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Form DEFA14A
March 22, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

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Accelerated Vesting in Takeovers: The Impact on Shareholder Wealth

Susan Elkinawy and David Offenberg*

We study the impact of accelerated vesting of equity awards on takeovers, whereby the restricted stock and/or stock options of the target chief executive officer (CEO) immediately vest and become unrestricted upon the close of the acquisition. We find that takeover premiums are significantly larger when the target CEO receives the benefit of accelerated vesting as compared to target firms with CEOs that continue to vest in their awards after closing the deal. Our evidence suggests that these cash windfalls triggered by accelerated vesting are beneficial to shareholders in completed deals. Accelerated vesting appears to be an efficient form of ex ante managerial contracting.

When Caesar's Entertainment was acquired by Harrah's in 2005, the chief executive officer (CEO) of Caesar's, Wallace Barr, received a payday of nearly \$20 million. Mr. Barr's new-found riches were the result of the acceleration of vesting provisions on his stock options and restricted stock. For instance, Caesar's 1998 Stock Incentive Plan, under which Mr. Barr's options were granted, stipulated that in the event of a Change in Control, any Stock Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become fully exercisable and vested. The New York Times described Mr. Barr and similarly situated CEOs as becoming truly, titanicly, stupefyingly rich. Despite the rhetoric in the popular press about CEO windfalls due to accelerated vesting provisions, there is no evidence to date about whether these contractual terms hurt shareholder wealth.

We define accelerated vesting as a change in the vesting schedule for the CEO's stock options and restricted stock that results in such equity grants becoming vested and unrestricted as of the close of the acquisition.² For our purposes, stock options include stock appreciation rights, warrants, and all other equity-based incentives that behave like stock options for the recipient. Likewise, restricted stock includes phantom stock and similar instruments. When the CEO receives the benefit of accelerated vesting, they have the right to convert certain equity grants to cash on the date that the firm is acquired.

Our goal in this paper is to study the impact that accelerated vesting of the CEO's stock options and restricted stock has upon the premium received by target firm shareholders when their firm is acquired. In particular, we test two alternate hypotheses. The first, the Incentive Alignment

The authors thank Mehmet Akbulut, Hsin-Hui Chiu, Bill Christie (Editor), Josh Finkenberg, Yi Jiang, Micah Officer, and two anonymous referees, as well as seminar participants at Loyola Marymount University, the 2011 California Corporate Finance Conference, and the 2011 Western Economics Association conference for their helpful comments and suggestions. We also thank Katie Belsky, Steve Snyder, and Kelsey Stricker for their research assistance.

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¹ No Wonder CEOs Love Those Mergers by Gretchen Morgenson, July 18, 2004, p. 1.

² Aboody (1996) and Brisley (2006) provide more information about the vesting of equity grants.

Hypothesis, suggests accelerated vesting induces CEOs to bargain for higher premiums as they receive a larger payoff as their options get deeper in the money and restricted stock converts at a higher multiple. The second, the Risk Aversion Hypothesis, argues that CEOs are willing to trade a lower premium for certainty in completing the deal since accelerated vesting allows the CEO to cash out and reduce their exposure to risk. The significance of the deal to the target CEO is the value of the takeover premium plus the value of their private risk reduction via accelerated vesting. In other words, the CEO's reservation value may be met by a combination of a reduced premium and risk reduction.

This study is feasible since not all CEOs receive the benefit of accelerated vesting when their firm is acquired. Changes in the Securities and Exchange Commission's (SEC's) disclosure rules for CEO compensation contracts starting in 2004 allow us to determine whether or not the CEO's unvested equity becomes vested at the close of the deal. We test our two competing hypotheses on a sample of 107 takeovers from 2005 to 2009, 80 (75%) of which result in accelerated vesting.³

We find support for the Incentive Alignment Hypothesis. Using various specifications of Schwert (1996)-inspired takeover premiums that include both the run-up and the mark-up, we find that the premiums received by firms with accelerated vesting are nearly double those received by firms without accelerated vesting, 30.6% versus 15.4%. The robustness of this result is documented in regression models that offer further evidence that accelerated vesting increases takeover premiums. Our evidence suggests that target CEOs who become titanicly rich also make their shareholders wealthier.

A study of accelerated vesting is particularly timely in light of §951 of the Dodd-Frank Financial Reform Act. This section of the new law states that when a firm is being taken over, its shareholders must approve any payments to named executives that are contingent upon a change in control, such as accelerated vesting of restricted stock and stock options. (While the verbiage of the law states that the payments are subject to shareholder vote, it also notes that the vote is nonbinding.) If shareholders have not already approved the accelerated vesting provisions prior to the takeover announcement, the shareholder vote is to be held simultaneously, but separately from the shareholder vote to approve the change in control.⁴ Our evidence suggests that shareholders should vote in favor of accelerated vesting in ex ante contracts.

This study contributes to a growing literature on the impact of target executive compensation in acquisitions, and is also timely in light of evidence presented in Fich, Cai, and Tran (2011) and Heitzman (2011). Hartzell, Ofek, and Yermack (2004) describe the gains from stock and options as the largest component of overall gains obtained by [target] CEOs. Hartzell et al. (2004) find that premiums are lower in deals where the CEO negotiates a large, fixed cash payment as part of the merger agreement. Fich et al. (2011) determine that premiums are lower in deals in which the CEO is unexpectedly granted stock options after the deal is announced, but before it closes. In other words, their evidence collectively suggests that bribing the CEO to get the deal done results in an economic loss to target shareholders. We find that premiums are actually higher in deals in which the target CEO receives a windfall. The difference in findings may be due to differences in the ex ante efficiency of managerial compensation contracts.

³ If the CEO does not receive accelerated vesting on their equity grants, then the stock options (restricted stock) convert to stock options (restricted stock) of the acquirer.

⁴ This provision of the financial reform law appears to have been inserted at the urging of labor, consumer rights, and shareholder rights groups. For instance, the organization Americans for Financial Reform claimed that accelerated vesting bring(s) little or no value to shareholders, impose(s) an economic cost on the company and can reflect a Board's misplaced allegiance to the Chief Executive rather than the shareholders. See <http://ourfinancialsecurity.org/2009/07/executive-compensation/>.

Executive compensation scholars have also recently taken an interest in the process by which equity incentives are granted and vested. Heron and Lie (2007) study the backdating of stock options at the grant date before and after the Sarbanes-Oxley reforms of 2002. Fu and Ligon (2010) document that CEOs are more likely to exercise their options on the vesting date, rather than the expiration date. Laux (2010) theoretically demonstrates that longer vesting periods can reduce the CEO's incentive to invest in long-term projects. In contrast, Chi and Johnson (2011) empirically find firm value and performance are positively correlated with the length of the vesting period. Our research complements and extends this literature as well.

To the best of our knowledge, this is the first paper to explore the impact of accelerated vesting of stock options and restricted stock on target premiums. Past studies have looked more broadly at golden parachutes, which can include various forms of nonequity-related cash payments and other benefits. Machlin, Choe, and Miles (1993) find that golden parachutes increase takeover premiums, whereas Cotter and Zenner (1994) find no such correlation.

Our paper is also similar to Lefanowicz, Robinson, and Smith (2000), but with a few key differences. Lefanowicz et al. (2000) collect data on the vesting of all forms of deferred compensation, not just options and restricted stock. However, they do not differentiate between accelerated vesting on equity incentives and other forms of deferred compensation (qualified and nonqualified deferred compensation plans, performance bonus plans, etc.). Furthermore, they only search for accelerated vesting provisions in the proxy, while we find such terms embedded in many other types of documents as described in detail in Section II, so they do not have an accurate measure of accelerated vesting. Finally, they do not measure the impact of accelerated vesting on the acquisition premium, as we do here.

The remainder of the study is organized as follows. Section I reviews the relevant literature and hypotheses. Section II describes our methodology for building our sample. Section III presents our empirical findings, while Section IV discusses our findings. Section V presents our conclusions.

I. Background

A. Literature Review

Research on acquisitions has generally found that target shareholders fare well if the takeover is successful. However, Jensen (1988) indicates that the managers of the target firm can lose their position or otherwise suffer sizable losses in compensation as a result of a successful tender offer. Thus, management of the target firm will frequently try to prevent the takeover or the CEO will bargain with the bidding firm to keep their job. These types of actions are typically not in the best interests of the target shareholders, leading many firms to implement compensation schemes to provide the proper managerial incentives, one of which includes the accelerated vesting of restricted stock and stock options.

Stulz (1988) builds a model that demonstrates a positive correlation between managerial equity ownership and takeover premiums. In his model, the equity owned by the managers has additional value due to the attached voting rights. However, stock options and restricted stock do not have voting rights, so they do not behave like the equity in Stulz's (1988) model. Furthermore, equity grants are not uniformly viewed as being an effective agency management tool. Bettis et al. (2010) examine 983 equity-based awards and find that performance-vesting provisions are associated with subsequently better operating performance than firms without these provisions.⁵ Billett,

⁵ When equity awards are subject to performance vesting, ownership of the equity typically transfers to the executive if certain performance benchmarks are met.

Mauer, and Zhang (2010) similarly find positive stock returns around the first equity grant to a CEO, and Zhang (2009) determines that the CEO's stock options help mitigate agency costs. In contrast, Moeller (2005) finds no correlation between CEO stock option holdings and takeover premiums. Brown and Lee (2010) confirm a negative relationship between firm governance and the value of stock options and restricted stock that they attribute to the ability of a powerful CEO to extract higher compensation than is economically justifiable.

With regard to the threat of takeover, Stein (1989) suggests that a manager's fear of their firm's acquisition can cause the manager to focus on short-term stock prices. Chi and Johnson (2011) indicate that the risk to shareholders is that the focus on short-term results could override the contractual vesting period. Chi and Johnson (2011) examine the length of vesting periods and find that longer vesting periods do result in better managerial decision-making and higher share price reactions to acquisition announcements, but they examine the abnormal returns to the acquirer rather than the target. It is less clear whether the vesting structure of the target CEO's equity compensation is associated with wealth gains for the target shareholders. If accelerated vesting provides the proper managerial incentives, all else being equal, we would expect a higher takeover premium for firms implementing this type of scheme.

As several authors point out, the takeover premium is also related to the expectations of the target CEO upon completion of the merger. Lefanowicz et al. (2000) find that target managers negotiate for higher premiums to compensate for lost salary suggesting that managers who do not expect future employment will actually bargain more heavily for the shareholders. However, the takeover premium is lower with the presence of a golden parachute implying that golden parachute payments reduce the incentive for target managers to get the best deal for their shareholders. Hartzell et al. (2004) confirm that target CEOs will accept a lower acquisition premium in exchange for special treatment postmerger, including cash bonuses and a position in the merged firm. Similarly, Wulf (2004) determines that target CEOs who share control rights postmerger are willing to accept a lower premium. Cai and Vijn (2007) find that liquidity concerns related to the stock and option holdings of a target CEO can motivate that CEO to accept a lower premium in an acquisition. These papers collectively suggest that target CEOs trade private future benefits for a lower acquisition premium.

In contrast to the previous studies suggesting opportunism by the target CEO at the expense of the target shareholders, Barger et al. (2009) find that target managers do not trade off future employment benefits in the merged firm for a lower premium. Their results indicate that the acquisition premium is actually higher when the target manager is retained, although this is only true when the acquisition is initiated by a private bidder. They attribute their findings to possible managerial synergies that override the incentives of target managers to bribe the target shareholders. The fact that this finding does not hold for public acquirers suggests different negotiating tactics and/or different considerations faced by the target CEO and their board. Overall, these studies reveal the complexity of the source of the takeover premium. Our paper attempts to isolate the effect of one element that is likely to influence the incentives of the target CEO in the acquisition process.

B. Hypotheses

In this section, we develop two alternative hypotheses that describe how accelerated vesting provisions should impact acquisition premiums. The Incentive Alignment Hypothesis is based on the theory of agency costs discussed in Jensen and Meckling (1976). The agency problem arises from the divergence of interests between the manager and the shareholders as the manager is not the owner of the firm. Therefore, the manager will maximize their own utility through

nonpecuniary benefits because they only bear a fraction of the cost of these perquisites. In order to offset the incentive to expropriate corporate resources, the board can structure part of the manager's pay to include stock options and/or direct shares in the firm that convert to cash upon a change in control. This compensation scheme better aligns the interests of the manager with that of the outside equity holders since the wealth of the manager is tied to share price. With regard to acquisitions, incentive alignment suggests that accelerated vesting of equity awards will induce the target CEO to negotiate for the highest possible premium.

Our alternate hypothesis is based upon risk aversion, which suggests that target CEOs may accept a lower premium from a bidding firm because the CEO gains value from the deal in two ways: 1) the premium and 2) the private value of risk reduction. In fact, there are many risk factors that the CEO can mitigate by cashing out equity via accelerated vesting in a takeover. First, the CEO gets the benefit of diversification. The CEO gets to choose how their wealth is invested, rather than being forced to invest in the acquirer. Additionally, the CEO's equity grants are no longer exposed to forfeiture. Under a typical vesting schedule, if the employee leaves the firm before the equity grant has vested, all unvested awards are forfeited. However, with accelerated vesting, all awards convert to cash, so there is no longer a risk of forfeiture. Moreover, the equity holdings of the CEO will no longer be susceptible to public disclosure in the proxy statement. As a result, the CEO gains privacy and the benefit of not having their trades scrutinized by investors. Accelerated vesting also offers the benefit of an immediate cash payment at a higher stock price. As a result, if risk aversion is the motivating factor for target CEOs, we would expect the takeover premium to be the same or lower for firms with accelerated vesting as for firms without it.

II. Methodology

A. Regulatory Framework

This study is now possible due to recent changes in SEC regulations that made more executive compensation data available. Starting in late 2004, SEC Rule 33-8400 required firms to publicly disclose a description of the material terms of any employment agreement between the company and the [chief executive] officer. The terms of the contract were typically disclosed in item 5.02(c) of an 8-k filing. A review of these documents on electronic data-gathering analysis retrieval (EDGAR) suggests that most firms found it was less costly to disclose the entire contract, rather than paying lawyers to write a detailed summary. In almost all of the cases we reviewed, the entire contract is posted, less personal information. Although SEC Rule 33-8765, approved in 2006, altered the filing requirements slightly, companies continued to submit the entire compensation contract for public viewing. There are now a wealth of historical employment contracts and change of control agreements, available on the SEC's EDGAR website. Many of these contracts are explicitly described as confidential, some with shocking levels of personal information.⁶

There is no regulation that sets a time frame over which a CEO becomes vested in his equity incentives in the normal course of business without a change in control. Rather, ownership of the restricted stock and options transfers from the company to the CEO according to a schedule in the appropriate agreement. For instance, according to the terms of his employment agreement signed on November 19, 2002, Wallace Barr of Caesar's was scheduled to become vested in his options at a rate of 25% per year. He would be fully vested after four years. He was scheduled to vest in his restricted stock at a rate of 20% after the first and second years, and 30% after his

⁶ The authors found one document that contained an executive's home address and passport number.

third and fourth years. The majority of the documents that we read had vesting schedules in a range from three to five years. Of course, the accelerated vesting initiated by a change of control supersedes a predetermined vesting schedule and creates an immediate payoff.

It is important to note that compensation received through accelerated vesting is technically a golden parachute, as defined by the Internal Revenue Service (IRS). However, the empirical research on golden parachutes to date, such as Machlin et al. (1993) and Cotter and Zenner (1994), specifically studies lump sum cash severance and bonus payments only, and ignores the equity portion of the compensation. The key difference between accelerated vesting payments and broader golden parachute payments is the floating versus fixed nature of the cash flow. Most golden parachute provisions provide a fixed dollar amount upon a change in control, whereas accelerated vesting payments are determined by the size of the takeover premium, which, in turn, is determined by the CEO's actions.

B. Sample

As in Lefanowicz et al. (2000), we form our sample from firms that have been delisted from Center for Research in Security Prices (CRSP) for reasons of an acquisition. The sample is constructed by first identifying publicly traded, nonregulated US firms that were delisted from CRSP in the five years from 2005 to 2009, with CRSP delisting codes in the range from 231 to 271. These delisting codes indicate firms that were acquired. The acquired firms were then matched to Compustat, to add in financial data, and Execucomp, to add in data on the CEO. That matching produced a sample of 122 firms. We further eliminate two reverse mergers. Finally, we read through the remaining 120 firms filings on the SEC's EDGAR website to determine if provisions were in place to accelerate vesting before the deals commenced. We were able to find sufficient documents for 107 of the 120 firms. This is our final sample. By comparison, Wulf (2004) has a sample size of 40, and Hartzell et al. (2004) has a sample size of 239.⁷ The firms in our sample are drawn from the ExecuComp universe, so they are primarily drawn from the S&P indices. One quarter of the firms belongs to the S&P 500, one-sixth is members of the S&P Midcap 400, and about half are part of the S&P Smallcap 600. Arguably, this is a diverse and representative sample of publicly traded firms.⁸

In searching the EDGAR database, we consider all possible documents that may offer the terms of accelerated vesting for the CEO. We find definitive language in a wide variety of documents including employment contracts and change of control agreements, as well as equity award notifications, proxy statements, equity incentive plan documents, and annual reports. We code a firm as participating in accelerated vesting if provisions were in place to accelerate the CEO's vesting before the Agreement and Plan of Merger was signed. Of our 107 firms, 80 accelerate vesting (75% of our sample) and 27 do not.

The control variables used in this study are motivated by previous research on the source of takeover premia. The financial variables are calculated as follows. The market-to-book ratio divides the quantity of price (Compustat variable PRCCF) times number of shares of common stock outstanding (CSHO) by the book value of the common stock (CEQ). This variable captures the target firm's growth opportunities. The cash to sales ratio divides cash and equivalents (CHE) by sales (SALE). Long-term debt to assets divides long-term debt (DLTT) by the market value of assets $[(DLTT+DLC) + PRCCF*CSHO + PSTKL - (TXDC + ITCI)]$. Fich et al. (2011)

⁷ Later, in Section III.C of this paper, we further extend our sample by adding 91 matching unacquired firms, increasing our sample size to 198 observations.

⁸ While our firms are predictably larger than the 388 non-Execucomp firms delisted in CRSP from 2005 to 2009, they do not have significantly different leverage ratios, market-to-book ratios, or cash-to-sales ratios (unreported).

document a positive association between leverage and the acquisition premium. All of these values are calculated at the end of the fiscal year immediately preceding the takeover.

The age of each CEO is collected from Execucomp. When those data are missing, we search proxy statements and Lexis/Nexis for the age. We were able to find ages for all 107 of our CEOs. Fich et al. (2011) find that acquisition premiums are lower when a CEO is near retirement (age 62 or older). Tenure is calculated as the number of years that the CEO appears as an executive for the firm in Execucomp. We determine whether the CEO became an executive or board member in the acquiring firm by reading press releases surrounding the offer, and by reading the next proxy statement of the acquirer after the close of the deal.

Hartzell et al. (2004) document the importance of golden parachutes and special bonuses in change in control compensation for CEOs. To that end, we harvest the golden parachute multiple for each target CEO from the last proxy statement prior to the announcement of the deal. By definition, the golden parachute multiple is the number of years of salary plus bonus paid as severance upon termination following a change in control. We find a golden parachute multiple for 97% of our CEOs.⁹ We also read all of the 8-k filings after the deal is announced to learn about augmentation of the golden parachute and special bonuses.

We include board characteristics to capture the quality of governance of the target firm. We define board members as independent if they are not current or former employees of the firm, family members of current or former employees, or providing services to the firm. We define board members as busy if they serve on three or more boards in total including the board of the target. We determine the independence and busyness of each board member, as well as CEO duality, by reading the proxy statement immediately preceding the takeover.

Most variables describing the deal characteristics were hand collected. We determine if each deal was a tender offer by reading the SEC filings. We also measure the percentage of the offer price that is paid in cash. Huang and Walkling (1987) and Fich et al. (2011) report higher acquisition premia for cash and for tender offers. Furthermore, the merger background in the proxy statement provides information regarding whether the target was looking to be acquired. If it appears that the target wanted to be acquired, we assume that the target solicited the bidder, and assign a value of one to the indicator variable we call *Solicited*. If it appears that the negotiations were mutual from the beginning and there is no evidence of which party initiated the transaction, we assume the bidder initiated the offer and assign a value of zero. Following Boone and Mulherin (2007), we read the merger backgrounds to determine if there were multiple bids for the target. Presumably the premium will be higher if there is more than one bidder. To proxy for synergies, we use the acquirer's stock return. The acquirer's announcement period cumulative abnormal return (CAR) is calculated using the market model over the window from one day before to one day after the announcement. We would have included a deal hostility indicator in our data if a sufficient portion of the acquisitions had been hostile. However, only two of the 107 deals are hostile, which is not enough from which to make meaningful inferences.¹⁰ A summary of all of our variables is presented in Table I.

⁹ Hartzell et al. (2004) find that 69% of their CEOs receive a golden parachute. Presumably, the difference is due to better disclosure rules since the end of their sample in 1997.

¹⁰ We follow Morck, Shleifer, and Vishny (1988) in classifying a deal as hostile if it was not negotiated prior to the initial bid, was not accepted by the board from the start, or was contested by target management in anyway. We learn this information from SEC filings and LexisNexis.

Table I. Description of Variables

Variable	Description	Source
Offer Qualities		
Market Model premium	Acquisition premium calculated as in Schwert (1996) using the market model over the window [-40, close].	CRSP
Fama-French premium	Acquisition premium calculated as in Schwert (1996) using the Fama-French (1993) three-factor model over the window [-40, close].	CRSP
Tender offer	An indicator variable set equal to one if the target is acquired via tender offer, and zero otherwise.	Edgar
Cash as a % of offer	The percentage of the total offer price for the target that is paid in cash.	Edgar
Relative size	The size of the target divided by the size of the acquirer, as measured by sales.	Compustat
Solicited	An indicator variable set equal to one if the target solicits itself for sale, and zero otherwise.	Edgar
Acquirer's CAR (%)	Cumulative announcement period return for the acquirer for days [-1, 1].	CRSP
Multiple bids	An indicator variable set equal to one if the target received multiple bids, and zero otherwise.	Edgar
CEO Qualities		
Accelerated (0,1)	An indicator variable that takes a value of one if the CEO of the target firm receives accelerated vesting of his equity grants at the close of the acquisition, and zero otherwise.	Edgar
CEO age	The age of the target's CEO as of the last proxy statement before the acquisition or, if new, the press release announcing the hiring of CEO.	Execucomp, Edgar
CEO tenure	The number of years that the CEO has been a named executive with the target firm.	Execucomp, Edgar
CEO offer	An indicator variable set equal to one if the target's CEO is offered a job with the acquiring firm, and zero otherwise.	Edgar, Lexis Nexis
CEO ownership	The dollar value of shares of common stock held by the CEO plus the dollar value of unexercised options all divided by TDC2 (as defined below).	Execucomp, Compustat
Financials		
Cash/Sales	The ratio of cash (Compustat item CHE) to sales (SALE) as of the end of the fiscal year immediately preceding the acquisition.	Compustat
Ln(Sales)	The natural log of sales (SALE) as of the end of the fiscal year immediately preceding the acquisition.	Compustat
Market value of assets	Debt (DLTT+DLC) plus common stock (PRCCF*CSHO) plus preferred stock (PSTKL) minus deferred taxes (TXDC) and investment tax credits (ITCI).	

(Continued)

Table I. Description of Variables (*Continued*)

Variable	Description	Source
LT Debt/Assets	The ratio of long-term debt (DLTT) to the market value of assets (see above) as of the end of the fiscal year immediately preceding the acquisition.	Compustat
Market/Book	The market value of assets (see above) divided by the book value of assets (AT).	Compustat
Return on equity	The net income in year <i>t</i> divided by the market value of equity in year <i>t</i> -1.	Compustat
Board Qualities		
CEO duality	An indicator variable set equal to one if the CEO is also Chairman of the board, and zero otherwise.	Execucomp, Edgar
Board outsiders (%)	The percentage of the board of directors that is independent.	Edgar
Busy board (%)	The percentage of the board of directors that sits on three or more boards.	Edgar
CEO Compensation		
GP multiple	Number of years of Salary plus Bonus paid as a golden parachute to the CEO upon termination following a change in control.	Edgar
GP increase	An indicator variable set equal to one if the CEO's golden parachute was increased after the deal was signed, and zero otherwise.	Edgar
New bonus	An indicator variable set equal to one if the CEO was offered additional compensation after the deal was signed, and zero otherwise.	Edgar
Salary	CEO's cash salary.	Execucomp
Bonus	CEO's cash bonus.	Execucomp
TDC1	Total dollar value of CEO compensation including the value of option grants, as recorded by Execucomp.	Execucomp
TDC2	Total dollar value of CEO compensation including the value of options exercised, as recorded by Execucomp.	Execucomp
Res. stock ownership	The market value of the restricted stock held by the CEO (Execucomp variable: Stock_Unvest_Val).	Execucomp
Unvested options	The exercise value of all unvested options held by the CEO (Execucomp variable: Opt_Unex_Unexer_Est_Val).	Execucomp
Unvested ownership	The dollar value of restricted stock and unvested stock options held by the CEO.	Execucomp

Table II. Sample Summary

This table reports a summary of the sample of firms that were acquired from 2005 to 2009. Panel A presents firm counts by year. The column labeled Accelerated includes firms for which the CEO's vesting on stock and options accelerates at the close of the deal. Panel B provides firm counts by industry, where firms are grouped into the 12 Fama-French (1997) industries.

Panel A. Observation Counts by Year

Year	All		Accelerated		Nonaccelerated	
	N	%	N	%	N	%
2005	34	32%	21	26%	13	48%
2006	21	20%	17	21%	4	15%
2007	32	30%	25	31%	7	26%
2008	15	14%	14	18%	1	4%
2009	5	5%	3	4%	2	7%
Total	107	100%	80	100%	27	100%

Panel B. Observation Counts by Industry

Industry	All		Accelerated		Nonaccelerated	
	N	%	N	%	N	%
Consumer nondurables	6	6%	4	5%	2	7%
Consumer durables	2	2%	2	3%	0	0%
Manufacturing	12	11%	9	11%	3	11%
Oil, gas, and coal extraction and products	6	6%	4	5%	2	7%
Chemicals and allied products	2	2%	2	3%	0	0%
Business equipment	14	13%	11	14%	3	11%
Telephone and television transmission	6	6%	3	4%	3	11%
Wholesale, retail, and some services	13	12%	11	14%	2	7%
Healthcare, medical equipment, and drugs	20	19%	17	21%	3	11%
Other	26	24%	17	21%	9	33%
Total	107	100%	80	100%	27	100%

III. Results

Summary statistics for the sample are presented in Table II. Panel A of Table II reports how the sample is split by year. As expected, a majority of the deals happen before the financial crisis. Fifty-five deals, or about half the sample, occur in 2005 and 2006. The sample tapers off notably, with only five deals in 2009. While this seems like a data error at first glance, it is, in fact, correct. It appears that acquisition markets seized up during the crisis.¹¹ Panel B of Table II presents the distribution of firms across industries. For this panel, we group the companies in our sample into the 12 Fama-French (1997) industry classifications. Note that the two industry

¹¹ Our results do not change significantly if we ignore deals that closed in 2008 and 2009.

groups representing financials and utilities are excluded. We do have a wide representation in each of the 10 industries.

A. Univariate Results

Table III reports average and median values (in italics) for the sample as a whole, and for the accelerated and nonaccelerated subsamples. The two subsamples are similar in offer characteristics, board composition, market-to-book ratio, sales, and assets. There are significant differences in the CEOs who serve these firms. Accelerating firms have older and longer serving leaders than nonaccelerating firms. The CEOs of accelerating firms are also more likely to serve the dual role of Chairman and have larger golden parachutes. We control for these differences in our regressions that explain the variation in takeover premiums later in this paper.

In the analysis that follows, we calculate premiums two different ways. In our Market-Model Specification, we calculate the premium as a market model abnormal return. In our Fama-French Specification, we adjust the returns over the same time frame for the three Fama-French (1993) factors. Following Schwert (1996), we estimate these two specifications of premiums from 40 trading days before the announcement through the close of the deal. We use the Schwert (1996) calculation as it alleviates the anticipation problem with event study returns described in Offenberg and Officer (2010). It also has the benefit of including the run-up in the stock price leading up to the announcement, the mark-up in the stock price from the original offer, and all future revised offers.

Table IV reports the differences in acquisition premiums for the firms with and without accelerated vesting. When premiums are measured with the market model, accelerated firms earn an average premium of 30.63%, whereas the premium for nonaccelerated firms is about half at 15.35%. The difference is significant at the 5% level. We arrive at similar results if we measure premiums with the Fama-French (1993) three-factor model rather than the market model. These findings present the first evidence that accelerated vesting of the CEO's equity aligns their interests with those of their shareholders.

Further evidence regarding the relationship between the acquisition premium and accelerated vesting, as well as other key explanatory variables, is revealed by the correlation matrix in Table V. This is a truncated correlation matrix. For brevity, we only report the correlation coefficients of the three main variables with all of the explanatory variables. In the first column, the correlation between the two measures of acquisition premiums is reported to be 0.83, which is significant at the 1% level. As expected, our premiums are highly correlated. The premiums are also positively correlated with tender offers, but lower when the target solicits the bid. Building on the results in Table IV, we also report a significantly positive correlation between the presence of accelerated vesting provisions and the premium. In the third column, we document a strong positive correlation between accelerated vesting and the age and tenure of the CEO, as well as the size of their golden parachutes.

Perhaps what is most surprising about Table V is the lack of correlations. For instance, we fail to find a relationship between accelerated vesting and the CEO receiving a job with the acquirer. Hypothetically, if the CEO knew they would not benefit from accelerated vesting, they would be motivated to negotiate harder for a position with the buyer. Thus far, our results do not support that theory. We also fail to find a correlation between accelerated vesting and augmentations of golden parachutes or new bonuses. The CEOs who are not getting rewarded with accelerated vesting are not getting rewarded in these other ways either. Our results also indicate that there is no association between accelerated vesting and the target's efforts to solicit a bid for itself. In other words, CEOs, who would potentially receive the benefit of accelerated vesting, are not

Table III. Summary Statistics

This table reports summary statistics for a number of control variables as described in Table I. The means are presented in the plain text, whereas medians are reported in italics. The column labeled *Accelerated* includes firms for which the CEO's vesting on stock and options accelerates at the close of the deal. Differences of means between the accelerated and nonaccelerated groups are measured with a *t*-test, whereas differences of medians are measured with a Wilcoxon signed-rank test.

Variable	All	Accelerated	Nonaccelerated	Difference
Offer Qualities				
Tender offer	16.80%	17.50%	14.80%	2.70%
	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.00%</i>
Cash as a% of offer	69.60%	74.30%	55.80%	18.50%