M&A transaction.

To build our dataset, we start from Audit Analytics that identify whether firms file as “non-accelerated filers” (NAFs) [from 2002 onwards] or as “smaller reporting companies” (SRCs) [from 2007 onwards]. We merge the data from Audit Analytics to Compustat/CRSP (financials and stock returns) and to SDC Platinum (M&A data).

¹ See the discussion in Goldstein and Yang (2017).

The first step in our analysis is to confirm that NAFs and SRCs report less public information about them than other firms. To measure the quality of disclosure we follow Chen, Miao, and Shevlin (2015). Using their method reveals that on average, NAFs have 4.6% lower disclosure quality than other firms and that the disclosure quality for SRCs is 5.1% worse than for non-SRCs. NAFs are also 41.8% less likely to have any analyst following than non-NAFs and SRCs are 37% less likely to have an analyst following than non-SRCs. The combination of these results indicates that firms that file as either NAFs or SRCs disclose less informative public information.

Having established that the indicator for NAF or SRC is a measure of the quality of public information about a firm, we study whether this variable has any effect on the probability that a firm is a target in an M&A deal. For this purpose, we augment a specification similar to that in Fich, Starks and Tran (2022) with state-by-year FE to control for time-varying (headquarter) state-level regulation changes.

In line with the tenet that less disclosure of financial information increases the information asymmetry potential acquirers face, our key finding is that NAFs or SRCs are about 20% less likely to be targets in an M&A transaction than other firms. We also find that bidders use less cash (and more stock) as a means of payment when there is less financial disclosure, arguably to protect themselves against adverse selection. Furthermore, conditional on a deal, NAFs and SRCs receive higher takeover premiums relative to their pre-announcement stock price. Our interpretation for this finding is that the undisturbed stock price of NAFs and SRCs incorporates a larger discount due to the greater asymmetry of information that bidders face.

A concern with our analysis is the endogeneity of NAFs (or SRCs). In fact, filing as NAFs (or SRCs) is a mixture of voluntary and mandatory disclosure. Specifically, apart from a very small number of exceptions, only firms with public float below \$75M are allowed to file as NAFs (after

2002) or as SRCs (after 2007). Hence, disclosure is mandatory for firms with a public float above \$75M, while it is voluntary for firms below \$75M in public float. To complicate things, as Ewens, Xiao, and Xu (2024) show, firms can manage their public float and often choose to bunch below the \$75M cutoff to qualify for reduced disclosure.

To alleviate these concerns, we show that controlling for public float does not change our key findings. The results also hold when we adopt a regression discontinuity design and compare firms close to the disclosure cutoff. Furthermore, we exploit the 2007 reform introducing the designation of “Smaller Reporting Company” in difference-in-differences (DiD) tests: the SEC allowed a subset of NAFs (i.e., those with less than \$50 million in annual revenues) to report less detailed information. Our DiD analyses indicate that the probability of becoming an M&A target declines by between 2.0 and 4.2 percentage points for treated firms (i.e., SRCs) relative to other firms. This is an economically large effect since the unconditional probability of becoming an M&A target in our sample is 3.9 percentage points.

We also provide further supporting evidence on the information channel. First, we follow Song and Walkling (2000) and Cai, Song, and Walkling (2011) and use the “dormant period” prior to a merger announcement to study information transfers in financial markets. They define a dormant period as the calendar time preceding acquirer bids within an industry. Our interest is in reduced disclosure targets, and whether these low information firms receive takeover bids after other comparable firms do. If low disclosure firms are less attractive *ex ante* or more difficult to value, they should exhibit shorter dormant periods, indicating that these firms are “picked” later in a merger wave. This is what we find: NAFs firms have a 20%-shorter dormant period than accelerated filers. Moreover, NAFs targeted by acquirers in the same industry have significantly shorter dormant periods than AFs targeted within an industry.

Second, our paper argues that NAFs and SRCs trade at a discount due to adverse selection, that is, they are relatively undervalued because of the greater asymmetry of information they face. The undervaluation disappears once a bidder appears, as the market learns that there is interest in buying the firm. To corroborate this valuation effect, we follow Malmendier, Opp, and Saidi (2016) and examine target revaluations after withdrawn M&A deals. For this test, we collect failed merger deals and tender offers during our sample period, and combine that data with information from Compustat/CRSP, and Audit Analytics. According to the results, NAFs exhibit revaluations that are 24.8 to 41.4 percentage points higher than accelerated filers.

Our interpretation of the results is that potential acquirers are less likely to target NAF and SRC filers because they face greater asymmetric information dealing with them than they do with other firms. An alternative interpretation of the results is that NAFs and SRCs are worse targets than other firms, and bidders rightly stay away from them. To evaluate this hypothesis, we examine the Cumulative Abnormal Returns (CARs) for the acquirer around the announcement of the deal, and compare them depending on whether the target is a NAF or an SRC. We find no statistically significant difference in the bidder announcement CARs involving NAFs or SRCs and the CARs accruing to other bidders. Using the same taxonomy, we find no difference in goodwill impairment and no changes in accounting performance in the years following the acquisitions. This evidence provides no support for the view that NAFs and SRCs are systematically worse targets than other firms.

This paper complements the work by Ortiz et al. (2023), who show that mandatory disclosure increases M&A activity among private firms in a sample of European countries. Their approach is to assess the probability of an M&A deal before and after the introduction of stricter mandatory disclosure requirements at the country level. By contrast, our work considers the US setting, where

private firms face no disclosure requirements and smaller public firms can opt for lower disclosure than larger ones. Consequently, our work is related to studies on the determinants of M&A activity in the US. Recent articles in this area include Jenter and Lewellen (2015), noting that the retirement preferences of CEOs affect their decision to sell a public firm; Fich et al. (2022), finding that firms that advertise are more likely to initiate their own takeovers; and Guo, Liu, and Tu (2023), showing that firms selected by investment banks as comparable peers of an M&A target are themselves more likely to become targets. Our results on the impact of NAF and SRC filing status on the likelihood of becoming an M&A target provides novel evidence to this literature.

Our paper also contributes new evidence to studies considering whether financial disclosure affects the wealth of target and acquirer shareholders. Research on this matter shows that acquirers strategically disclose news that will depress the target's stock price during all-cash acquisitions (Kim, Verdi, and Yost, 2020) or that will increase their own stock price in stock-financed deals (Ahern and Sosyura, 2013). More recently, Stewart (2023) finds that changes in appraisal rights at the state level affects the willingness of targets managers to disclose information about their firms. We move this literature forward by showing that limited disclosure affects the target gains during M&A deals, as NAFs and SRCs earn higher M&A premia, on average. Importantly, however, those gains do not come at the expense of the acquirer shareholders.

This study is also linked to the academic work examining target valuations after failed M&As. The results in Malmendier et al. (2016) indicate that in cancelled M&As, all-cash targets exhibit 22.4 percentage points higher revaluations than all-stock targets. Fich et al. (2022) find that firms that advertise before becoming M&A targets also exhibit a revaluation after their takeover fails. We advance the knowledge base in this area by showing that after unsuccessful M&A deals, the value of targeted NAFs increases by 24.8 to 41.4 percentage points more than other targeted firms.

The structure of the paper is as follows. In section 2, we introduce the data and empirical methodology. In section 3, we present the main findings. Further analyses are discussed in section 4; the conclusion is in section 5. The appendix presents definitions for all the variables we use.

2. Data and Empirical Methodology

In this section, we present the data and provide supporting evidence for the critical identifying assumption behind our analysis.

2.1 Data

We start with all firms covered by the Audit Analytics' Accelerated Filer database for the fiscal years 2002 to 2019. This database tracks the historical filing status of public firms with the SEC as “accelerated filers,” “non-accelerated filers,” or “smaller reporting companies” as prescribed by Rule 12b-2 of the Securities Exchange Act. Firms can file as “non-accelerated filers” (NAFs) if they have a “public float” of less than \$75 million, where float is the number of shares held by non-affiliates multiplied by the stock price on the last business day of the firm’s most recently completed second fiscal quarter. The NAF status affords firms certain privileges, which include among others, less timely reporting dates (e.g., a 15-day (10-day) delay in filing form 10-K (10-Q)) and an optional exemption from the management’s assessment of internal controls (required for SEC reporting companies by Section 404(b) of the Sarbanes-Oxley Act of 2002).

“Smaller reporting company” (SRC) is a designation introduced by the SEC in 2007, for firms with less than \$75 million in public float and less than \$50 million in annual revenues. In September 2018, these SRC thresholds increased to less than \$250 million in public float and to less than \$100 million revenues. However, the NAF thresholds remained unchanged. The SEC allows SRCs to curtail narrative discussion on various topics (e.g., less extensive disclosure about

executive compensation) and to provide only 2 years of financial statements (as opposed to 3). Our sample period begins in 2002 (when the NAF designation was created) and ends in 2019 because we require post-merger performance measures. Over this time frame, Audit Analytics identifies, through the Central Index Key (CIK), 11,234 individual companies which span 111,349 filer-years.

We merge the Audit Analytics' filing status data with both Compustat and CRSP (via historical CIK, CUSIP, Ticker, and Name) to obtain accounting characteristics and stock market information, respectively. This process slightly reduces the sample to about 10,000 unique firms and 95,000 firm-years. We retain observations with non-missing values for key variables (and constituents) such as total assets, sales, leverage, market-to-book, return-on-assets, and fiscal year annual stock returns. Information on public float comes from the publicly shared data by Ewens et al. (2024). From the IBES database, we collect information on the number of analysts following each sample firm (if any). The appendix provides detailed definitions for all variables. Finally, to assess the influence of state-level regulatory regimes, we require that firms in our sample are incorporated in the US. This last requirement produces a sample of over 62,000 firm-years for 6,600 unique firms. We note that 2,900 firms file as Non-accelerated filers at least once while 13,000 firm-years have NAF filings. Similarly, there are 2,371 firms which file as SRCs in our sample and just over 10,000 firm-years (post-2007).

According to Panel A of Table 1, 3.9 percent of our sample of publicly traded firms become takeover targets during our sample period.² For these firms, we collect merger and acquisition (M&A) data from the SDC Platinum database (now an LSEG/Refinitiv product). We retain all completed and withdrawn deals flagged as a merger, majority acquisition, or acquisition. Because the relative information difference between low and high disclosing target firms affects public and

² This unconditional probability is comparable to the 4.7 percentage points reported by Jenter and Lewellen (2015).

private acquirer firms similarly, our M&A sample includes both public and private acquirers. However, as in Harford, Jenter, and Li (2011), we require that acquirer firms hold less than 50% of the target's equity pre-acquisition, seek to acquire more than 50% in the course of the deal, and own more than 90% of the target post-acquisition. Our M&A sample consists of 2,366 completed deals and 211 withdrawn transactions.

To assess the performance of our M&A deals, we use the "Offer Premium 4 Weeks Prior to Announcement" from SDC, and impute missing values using stock price data from CRSP when trading data are available. Following Officer (2003), we winsorize the Offer Premium between 0 and 2. We also collect payment information from SDC to determine the proportions of cash and stock used to pay for the consideration. When the acquirer firm is public, we estimate their M&A announcement cumulative abnormal return (CAR) using data from CRSP, as well as the incidence of goodwill impairment charges and post-merger accounting performance using data from Compustat.

Panel B of Table 1 provides summary statistics for our M&A sample. We note that 21.4% (22.2%) of all target firms enjoy the NAF (SRC) designation. This is similar to the overall incidence of NAF filers in our firm-year panel. Our sample is consistent with prior literature across several key dimensions. For example, notably our average deal premium of 41 percentage points, and the incidence of same-industry mergers comprising nearly two-thirds of the sample compares favorably to the summary statistics for the same variables as reported in other studies (see, for example, Eaton et al. (2022); Masulis and Simsir (2018)).

2.2 Empirical Methodology

Our empirical analyses are based on the identifying assumption that there is less public information on NAFs and SRCs than on other firms. In this section, we provide supportive evidence for this critical assumption.

First, we look at a measure of disclosure quality. Specifically, in Table 2, we follow Chen et al. (2015) and measure disclosure quality as the ratio of (select) non-missing Compustat items to total items. We regress disclosure quality on the identifier of NAF firms (in column 1 and 2) and on the identifier of SRC firms (in columns 3 and 4) while controlling for a set of firm-level variables and fixed effects. The control variables include leverage, firm size (measured as the natural logarithm of total assets), capital expenditures as a proportion of total assets, sales growth, market-to-book ratio, annual stock return, and the number of analysts following the firm. We also include industry (SIC1) x year fixed effects and state fixed effects. The inclusion of state fixed effects is particularly important given Stewart's (2023) finding that variations in appraisal rights across states impacts the inclination of target managers to release information about their firms.

In columns 1 and 3, we use the entire data, whereas in columns 2 and 4, we restrict our attention to firms targeted in M&A deals. In all specifications, the results are robust: on average, NAFs and SRCs have significantly lower disclosure quality than other firms. The estimates in column 1 indicate that NAFs have 4.6% lower disclosure quality, while those in column 2 show that, conditional on an acquisition, NAFs have 5.6% lower disclosure quality. According to column 3, SRCs have 5.1% lower disclosure quality. Likewise, from the results in column 4 we observe that, conditional on acquisition, SRCs have 6.2% lower disclosure quality.

Next, we consider analyst coverage. Whether (and how many) analysts follow a firm is likely to improve the public information available about the firm. In Table 3, we examine the relation between analyst coverage and NAF status (Panel A) and SRC status (Panel B). The dependent

variable in columns 1 and 2 is a dummy variable (labeled 1Has Analyst) set to 1 if a firm has an analyst following it in a given year, and set to 0 otherwise. The dependent variable in columns 3 and 4 is the number of analysts following a firm in a year. For consistency, we use the same explanatory variables and fixed effects as in Table 2. In the odd columns we analyze the entire data while in the even columns, we focus on firms that are targets in M&As.

Across all specifications, we find that NAFs and SRCs are less likely to have analyst following and, conditional on having at least an analyst, they have fewer analysts than other firms. Looking at Panel A, column 1 indicates that NAFs are 35.1 percentage points less likely to have any analyst following. As shown in column 2, conditional on an acquisition, NAFs have a 31.5 percentage points lower likelihood of analyst coverage. Column 3 indicates that, conditional on having an analyst, NAFs have 35.9% fewer analysts. According to column 4, conditional on an acquisition and having an analyst, NAFs have 36.6% fewer analysts. In Panel B, SRCs exhibit similar evidence. Indeed, SRCs are 31.1percentage points less likely to have any analyst following (column 1); conditional on acquisition, SRCs have a 27.2% lower likelihood of analyst coverage (column 2); conditional on having an analyst, SRCs have 33.5% fewer analysts (column 3); and conditional on acquisition and having an analyst, SRCs have 31.1% fewer analysts (column 4).

Overall, the findings in Tables 2 and 3 support the identifying assumption that there is less public information on NAF and SRC firms than on other firms.

3. M&A Results

We now turn our attention to the market for corporate control. In this section, we study the effect of NAFs and SRCs on the probability of becoming an M&A target, the takeover premium paid, and the means of payment used in the acquisition (conditional on a deal). Afterwards, we address

endogeneity concerns by (a) looking at the role of public float, and (b) considering the 2007 reform which introduced the SRC designation.

3.1 Probability of being a target in M&A

In Table 4, we estimate four linear probability models in which the dependent variable, 1(Target), is a dummy variable equal to 1 if a firm becomes an M&A target in a year, and equal to 0 otherwise. The key explanatory variables are 1(NAF) (in columns 1 and 2) and 1(SRC) (in columns 3 and 4), respectively. In addition to our controls variables, the tests in Table 4 include industry x year fixed effects and state fixed effects (in columns 1 and 3), and state x year fixed effects (in columns 2 and 4).

Some of the control variables in Table 4 generate results that are similar to those in other studies. For example, as in Fich et al. (2022), we find negative and significant estimates for our target's firm size (measured as the natural logarithm of total assets) and target's stock return variables and a significant and positive coefficient for leverage. Like Harford (1999), our estimates for the target's market-to-book ratio are negative and statistically significant.

More importantly, across all specifications, the probability of becoming a takeover target is statistically significantly lower when a firm is NAF or SRC. For an economic interpretation of the regression coefficient, in our sample the unconditional probability of being a target is 3.9 percentage points. Using this benchmark implies that the results in columns 1 and 2 indicate that NAFs have a 21.6% lower likelihood of becoming an M&A target while those in columns 3 and 4 imply that SRCs have an 18.9% lower likelihood of becoming a target in an M&A deal.

We interpret these results as evidence that bidders are less likely to pursue NAFs and SRCs as M&A targets because of asymmetric information. The limited public information available on

NAFs and SRCs (as shown in Tables 2 and 3) makes potential acquirers worried about adverse selection and therefore less likely to issue M&A bids to these firms. This interpretation gives rise to two follow-up questions. First, are NAFs and SRCs traded at a greater discount than other firms? To assess this possibility, in section 3.2, we contrast the takeover premia paid for NAFs and SRCs with the premia other targets get. Second, do acquirers of NAFs and SRCs protect themselves from adverse selection when choosing the means of payment? We evaluate this conjecture in section 3.3 by looking at the use of cash and stock as means of payment in acquisitions.

3.2 Takeover Premium

The takeover premium captures the difference between the estimated value of the target company and the actual price a potential acquirer firm offers to buy it. Our evidence on the probability of becoming a takeover target suggests that difficulties in assessing the value of limiting reporting firms make them unattractive takeover targets. To shed additional light on this issue, we look at firms that receive an M&A offer and examine whether limited reporting status (i.e., NAF or SRC) affects the size of those offers.

The dependent variable in Table 5 is the 30-day takeover premium offered in an M&A deal which we collect from SDC. The key explanatory variable is 1(NAF) in columns 1 and 2 and 1(SRC) in columns 3 and 4. Table 5 includes the same control variables as in Table 4.³ We find that relative to the unconditional 30-day Premium (which is 40.1 percentage points), NAFs receive 21.6% (in column 1) and 22.2% (in column 2) higher premia. The results in columns 3 and 4, which just miss statistical significance at conventional levels, indicate that SRCs receive 11-13% higher premia.

³ As in Jenter and Lewellen (2015), our firm size and stock return control variables earn negative and significant coefficients.

3.3 Means of Payment

Seminal articles in the M&A literature propose that when there is uncertainty or asymmetric information about the value of the target firm, acquirers will offer stock to buy the consideration.⁴ A similar situation arises in our setting as the value of NAF and SRC should be less certain because these firms disclose less information. Given this discussion, in Table 6 we study whether the payment method differs according to the target's filing status.

To describe the form of payment used in acquisitions, Table 6 considers four alternative dependent variables: 1(All Cash) is a dummy variable equal to 1 if the deal is entirely paid in cash, and 0 otherwise; 1(All Stock) is a dummy variable equal to 1 if the deal is entirely paid in stock, and 0 otherwise; Percentage Cash and Percentage Stock measure the percentage of the bid price paid in cash and stock, respectively. The key explanatory variable is the identifier for “non-accelerated filers,” 1(NAF), in Panel A, and the identifier for “small reporting companies,” 1(SRC), in Panel B. The tests in Table 6 include the same control variables as in Table 4. We include industry x year fixed effects in all regressions, state fixed effects in the odd columns and state x year fixed effects in the even columns.

We find strong support for our hypothesis that buyers of NAFs and SRCs want to protect themselves against adverse selection through the payment method. Relative to the 59% unconditional probability of receiving an all-cash offer, NAFs are 13.5% less likely to receive an all-cash offer (see columns 1 and 2 in Panel A). We do not find any statistically significant difference in columns 3 and 4: NAFs are not statistically more likely to receive an all-stock offer. Nevertheless, in columns 5 and 6 we find that NAFs receive 9-10% less cash compensation

⁴ Hansen (1987), for example, argues that acquirer firms optimally devise the medium of exchange to attenuate adverse selection.

(compared with the average percentage of cash compensation of 70%); columns 7-8 indicate that NAFs receive 20-23% higher stock compensation (where the average percentage of stock compensation is 22.5%). Results are qualitatively very similar in Panel B, where 1(SRC) is the key explanatory variable. This evidence supports Eckbo et al. (2018) “rational payment design” hypothesis which posits that, rather than being opportunistic, bidders that use their stock to buy the target are concerned with adverse selection on the target side of the transaction.

3.4 Endogeneity Discussion

An important aspect of the analysis is that firms cannot freely choose to be NAFs (or SRCs): non-accelerated filing is only allowed for firms with a “public float” of less than \$75 million, where float is the number of shares held by non-affiliates multiplied by the stock price on the last business day of the firm’s most recently completed second fiscal quarter.⁵

At the same time, firms are not randomly assigned to be NAFs (or SRCs). The fact that the classification depends on public float makes it possible that some firms manipulate the system to keep their public float below \$75 million to retain NAF status. Ewens et al. (2024) indeed show that some firms bunch below the cutoff to enjoy the benefits of reduced disclosure.

The combination of these two observations makes it very difficult to speak about causality in our setting. We attempt to address these concerns by implementing three different approaches. In our first test, we control for public float to reduce the scope for omitted variables in our analysis. A second test involves a regression discontinuity design around the float cutoff. In our third approach, we use the 2007 reform which introduced the SRC designation in various difference-in-differences analyses.

⁵ Similar rules apply to the SRC qualification as discussed in section 2.1.

3.4.1 Public float

The tests in Panel A of Table 7 show that the results in Table 4—showing that NAFs and SRC are less likely to become takeover targets—are robust to controlling for the target’s public float. In Panel B, we adopt a sharp regression discontinuity (RDD) approach for firms within a window close to the \$75m cutoff. The dependent variable in the tests reported in Panel B is $1(\text{Target})$. All regressions include the control variables we use in Table 4 as well as firm fixed effects, industry x year and state fixed effects. As key independent variable, we use $1(\text{Below Threshold})$, which is a dummy variable equal to 1 if the firm’s public float is below \$75 million and equal to 0 otherwise. This dummy variable serves as a proxy that captures the firms we study (i.e., low disclosing firms), by ignoring whether firms choose high or low disclosure when they lie below the threshold. The RDD tests in Panel B of Table 7 consider two different windows around the \$75m cutoff for public float: wider [-\$15m, +\$15m] in columns 1, 2, and 3, and narrower [-\$10m, +\$10m] in columns 4 and 5. We control for non-linear effects of all control variables in columns 2, 3, and 5.⁶

According to the RDD estimates in Panel B, the likelihood of becoming an M&A target is between 1.9 and 3.2 percentage points lower for firms below the \$75m reporting cutoff as compared with firms above it. In economic terms, this is a large effect given that the unconditional probability of being a target is 3.9 percentage points. We obtain comparable results using $1(\text{NAF})$ (or $1(\text{SRC})$) instead of $1(\text{Below Threshold})$, as there is a high correlation between these variables.

It is important to note that the econometric setting in Panel B absorbs a large variety of omitted variables. So, it is very reassuring that our results survive in this specification. However, we cannot dismiss the possibility that firms choose to disclose or not disclose by manipulating their public

⁶ The reduction in sample size in Table 7 occurs because our public float control (drawn from the Ewens et al. (2024) dataset) is not available for our entire sample. We report results with state by year fixed effects only for the wider window, as the narrower window has severely negative adjusted R-squared with their inclusion, due to the small number of observations and stringency of specification.

float. If that is the case, our finding cannot be evidence of causality: we cannot show that financial reporting leads to more M&A activity. Nevertheless, our results are fully consistent with a setting in which companies that want to become takeover targets disclose more whereas those that do not disclose less.

3.4.2 The 2007 Reform: Smaller Reporting Companies

To address causality, we exploit the 2007 reform in which the Security Exchange Commission introduced the designation of “Smaller Reporting Company” for firms with less than \$75 million in public float and less than \$50 million in annual revenues. Notably, the first condition is the same for NAFs and the second depends on revenues (which are arguably less endogenous than public float). In essence, the reform treats a subsample of NAFs and does not affect other firms. To the extent that, absent the treatment, treated and control firms face similar acquisition likelihood (parallel trend assumption), the difference-in-differences (DiD) estimator identifies the treatment effect and thus sheds light on the impact of financial reporting changes on the probability of becoming an M&A target.

In Table 8, the dependent variable is a dummy set to 1 for firms that become M&A targets during the year and set to 0 otherwise. The key explanatory variable is $Post \times Treat$, where $Post$ is a dummy variable equal to 1 for all observations after 2007 and equal to 0 otherwise, and $Treat$ is a dummy variable set to 1 for firms that become SRC and set to 0 otherwise. The tests in Table 8 control for the usual firm-level variables and add firm, state, and industry \times year fixed effects. We restrict the sample to the 2004-2010 period. The coefficient on $Post \times Treat$ is the DiD estimator, i.e., it measures the differential impact on the acquisition probability of being treated as compared with the control groups. As treated firms are smaller than \$50m in revenues, to reduce the heterogeneity, we restrict the control sample in terms of size. Specifically, in columns (1)-(4), we

only include firms with revenue smaller than \$250m (in column 1), \$200m (in column 2), \$150m (in column 3), and \$100m (in column 4). In columns (5)-(8), we use the same nominal amounts, but restrict based on the size of the firm's public float.

To ensure no firm is targeted in the pre-2007 period, in Panel A, we restrict our pre-2007 sample to firms that have full pre-period observations (i.e., no attrition or late entry). Consequently, the approach in Panel A effectively removes any pre-trend difference between treated and control firms. In Panel B, we allow for entry and attrition in the pre-2007 period. This second approach is less restrictive but allows for a causal interpretation only if the parallel trend assumption holds. Across all specifications we find that treatment reduces the probability of becoming a target by 2.0 to 4.2 percentage points. The economic magnitude of the effect is large as the unconditional probability of becoming a target is 3.9 percentage points. The results are stronger in Panel B, where we allow for entry and exit in the pre-2007 sample but survive the more restrictive assumptions adopted in Panel A.

Overall, the results in Table 8 support the interpretation that changes in financial reporting affect the market for corporate control: a reduction in financial reporting seems to lead to a significant reduction in the likelihood that a firm becomes a target in an M&A transaction.

4. Further Analysis

In this section, we provide supporting evidence that information asymmetry associated with limited reporting filing firms is the channel through which financial reporting affects M&A activity. We do so by examining the differential effects of NAFs and SRCs during merger waves and during withdrawn acquisitions. Finally, we discuss and reject alternative explanations for our results.

4.1 Dormant period and merger waves

Song and Walkling (2000) and Cai, Song, and Walkling (2011) use the “dormant period” prior to a merger announcement to study information transfers in financial markets. They define a dormant period as the calendar time preceding acquirer bids within an industry. In our setting, we would expect firms with less public information to benefit more from the informational spillovers from other deals. If low disclosure firms are less attractive *ex ante* or more difficult to value, we should expect shorter dormant periods, indicating that these firms are “picked” later in a merger wave.

In Table 9, we define the “dormant period” as the number of days since a firm in the target’s SIC2 industry received a bid (whether that bid is successful or unsuccessful). As the key explanatory variable, we use NAF in Panel A and SRC in Panel B. As in previous analyses, we include a set of firm-level control variables, industry x year fixed effects, state fixed effects (in the odd columns) and state x year fixed effects (in the even columns).

In Panel A, the coefficient in column 2 indicates that NAFs experience 20%-shorter dormant periods than other firms. This result is concentrated in same-industry acquisitions (as shown in columns 3 and 4) and public-to-public acquisitions (as shown in columns 5 and 6). In Panel B, we find similar (but slightly weaker) results for SRCs.

4.2 Failed M&A bids

In section 3.2, we argue that NAFs and SRCs include an adverse selection discount, i.e., they are relatively undervalued because of the greater asymmetry of information they face. The undervaluation disappears once a bidder appears, as the market learns that there is interest in buying the firm. If information asymmetry is at play, the positive effects on the target firm’s value should persist even when the deal does not go through. To evaluate this hypothesis, we follow Malmendier, Opp, and Saidi (2016) and consider withdrawn deals. We collect failed merger bids

and tender offers for our sample period, and merge that data with Compustat/CRSP, and Audit Analytics.

In Table 10, the dependent variable is the Cumulative Abnormal Return for the target firm in a 25-day window around the announcement of the deal failure. We augment the specification in Malmendier, et al. (2016) with our key independent variables: 1(NAF) in columns 1-4 and 1(SRC) in columns 5-8. The results are strong for NAFs: across all specification NAFs experience a 36-41 percentage points higher revaluation than accelerated filers. The magnitude of the coefficients is similar for SRCs but the coefficients are non-statistically different from zero. Notably, as in the baseline analyses in Malmendier et al. (Table 4, p. 99), our tests confirm that the target's premium is the only other variable that consistently earns positive and significant coefficients.

4.3 Alternative explanations

Our interpretation of the results is that acquirer firms are less likely to bid for NAFs and SRCs because they face greater asymmetric information dealing with these limited reporting companies than they do dealing with other targets. An alternative interpretation is that NAFs and SRCs are worse targets than other firms, and bidders rightly stay away from them.

To test the 'worse targets' hypothesis, in Panel A of Table 11 we examine the Cumulative Abnormal Returns (CARs) for the acquirer around the announcement of the deal. We then compare CARs depending on whether the target is a limited reporting target (NAF or SRC).⁷ As dependent variables, we consider one, three, and five-day CARs around the M&A announcement. We find no statistically significant difference in CARs for NAFs (or SRCs) compared to other firms. Notably, the absence of significant M&A announcement CARs to bidders of reduced reporting targets—

⁷ Results are qualitatively similar if we use separate dummy variables to respectively distinguish NAFs and SRCs instead of a single indicator to flag both of them.

which are often purchased with the acquirer's stock—is also inconsistent with the view that acquirers use their over-valued shares to buy NAFs or SRCs.

Schwert (2003) argues that if a bidder overpays for the target, it may take some time to gradually learn about this mistake. Given this possibility, we also test the worse target hypotheses using accounting data. In Panel B of Table 11, we look at whether there are differences in goodwill impairment over the 3 and 5 years after the M&A deal is completed. We find no difference in goodwill impairment between NAFs and accelerated filers.

Finally, in Panel C, we find no changes in abnormal EBITDA/AT or Abnormal EBIT/AT. This evidence suggests that limited reporting firms do not make worse targets and that their acquirers did not overpay for them. By contrast, we find significant improvements in abnormal ROA in the years following the acquisitions. We measure abnormal ROA as the residual from the regression of combined firm post-acquisition 2yr (3yr) ROA on the pre-acquisition 2yr (3yr) ROA.⁸ This evidence that some mergers involving limited reporting targets are actually accretive for the acquirer shareholders.

5. Conclusion

A growing strand of corporate finance literature emphasizes the cost of financial reporting (and more generally of regulation). In a closely related paper, Ewens et al. (2024) show that firms manage their public float to stay below the \$75-million cutoff and use a revealed-preference argument to back up the associated regulatory costs. We emphasize a benefit of regulation (at least for shareholders): a more active market for corporate control. Whether the benefits outweigh the costs is an open question for future research.

⁸ Healy et al. (1992), Chen et al. (2007), and Fu et al. (2013) measure ROA using the same approach.

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Description of Variables

Variable	Description
<i>Firm-level variables</i>	
1(Target)	Indicator equal to 1 if SDC reports an acquisition at t+1. Source: SDC Platinum.
1(NAF)	Indicator equal to 1 if Audit Analytics reports a firm filed as a non-accelerated filer in a given firm-year. Source: Audit Analytics.
1(SRC)	Indicator equal to 1 if Audit Analytics reports a firm filed as a smaller reporting company in a given firm-year. Source: Audit Analytics.
1(Limited Reporting Target)	Indicator equal to 1 if Audit Analytics reports a firm filed as a non-accelerated filer or smaller reporting company in a given firm-year. Source: Audit Analytics.
Disclosure Quality	The number of (select) non-missing items in Compustat, as calculated by Chen et al. (2015). Source: CRSP/Compustat.
Public Float	The market value of common stock held by non-affiliate shareholders at the end of a firm's second fiscal quarter. Source: Ewens et al. (2024).
Leverage Ratio	The sum of short-term and long-term debt (dlc + dltd), scaled by prior period total assets (at). Source: CRSP/Compustat.
Total Assets	Total Assets (at) reported by firm. Source: CRSP/Compustat.
Return on Assets	Operating income before depreciation, interest, and taxes (oibdp) scaled by prior period total assets (at). Source: CRSP/Compustat.
Capital Expenditure	Firm capital expenditure (capx) scaled by prior period total assets (at). Source: CRSP/Compustat.
Sales Growth	The difference between sales (sale) and prior period sales, scaled by prior period sales. Source: CRSP/Compustat.
Market-to-book Ratio	Ratio of market value to book value of total assets, where market value of total assets is market value of equity (csho*prcc.f) minus book value of equity (at-lt+txditc) plus book value of total assets (at). Source: CRSP/Compustat.
Annual Return	Fiscal year cumulative return from CRSP stock price data. Source: CRSP/Compustat.
Number of Analysts	The count of unique analysts following a firm in a fiscal year, omitting those with stale, stopped, or excluded earnings forecasts. Source: IBES.
<i>Deal-level Variables</i>	
Cash Percentage	Percentage of deal consideration reported by SDC as "cash", in integer format. Source: SDC Platinum.

Variable	Description
Stock Percentage	Percentage of deal consideration reported by SDC as “stock”, in integer format. Source: SDC Platinum.
All Cash	Indicator equal to 1 when SDC-reported cash percentage equals 100. Source: SDC Platinum.
All Stock	Indicator equal to 1 when SDC-reported stock percentage equals 100. Source: SDC Platinum.
Same SIC1	Indicator equal to 1 when SDC-reported SIC 1-digit codes are equal. Source: SDC Platinum.
Public Acquiror	Indicator equal to 1 when SDC-reported acquiror has a match in CRSP/Compustat. Source: SDC Platinum and CRSP/Compustat.
Offer Premium (4 week)	Acquiror offer price relative to the target’s stock price 4 weeks prior to the acquisition announcement. Source: SDC Platinum and CRSP/Compustat.
Acquiror Cumulative Abnormal Return	Fama-French 3-Factor and Momentum Model estimated using CRSP value-weighted index returns and a 200 trading day estimation window ending 30 trading days before the event window. Source: CRSP/Compustat.
Abnormal ROA	The residual from the regression of combined firm post-acquisition ROA on pre-acquisition ROA over +/-2 (3) year windows. Source: CRSP/Compustat.
Goodwill Impairment	Indicator equal to 1 when firms report goodwill impairment (gdwlip) for the 3 (5) years following an acquisition. Source: CRSP/Compustat.
Dormant Period	The number of days since a firm in the target’s SIC2 industry received a bid (regardless of completion status). Source: SDC Platinum.

Table 1: Summary Statistics

All variables are winsorized at the 1st and 99th percentile. Panel A presents the variables in the firm-year panel. Panel B reports the summary statistics for the merger sample. All variables are defined in the Appendix.

Firm-Year Panel

	Mean	St. Dev.	P5	P10	P25	Median	P75	P90	P95	N
1(Target)	0.039	0.194	0.000	0.000	0.000	0.000	0.000	0.000	0.000	62067
1(NAF)	0.213	0.409	0.000	0.000	0.000	0.000	0.000	1.000	1.000	62067
1(SRC)	0.212	0.409	0.000	0.000	0.000	0.000	0.000	1.000	1.000	48341
Discl. Qual.	0.627	0.126	0.340	0.370	0.591	0.662	0.710	0.748	0.768	62067
Ln(Public Float)	6.004	2.288	2.580	3.273	4.463	5.948	7.467	8.881	9.735	51373
Leverage	0.243	0.257	0.000	0.000	0.036	0.175	0.362	0.575	0.751	62067
Ln(AT)	6.679	2.108	3.194	3.847	5.193	6.686	8.067	9.439	10.301	62067
ROA	0.043	0.207	-0.369	-0.132	0.018	0.081	0.142	0.205	0.257	62067
CAPX/AT	0.039	0.053	0.001	0.001	0.007	0.022	0.049	0.094	0.141	62067
Ln(Sale Gr.)	0.073	0.311	-0.357	-0.180	-0.031	0.062	0.169	0.340	0.519	62067
Market-to-Book	1.603	2.131	0.092	0.141	0.372	0.910	1.882	3.733	5.709	62067
Annual Return	0.142	0.571	-0.619	-0.458	-0.186	0.073	0.346	0.729	1.137	62067
Ln(Num. Analysts)	1.691	1.034	0.000	0.000	0.693	1.792	2.485	2.996	3.178	62067

Merger Sample

	Mean	St. Dev.	P5	P10	P25	Median	P75	P90	P95	N
1(NAF)	0.214	0.410	0.000	0.000	0.000	0.000	0.000	1.000	1.000	2366
1(SRC)	0.222	0.416	0.000	0.000	0.000	0.000	0.000	1.000	1.000	2092
Cash %	71.325	40.561	0.000	0.000	36.630	100.000	100.000	100.000	100.000	2366
Stock %	22.724	37.905	0.000	0.000	0.000	0.000	43.950	100.000	100.000	2366
Other %	3.459	12.852	0.000	0.000	0.000	0.000	0.000	4.950	28.120	2366
All Cash Deal	0.606	0.489	0.000	0.000	0.000	1.000	1.000	1.000	1.000	2366
All Stock Deal	0.134	0.341	0.000	0.000	0.000	0.000	0.000	1.000	1.000	2366
Same SIC1	0.634	0.482	0.000	0.000	0.000	1.000	1.000	1.000	1.000	2366
1(Public Acquiror)	0.581	0.494	0.000	0.000	0.000	1.000	1.000	1.000	1.000	2366
Offer Premium (4wk)	40.795	37.075	0.000	4.257	17.750	32.422	51.870	83.040	114.290	2366
FF3+M CAR[-1,+1]	-0.007	0.067	-0.117	-0.082	-0.040	-0.006	0.018	0.070	0.110	1277
FF3+M CAR[-3,+3]	-0.009	0.074	-0.136	-0.092	-0.045	-0.008	0.026	0.079	0.122	1277
FF3+M CAR[-5,+5]	-0.010	0.083	-0.149	-0.104	-0.048	-0.009	0.028	0.088	0.123	1277
Abnormal 2yr ROA	0.003	0.064	-0.096	-0.057	-0.007	0.011	0.026	0.053	0.085	1098
Abnormal 3yr ROA	0.002	0.051	-0.090	-0.047	-0.007	0.007	0.023	0.047	0.067	989
1(Goodwill Imp. within 3yr)	0.275	0.446	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1089
1(Goodwill Imp. within 5yr)	0.311	0.463	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1089
Dormant Period	12.880	24.135	1.000	1.000	2.000	5.000	12.000	31.000	56.000	2357

Table 2: Disclosure quality, NAF and SRC filers

The dependent variable is disclosure quality as measured by Chen et al. (2015). The variable of interest is an indicator for being a NAF and an SRC. Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level.

Disclosure Quality				
	(1)	(2)	(3)	(4)
	Discl. Qual.	Discl. Qual.	Discl. Qual.	Discl. Qual.
1(NAF)	-0.029*** (-9.87)	-0.036*** (-6.11)		
1(SRC)			-0.032*** (-10.14)	-0.040*** (-6.30)
Leverage	0.035*** (8.68)	0.038*** (4.42)	0.039*** (8.75)	0.042*** (4.60)
Ln(AT)	-0.002** (-2.39)	-0.007*** (-3.55)	-0.004*** (-3.94)	-0.008*** (-3.85)
ROA	0.078*** (17.19)	0.105*** (8.65)	0.082*** (16.72)	0.109*** (8.74)
CAPX/AT	-0.043** (-2.31)	-0.143*** (-3.66)	-0.054*** (-2.68)	-0.139*** (-3.53)
Ln(Sale Gr.)	-0.011*** (-8.01)	-0.036*** (-5.00)	-0.009*** (-5.96)	-0.030*** (-4.06)
Market-to-Book	0.002*** (4.62)	0.001 (0.41)	0.002*** (4.25)	-0.001 (-0.65)
Annual Return	-0.004*** (-5.43)	-0.012*** (-3.17)	-0.004*** (-4.85)	-0.011*** (-2.75)
Ln(Num. Analysts)	0.016*** (10.08)	0.024*** (7.86)	0.018*** (10.46)	0.024*** (7.55)
Constant	0.610*** (105.46)	0.637*** (55.86)	0.626*** (99.08)	0.647*** (52.18)
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Adj. R-squared	0.53	0.60	0.53	0.60
Number of Observations	62067	2366	48341	2092

Table 3: Analyst Coverage, NAF and SRC filers

The dependent variables are an indicator for having an analyst and the count of analysts following a firm (conditional on having at least 1 analyst). Columns (1)-(2) are linear probability models. Columns (3)-(4) are Poisson Pseudo Maximum Likelihood estimations. The variable of interest is an indicator for being a NAF and an SRC. Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, and annual return. Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level.

Panel A: Non-Accelerated Filers

	(1)	(2)	(3)	(4)
	1(Has Analyst)	1(Has Analyst)	Num. Analysts	Num. Analysts
1(NAF)	-0.351*** (-34.48)	-0.315*** (-12.28)	-0.439*** (-23.13)	-0.435*** (-9.06)
Leverage	-0.027** (-2.30)	-0.001 (-0.02)	-0.124*** (-4.70)	-0.135** (-2.31)
Ln(AT)	0.047*** (24.03)	0.043*** (7.98)	0.285*** (62.51)	0.310*** (33.70)
ROA	-0.163*** (-10.11)	-0.274*** (-6.18)	-0.100** (-2.56)	-0.453*** (-5.42)
CAPX/AT	0.205*** (3.57)	0.188 (1.18)	1.495*** (10.07)	1.828*** (6.26)
Ln(Sale Gr.)	0.038*** (7.34)	0.028 (1.19)	0.017 (1.39)	0.106** (2.19)
Market-to-Book	0.011*** (7.89)	0.020*** (5.18)	0.093*** (33.07)	0.119*** (14.32)
Annual Return	-0.016*** (-5.41)	-0.016 (-1.05)	-0.155*** (-23.43)	-0.212*** (-6.13)
Constant	0.575*** (36.19)	0.612*** (15.42)	-0.053 (-1.48)	-0.166** (-2.40)
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Adj. R-squared	0.31	0.26		
Number of Observations	62067	2366	51406	2000

Panel B: Smaller Reporting Companies

	(1)	(2)	(3)	(4)
	1(Has Analyst)	1(Has Analyst)	Num. Analysts	Num. Analysts
1(SRC)	-0.311*** (-28.52)	-0.316*** (-11.76)	-0.405*** (-20.47)	-0.373*** (-7.42)
Leverage	-0.010 (-0.80)	0.014 (0.51)	-0.091*** (-3.28)	-0.133** (-2.10)
Ln(AT)	0.047*** (22.76)	0.039*** (6.71)	0.281*** (58.44)	0.306*** (30.34)
ROA	-0.183*** (-10.60)	-0.271*** (-6.30)	-0.124*** (-3.05)	-0.405*** (-4.72)
CAPX/AT	0.227*** (3.70)	0.295* (1.68)	1.468*** (8.99)	1.864*** (5.19)
Ln(Sale Gr.)	0.042*** (7.57)	0.033 (1.37)	0.016 (1.23)	0.108** (2.17)
Market-to-Book	0.011*** (7.44)	0.017*** (4.31)	0.091*** (30.82)	0.115*** (13.19)
Annual Return	-0.018*** (-5.39)	-0.007 (-0.46)	-0.139*** (-19.39)	-0.194*** (-5.47)
Constant	0.567*** (33.19)	0.640*** (15.12)	-0.027 (-0.70)	-0.136* (-1.78)
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Adj. R-squared	0.29	0.26		
Number of Observations	48341	2092	40628	1769

Table 4: Probability of becoming a target

The dependent variable is an indicator for becoming a takeover target. The variable of interest is an indicator for being a NAF (SRC). Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level.

Acquisition Likelihood				
	(1)	(2)	(3)	(4)
	1(Target)	1(Target)	1(Target)	1(Target)
1(NAF)	-0.008***	-0.008***		
	(-3.04)	(-2.87)		
1(SRC)			-0.009***	-0.008**
			(-2.76)	(-2.53)
Leverage	0.013***	0.013***	0.014***	0.015***
	(3.92)	(3.88)	(3.57)	(3.61)
Ln(AT)	-0.007***	-0.007***	-0.008***	-0.008***
	(-10.79)	(-10.82)	(-10.72)	(-10.67)
ROA	0.019***	0.020***	0.020***	0.022***
	(4.32)	(4.61)	(3.90)	(4.21)
CAPX/AT	-0.041**	-0.039**	-0.049**	-0.048**
	(-2.47)	(-2.33)	(-2.39)	(-2.31)
Ln(Sale Gr.)	-0.001	-0.001	-0.001	-0.001
	(-0.55)	(-0.46)	(-0.37)	(-0.23)
Market-to-Book	-0.004***	-0.004***	-0.005***	-0.005***
	(-11.18)	(-10.87)	(-10.36)	(-9.93)
Annual Return	-0.003**	-0.003**	-0.004*	-0.004*
	(-2.09)	(-2.13)	(-1.80)	(-1.92)
Ln(Num. Analysts)	0.005***	0.005***	0.006***	0.006***
	(4.18)	(4.27)	(4.00)	(4.01)
Constant	0.082***	0.082***	0.097***	0.096***
	(20.18)	(20.02)	(19.11)	(18.93)
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.01	0.01	0.01	0.01
Number of Observations	62067	62067	48341	48341

Table 5: Takeover Premia

The dependent variables are the 4-week Target premia. The variable of interest is an indicator for the target being a NAF and an SRC. Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are EHW.

30-Day Premium

	(1)	(2)	(3)	(4)
	4wk Prem.	4wk Prem.	4wk Prem.	4wk Prem.
1(NAF)	8.758*** (3.27)	9.072*** (2.82)		
1(SRC)			4.647 (1.60)	5.550 (1.59)
Leverage	6.145* (1.66)	5.752 (1.26)	7.068* (1.78)	7.429 (1.52)
Ln(AT)	-3.037*** (-4.36)	-3.370*** (-3.85)	-3.303*** (-4.34)	-3.595*** (-3.74)
ROA	-27.261*** (-3.66)	-22.616*** (-2.72)	-30.525*** (-3.98)	-26.444*** (-3.09)
CAPX/AT	-5.327 (-0.30)	-18.734 (-0.85)	-5.233 (-0.26)	-20.562 (-0.85)
Ln(Sale Gr.)	2.772 (0.69)	0.489 (0.10)	1.788 (0.42)	-0.919 (-0.18)
Market-to-Book	-0.160 (-0.22)	-0.126 (-0.15)	-0.379 (-0.49)	-0.275 (-0.30)
Annual Return	-6.212*** (-3.16)	-7.067*** (-3.12)	-5.171** (-2.50)	-6.252*** (-2.62)
Ln(Num. Analysts)	2.351** (2.12)	3.570** (2.57)	1.690 (1.44)	3.150** (2.13)
Constant	55.110*** (12.94)	55.658*** (10.48)	59.997*** (12.67)	59.581*** (10.13)
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.15	0.10	0.14	0.09
Number of Observations	2366	2366	2092	2092

Table 6: Means of Payment

The dependent variables are the forms of payment used to purchase the target. The variable of interest is an indicator for the target being a NAF. Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are EHW.

Panel A: Non-Accelerated Filers

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	1(All Cash)	1(All Cash)	1(All Stock)	1(All Stock)	Perc. Cash	Perc. Cash	Perc. Stock	Perc. Stock
1(NAF)	-0.077*** (-2.63)	-0.073** (-2.07)	0.027 (1.19)	0.019 (0.68)	-7.394*** (-2.95)	-6.601** (-2.25)	5.207** (2.30)	4.556* (1.66)
Leverage	-0.077* (-1.78)	-0.046 (-0.86)	-0.097*** (-3.60)	-0.098*** (-2.78)	0.803 (0.24)	4.350 (1.03)	-12.016*** (-3.94)	-12.924*** (-3.32)
Ln(AT)	-0.083*** (-8.84)	-0.081*** (-7.26)	0.040*** (5.82)	0.041*** (4.82)	-6.471*** (-8.24)	-6.494*** (-6.98)	6.642*** (9.16)	6.622*** (7.53)
ROA	0.432*** (6.51)	0.414*** (5.43)	-0.261*** (-5.75)	-0.271*** (-5.13)	38.937*** (7.00)	39.695*** (6.41)	-33.212*** (-6.51)	-32.354*** (-5.52)
CAPX/AT	-0.205 (-0.84)	-0.068 (-0.23)	0.157 (0.95)	0.104 (0.50)	-26.843 (-1.42)	-17.889 (-0.74)	35.173** (2.00)	27.965 (1.28)
Ln(Sale Gr.)	-0.083** (-2.09)	-0.073* (-1.65)	0.064* (1.94)	0.060 (1.55)	-8.012** (-2.33)	-7.988** (-2.07)	9.870*** (2.93)	9.602** (2.51)
Market-to-Book	0.004 (0.47)	0.004 (0.48)	-0.003 (-0.66)	-0.001 (-0.24)	0.694 (1.09)	0.597 (0.85)	-0.252 (-0.41)	-0.121 (-0.17)
Annual Return	-0.023 (-1.05)	-0.022 (-0.84)	0.015 (1.00)	0.018 (0.98)	-1.528 (-0.82)	-1.755 (-0.82)	3.588** (2.16)	3.332* (1.68)
Ln(Num. Analysts)	0.014 (0.94)	0.019 (1.05)	-0.018 (-1.61)	-0.028** (-2.15)	2.340* (1.88)	3.271** (2.26)	-2.532** (-2.16)	-3.422** (-2.49)
Constant	1.145*** (20.59)	1.112*** (17.01)	-0.073* (-1.71)	-0.061 (-1.15)	109.503*** (23.54)	106.841*** (19.44)	-14.466*** (-3.37)	-12.392** (-2.37)
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.21	0.20	0.15	0.12	0.26	0.27	0.28	0.27
Number of Observations	2366	2366	2366	2366	2366	2366	2366	2366

Panel B: Smaller Reporting Companies

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	1(All Cash)	1(All Cash)	1(All Stock)	1(All Stock)	Perc. Cash	Perc. Cash	Perc. Stock	Perc. Stock
1(SRC)	-0.074** (-2.35)	-0.069* (-1.82)	0.036 (1.48)	0.035 (1.24)	-7.494*** (-2.80)	-6.858** (-2.18)	6.349*** (2.58)	6.190** (2.12)
Leverage	-0.076* (-1.66)	-0.046 (-0.84)	-0.102*** (-3.51)	-0.104*** (-2.76)	1.004 (0.28)	3.859 (0.87)	-12.562*** (-3.84)	-12.978*** (-3.15)
Ln(AT)	-0.086*** (-8.75)	-0.085*** (-7.22)	0.045*** (6.11)	0.048*** (5.27)	-6.906*** (-8.35)	-6.864*** (-6.98)	7.165*** (9.37)	7.206*** (7.78)
ROA	0.428*** (6.28)	0.409*** (5.21)	-0.262*** (-5.56)	-0.268*** (-4.92)	38.485*** (6.82)	38.809*** (6.11)	-32.087*** (-6.29)	-31.463*** (-5.32)
CAPX/AT	-0.284 (-1.06)	-0.222 (-0.70)	0.182 (0.96)	0.161 (0.71)	-37.749* (-1.78)	-32.540 (-1.23)	40.566** (2.05)	35.997 (1.50)
Ln(Sale Gr.)	-0.073* (-1.78)	-0.054 (-1.17)	0.065* (1.91)	0.057 (1.44)	-7.449** (-2.10)	-6.847* (-1.72)	8.798** (2.51)	8.000** (2.01)
Market-to-Book	0.006 (0.75)	0.007 (0.84)	-0.002 (-0.37)	0.000 (0.08)	0.858 (1.30)	0.753 (1.03)	-0.476 (-0.74)	-0.338 (-0.45)
Annual Return	-0.028 (-1.20)	-0.028 (-1.03)	0.013 (0.80)	0.015 (0.80)	-1.662 (-0.86)	-1.694 (-0.77)	3.728** (2.14)	3.656* (1.78)
Ln(Num. Analysts)	0.012 (0.74)	0.021 (1.13)	-0.019 (-1.59)	-0.032** (-2.34)	2.189* (1.66)	3.407** (2.23)	-2.366* (-1.89)	-3.526** (-2.43)
Constant	1.172*** (19.79)	1.134*** (16.33)	-0.093** (-2.20)	-0.095* (-1.72)	112.539*** (22.80)	109.293*** (18.69)	-17.529*** (-3.84)	-15.700*** (-2.84)
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.22	0.21	0.15	0.14	0.27	0.27	0.28	0.27
Number of Observations	2092	2092	2092	2092	2092	2092	2092	2092

Table 7: Public Float

The dependent variable is an indicator for becoming a takeover target. In Panel A, the variable of interest is an indicator for being a NAF (SRC). Control variable is the public float (in natural logs). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level. In Panel B, the variable of interest is an indicator for being below \$75M in public float. Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged), as well as their squares and cubes. Firm and Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level. Columns (1)-(3) use a sample within \$15M of the threshold. Columns (4)-(5) use a sample within \$10M of the threshold.

Panel A: Acquisition Likelihood (Float)

	(1)	(2)	(3)	(4)
	1(Target)	1(Target)	1(Target)	1(Target)
1(NAF)	-0.008*** (-2.63)	-0.007** (-2.47)		
1(SRC)			-0.013*** (-3.35)	-0.012*** (-3.09)
Controls	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.01	0.01	0.01	0.01
Number of Observations	51373	51373	38313	38313

Panel B: Regression Discontinuity at \$75M

	60-90M			65-85M	
	(1)	(2)	(3)	(4)	(5)
	1(Target)	1(Target)	1(Target)	1(Target)	1(Target)
1(Float < \$75M)	-0.019* (-1.71)	-0.020* (-1.77)	-0.021* (-1.66)	-0.029* (-1.87)	-0.032** (-2.00)
Controls	Yes	Yes	Yes	Yes	Yes
Controls ²	No	Yes	Yes	No	Yes
Controls ³	No	Yes	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	No	Yes	Yes
StatexYear FE	No	No	Yes	No	No
Adj. R-squared	0.17	0.17	0.10	0.10	0.12
Number of Observations	3058	3058	3058	2003	2003
Frac. Below	0.56	0.56	0.56	0.56	0.56

Table 8: 2007 Reform

The dependent variable is an indicator for becoming a takeover target. The variable of interest is the interaction of an indicator for being designated an SRC and post-2007 (when designation was created). Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book ratio, annual return, and the number of analysts following the firm (logged). Firm, industry-by-year, and State FE are included in all specifications. Standard errors are clustered at the firm-level. All columns use observations between 2004 and 2010. Column Titles indicate size of firms allowed in estimation, and Column Groups indicate the variable used to restrict size.

Panel A: Full Pre-period Required

	Revenue				Public Float			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<250M	<200M	<150M	<100M	<250M	<200M	<150M	<100M
Post x Treat	-0.030*** (-3.15)	-0.032*** (-3.13)	-0.021** (-1.97)	-0.022* (-1.68)	-0.021** (-2.22)	-0.020** (-2.03)	-0.021* (-1.90)	-0.027* (-1.91)
Leverage	-0.003 (-0.24)	-0.008 (-0.54)	-0.011 (-0.67)	0.004 (0.22)	-0.012 (-0.85)	-0.015 (-1.06)	-0.010 (-0.65)	-0.003 (-0.18)
Ln(AT)	-0.021** (-2.48)	-0.017* (-1.89)	-0.019** (-2.00)	-0.022** (-2.17)	-0.026*** (-3.12)	-0.023*** (-2.59)	-0.028*** (-2.86)	-0.030*** (-2.73)
ROA	0.010 (0.46)	0.002 (0.10)	0.017 (0.75)	0.016 (0.67)	0.029 (1.40)	0.038* (1.84)	0.041* (1.88)	0.044 (1.59)
CAPX/AT	-0.015 (-0.23)	0.008 (0.12)	0.069 (1.13)	0.074 (1.10)	-0.004 (-0.06)	0.001 (0.02)	-0.016 (-0.23)	-0.018 (-0.21)
Ln(Sale Gr.)	0.006 (1.02)	0.007 (1.35)	0.006 (1.08)	0.010* (1.76)	0.006 (1.01)	0.003 (0.54)	0.006 (0.95)	0.005 (0.86)
Market-to-Book	0.001 (0.64)	0.001 (0.72)	-0.000 (-0.04)	0.001 (0.36)	0.001 (0.75)	-0.000 (-0.05)	0.001 (0.46)	0.001 (0.18)
Annual Return	-0.001 (-0.21)	-0.001 (-0.39)	-0.001 (-0.31)	-0.003 (-0.68)	-0.003 (-0.83)	-0.003 (-0.84)	-0.006 (-1.60)	-0.005 (-1.13)
Ln(Num. Analysts)	-0.022*** (-3.93)	-0.023*** (-4.06)	-0.023*** (-3.65)	-0.024*** (-3.35)	-0.022*** (-4.00)	-0.023*** (-3.87)	-0.027*** (-4.38)	-0.027*** (-3.84)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.11	0.12	0.12	0.11	0.14	0.13	0.14	0.14
Number of Observations	8737	7866	6816	5446	9248	8418	7405	5985
Frac. Treated	0.45	0.47	0.52	0.56	0.45	0.48	0.53	0.61

Panel B: Pre-Period Attrition / Entry Allowed

	Revenue				Public Float			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	<250M	<200M	<150M	<100M	<250M	<200M	<150M	<100M
Post x Treat	-0.039*** (-4.64)	-0.041*** (-4.47)	-0.032*** (-3.35)	-0.034*** (-2.96)	-0.033*** (-3.84)	-0.036*** (-3.86)	-0.041*** (-3.87)	-0.042*** (-3.09)
Leverage	-0.008 (-0.54)	-0.006 (-0.44)	-0.014 (-0.97)	0.001 (0.09)	-0.012 (-0.90)	-0.012 (-0.82)	-0.006 (-0.37)	-0.005 (-0.31)
Ln(AT)	-0.019*** (-2.67)	-0.018** (-2.26)	-0.019** (-2.34)	-0.023*** (-2.65)	-0.025*** (-3.30)	-0.021*** (-2.70)	-0.025*** (-3.08)	-0.027*** (-2.82)
ROA	0.013 (0.73)	0.010 (0.54)	0.019 (1.08)	0.019 (1.03)	0.029* (1.76)	0.031* (1.84)	0.038** (2.12)	0.037* (1.70)
CAPX/AT	0.020 (0.34)	0.041 (0.67)	0.087 (1.51)	0.093 (1.48)	0.002 (0.04)	-0.004 (-0.06)	-0.008 (-0.12)	0.022 (0.28)
Ln(Sale Gr.)	0.001 (0.16)	0.002 (0.53)	0.002 (0.49)	0.006 (1.27)	-0.000 (-0.01)	-0.001 (-0.22)	0.001 (0.12)	0.002 (0.29)
Market-to-Book	0.001 (0.83)	0.001 (1.14)	0.001 (0.40)	0.001 (0.85)	0.002 (1.25)	0.001 (0.51)	0.002 (0.99)	0.001 (0.67)
Annual Return	-0.001 (-0.26)	-0.001 (-0.35)	-0.000 (-0.12)	-0.002 (-0.38)	-0.003 (-0.83)	-0.003 (-0.92)	-0.006* (-1.66)	-0.007* (-1.76)
Ln(Num. Analysts)	-0.020*** (-3.79)	-0.021*** (-3.99)	-0.021*** (-3.61)	-0.017*** (-2.73)	-0.023*** (-4.43)	-0.024*** (-4.21)	-0.028*** (-4.81)	-0.025*** (-3.78)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.15	0.14	0.14	0.14	0.16	0.16	0.17	0.16
Number of Observations	11606	10546	9302	7634	12218	11197	9946	8142
Frac. Treated	0.45	0.48	0.51	0.56	0.45	0.48	0.53	0.60

Table 9: Dormant Period

The dependent variable is Dormant Period (days) between mergers. The variables of interest are an indicator for the target being a NAF (SRC). Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are EHW.

Panel A: Dormant Period (NAF)

	Dormant Period					
	(1)	(2)	(3)	(4)	(5)	(6)
1(NAF)	-0.102 (-0.90)	-0.201* (-1.80)				
1(NAF) x Same Ind.			-0.257* (-1.88)	-0.416*** (-2.76)		
1(AF) x Same Ind.			-0.120 (-1.31)	-0.138 (-1.57)		
1(NAF) x Diff Ind.			-0.033 (-0.19)	-0.046 (-0.29)		
1(NAF) x Public Acq.					-0.236* (-1.71)	-0.382*** (-2.69)
1(AF) x Public Acq.					-0.082 (-0.92)	-0.111 (-1.21)
1(NAF) x Private Acq.					-0.067 (-0.44)	-0.155 (-1.05)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes
Number of Observations	2357	2357	2357	2357	2357	2357
1(NAF)=1(AF) (p-value)			0.282	0.052	0.249	0.051

Panel B: Dormant Period (SRC)

	Dormant Period					
	(1)	(2)	(3)	(4)	(5)	(6)
1(SRC)	-0.071 (-0.56)	-0.163 (-1.35)				
1(SRC) x Same Ind.			-0.200 (-1.32)	-0.356** (-2.21)		
1(Non-SRC) x Same Ind.			-0.093 (-0.96)	-0.139 (-1.51)		
1(SRC) x Diff Ind.			-0.013 (-0.07)	-0.050 (-0.30)		
1(SRC) x Public Acq.					-0.243 (-1.60)	-0.376** (-2.40)
1(Non-SRC) x Public Acq.					-0.064 (-0.67)	-0.126 (-1.28)
1(SRC) x Private Acq.					0.009 (0.06)	-0.101 (-0.64)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes
Number of Observations	2083	2083	2083	2083	2083	2083
1(SRC)=1(Non-SRC) (p-value)			0.449	0.148	0.233	0.099

Table 10: Failed Deals

The dependent variable is the target cumulative abnormal return (CAR) from 25 days before announcement to 25 days after deal failure as the dependent variable. The variable of interest is an indicator for the target being a NAF. Control variables are cash compensation offered, market value of equity for target firm, the deal size relative to acquiror size, premium offered for target, an indicator for hostile deal, an indicator for tender offer, and the market-to-book ratios of the target and acquiror. Fixed effects are indicated in the footer. Standard errors are EHW.

Target CAR ($B - 25, F + 25$)								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1(NAF)	0.360** (2.48)	0.376** (2.28)	0.363*** (2.62)	0.414* (1.78)				
1(SRC)					0.435* (1.72)	0.413 (1.56)	0.317 (1.17)	0.243 (0.73)
Cash Comp.			0.100 (1.21)	0.131 (0.80)			0.094 (1.08)	0.100 (0.56)
Target MV Eq			-0.020 (-0.94)	-0.051 (-1.16)			-0.034 (-1.35)	-0.081* (-1.67)
Deal Value / Acq. MV Eq			-0.048** (-2.54)	-0.035 (-1.14)			-0.041** (-2.00)	-0.036 (-1.10)
Target Premium			0.002** (2.17)	0.002** (2.13)			0.001** (1.98)	0.002* (1.93)
1(Hostile)			0.109 (1.58)	0.143 (1.64)			0.125* (1.89)	0.158* (1.85)
1(Tender Offer)			0.062 (0.74)	-0.011 (-0.06)			0.049 (0.58)	-0.003 (-0.02)
Market-to-Book (Targ.)			0.001 (0.02)	0.057 (0.72)			-0.002 (-0.05)	0.053 (0.63)
Market-to-Book (Acq.)			-0.014 (-0.25)	-0.080 (-0.72)			0.008 (0.14)	-0.061 (-0.53)
Constant	-0.035 (-1.08)	-0.038 (-1.07)	-0.111 (-0.56)	0.071 (0.18)	-0.002 (-0.06)	-0.000 (-0.00)	0.003 (0.02)	0.311 (0.76)
SIC1xYear FE	No	No	No	Yes	No	No	No	Yes
SIC1 FE	No	Yes	Yes	No	No	Yes	Yes	No
Year FE	No	Yes	Yes	No	No	Yes	Yes	No
_cons	Yes	No	No	No	Yes	No	No	No
Adj. R-squared	0.06	0.11	0.14	-0.06	0.04	0.08	0.12	-0.10
Number of Observations	211	211	211	211	211	211	211	211

Table 11: Quality of M&A Deals

The dependent variables are acquiror cumulative abnormal return over various windows, goodwill impairment, and combined firm abnormal ROA. The variable of interest is an indicator for the target being a Limited Reporting Target (i.e. NAF or SRC). Control variables include the Target's leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the Acquiror firm-level.

Panel A: Cumulative Abnormal Return

	FF3+M CAR[-1,+1]		FF3+M CAR[-3,+3]		FF3+M CAR[-5,+5]	
	(1)	(2)	(3)	(4)	(5)	(6)
1(Limited Reporting Target)	-0.005 (-0.82)	-0.010 (-1.13)	-0.006 (-0.93)	-0.009 (-0.96)	-0.010 (-1.33)	-0.012 (-1.19)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.08	0.06	0.06	0.06	0.06	0.05
Number of Observations	1277	1277	1277	1277	1277	1277

Panel B: Goodwill Impairment

	1(GWL_3YR)		1(GWL_5YR)	
	(1)	(2)	(3)	(4)
1(Limited Reporting Target)	0.014 (0.33)	0.024 (0.43)	-0.033 (-0.76)	-0.055 (-0.98)
Controls	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.09	0.04	0.14	0.12
Number of Observations	1089	1089	1089	1089

Panel C: Abnormal ROA

	2yr Abn ROA		3yr Abn ROA	
	(1)	(2)	(3)	(4)
1(Limited Reporting Target)	-0.002 (-0.25)	-0.001 (-0.06)	0.010* (1.77)	0.016* (1.94)
Controls	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.10	0.01	0.10	0.00
Number of Observations	1098	1098	989	989