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STATE REGULATION OF TAKEOVERS AND SHAREHOLDER WEALTH: THE CASE OF NEW YORK'S 1985 TAKEOVER STATUTES

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State Regulation of Takeovers and Shareholder Wealth:

The Case of New York's 1985 Takeover Statutes

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ABSTRACT

Past studies of takeover regulations have found that they increase the premiums paid to the shareholders of successfully acquired targets. Jarrell and Bradley argue that these higher premiums harm shareholders by discouraging takeover activity and protecting inefficient managers. Bebchuk argues that the higher premiums do not significantly reduce the number of takeovers so that shareholders benefit, on average, from the higher premiums paid in successful acquisitions. This paper uses the "event study" method to measure the net effect of two takeover statutes passed by New York State in 1985. The results support the conclusion of Jarrell and Bradley that, despite the higher premiums paid to successfully acquired target shareholders _ex post_, these laws, on average, harm shareholders _ex ante_.

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I. Introduction

The federal government began regulating tender offers with the passage of the Williams Act during the summer of 1968.[1] The intention of Congress in passing the Williams Act was to protect shareholders by providing them with the time and information necessary to make an informed decision as to whether they should or should not tender their shares.[2] Its major provisions 1) establish a minimum offer period in order to give shareholders adequate time to consider the merits of an offer, 2) require the public disclosure of the identity and intentions of the offeror, and 3) prohibit fraudulent and deceptive acts with respect to the tender offer.

At the time the Williams Act was passed, Virginia was the only state regulating takeover bids, having begun doing so the previous March. During the ten years following the passage of the Williams Act, 35 additional states passed laws regulating tender offers. The state statutes, however, consistently went well beyond the provisions in the Williams Act, increasing the power of incumbent managers to delay and prevent takeovers. This trend may have been abated, at least for a short time, when the Supreme Court, in Edgar v. MITE, found the broad provisions contained in Illinois' takeover statute unconstitutional.[3] However, in the wake of the MITE decision, a new, "second generation" of state takeover statutes has been passed in various states.

This study examines the effect of two second generation takeover statutes passed by the New York State Legislature during 1985. The first of these bills passed overwhelmingly in the legislature, but was vetoed on constitutional grounds by the Governor. The second bill was proposed by the Governor and became law. Supporters of these statutes argued, among other things, that both laws would protect shareholders; therefore, this study will attempt to measure the direct effect of the passage of these two bills on shareholder wealth.

Past research has found that both state and federal regulations of takeovers increase the premiums paid to the shareholders of successfully acquired target firms.[4] Despite the gains to these shareholders, some economists have argued that shareholders in general are harmed by regulations that deter takeover activity. By raising the costs of acquisitions, such regulations deter acquisitions, denying premiums to shareholders of firms that otherwise would have been acquired. They may further harm shareholders by protecting and entrenching inefficient managers.

Unlike the previous research that focused solely on acquired firms, this study examines the effects of the regulations on a sample of firms that are all potential targets governed by the New York statutes. The purpose of this approach is to measure the net effect of the statutes on shareholders. This includes the expected increases in premiums paid to shareholders of firms actually acquired and any potential losses to shareholders resulting from the entrenchment of current management and the dissuasive effects of the higher costs of acquiring corporate assets.

II. Theories of the Effects of Regulating Takeovers

Economists have long recognized that free and voluntary exchange in competitive markets is generally the best insurance that the resources of a society are allocated to their most highly valued uses. Investors buy and sell corporate assets in highly competitive and efficient markets. In the "market for corporate control" managers compete for the right to control these assets. In theory, this competition for the control of corporate assets can provide a powerful check on inefficient managers. Corporate assets that are inefficiently managed will have a lower value and, therefore, be attractive targets for takeover.[5]

In their study of the effects of "first generation" tender offer regulations, Jarrell and Bradley (1980) examine bid premiums before and after the passage of the Williams Act and various other state statutes. They propose a model in which swift and secretive takeovers are a means of appropriating the returns to a very specialized form of investment. In their model, firms invest in information and skill that determine the success and productivity of corporate combinations. The disclosure requirements and minimum offer periods characteristic of these regulations allow competing bidders to "free ride" on the original bidder's efforts by providing information and time at no cost, forcing successful bidders to pay higher premiums to outbid the increased competition from the free riders. While the higher premiums may benefit the shareholders of successfully acquired targets, they harm shareholders in general by 1) deterring some otherwise profitable acquisitions, 2) discouraging investment in the resources necessary for successful takeovers by lowering the return to those investments, and 3) allowing managers, who might otherwise maximize value, the freedom to pursue other goals by insulating them from the threat of takeover.

In contrast to the model presented by Jarrell and Bradley, Bebchuk (1982) argues that the bidding contests resulting from the information disclosures, the minimum offer periods, and the increased power of managers to delay takeovers created in part by state and federal takeover regulations provide substantial benefits to shareholders. According to Bebchuk, the "auction" of corporate assets resulting from these regulations insures that target firms are acquired by the bidders having the highest valued use for the targets. Consequently, he argues that no acquisition should occur before potential competing bids can be advanced, since "the initial offeror may not be the firm that attaches the highest value to the target's assets."[6] Bebchuk further asserts that the increased cost to bidders resulting from the bidding contests does not significantly reduce the number of takeovers that occur. Thus, Bebchuk argues that the expected gains to shareholders should increase as a result of the auctions facilitated by takeover regulations.

In their empirical analysis, Jarrell and Bradley found that the Williams Act increased premiums by 20% and state regulations increased the premiums by another 20%. Guerin-Calvert et al. (1987) recently re-examined the effects of state and federal regulation of tender offers and find effects of similar magnitude and significance. They also find that the regulations greatly increased the incidence of multiple bidders. These empirical results, however, are unable to distinguish between the theories of Bebchuk and those of Jarrell and Bradley, since both theories predict that the premiums to target firms will increase after takeover regulations are passed. The theories differ with respect to the expected gains (or losses) to shareholders in general, issues not addressed by the empirical work. Jarrell and Bradley predict a net loss, on average, despite the gains to successfully acquired target shareholders, whereas Bebchuk predicts a net gain, on average, to all shareholders. In Section IV, we describe a method that should distinguish between these opposing views and measure the net effect of both the potential gains from higher premiums and the potential harm from the deterrence and entrenchment effects. Before discussing this method, however, Section III describes in detail the two takeover statutes passed by the New York State Legislature during 1985 that are the subject of this study.

III. New York's 1985 Takeover Statutes

The New York State Legislature passed two takeover statutes during 1985. The first of these statutes was introduced in the New York State Assembly on March 26 and in the State Senate on May 8.[7] It passed overwhelmingly in the state Assembly on June 27 and in the state Senate on June 28, only to be vetoed by the Governor on August 13.[8] The Governor then proposed his own takeover statute on October 30. This bill passed in the legislature on December 10 and was signed by the Governor on December 16.

The original bill contained two of the three provisions characteristic of "second generation" takeover statutes.[9] The first of these was a "control share" provision. This provision required that a noncash "control share acquisition"[10] be approved by a majority of disinterested board members or by a majority of disinterested shareholders[11] and two-thirds of all shareholders. The second major provision of the statute was a "redemption rights" provision. This provision required that, on demand, an acquirer redeem the shares of takeover opponents for cash at the highest of alternative formulations of the shares' "fair market value."

Both of these provisions could increase the cost of takeovers substantially. As noted by Romano (1987), the provisions of takeover statutes that offer a majority of disinterested board members the power to veto a hostile takeover "blur the statutory distinctions between takeover bids and mergers or asset sales," substantially increasing the power of the incumbent board as well as "increasing the incentives of bidding firms to make side payments, to the extent that obtaining board approval is cheaper than meeting either the fair price or supermajority vote requirements."[12] While bidding firms would still be able to take their offers directly to the stockholders, the redemption rights provision would greatly reduce the incentives for stockholders to tender their shares since, if the offer is successful, the acquiring firm must offer to buy the shares of the minority stockholders with cash for at least the value of the original offer, and possibly for more.

The current law, which was proposed by Governor Cuomo, consists of a very strong variation of the third type of provision characteristic of second generation takeover statutes, a "fair price" provision. This type of antitakeover regulation does not regulate tender offers per se, only "corporate combinations," which generally follow successful tender offers. The fair price provision is intended to prevent two-tier takeovers in which shareholders who tender their shares early receive a higher price than those who are forced to exchange their shares in a subsequent merger. Under the New York law, if the board of directors of the target firm did not give prior approval to the stock purchase (i.e., if the takeover is hostile), than any subsequent business combination can take place only if it is approved by a majority of the remaining "disinterested" shareholders, or if the disinterested shareholders receive in exchange for their shares a "fair price" equal to or higher than the highest price paid in the original tender offer.

As noted by Romano (1987), fair price statutes aimed at preventing two-tier takeovers codify the most common type of antitakeover charter amendment; however, the New York statute is much stronger and more restrictive than either the fair price provisions found in corporate charters or those adopted by other states before the passage of New York's regulation. The New York law prohibits for five years anyone buying at least 20% of a firm's shares from engaging in any business combination with the target unless approval is granted by the board of directors of the target in advance of the stock purchase. Under the bill's definition of business combination, the acquirer would not be able to merge or make any sale, exchange, transfer, or other disposition of the target's assets over this five year period.[13] Only at the end of the five year period could a business combination take place, and this action would still require the fulfillment of the "fair price" provisions of the law.

The five-year ban on any business combination following a hostile takeover was, at the time the bill was adopted, a completely new approach to the regulation of takeovers by states. The statute is so much more restrictive than the fair price regulations that preceded it that it might best be classified as the first "business combination" statute, rather than merely an extremely restrictive form of a fair price statute.

As with the first bill, this statute clearly enhances the power of the incumbent board of directors. Moreover, while the statute does not directly regulate tender offers, it does increase their costs. Bidding firms typically finance acquisitions by issuing debt that is often, at least partially, retired after the acquisition by the sale of some of the acquired assets. If shareholders override the objections of managers and allow a bidding firm to successfully acquire 20% or more of a targets' shares, any debt issued to finance the acquisition could not be retired through the sale of any of the acquired assets for a minimum of five years, substantially increasing the interest burden borne by the bidder. Further, if the acquisition is attractive to bidders because the target's assets have not been properly managed, then by preventing a successful bidder from taking control of the target, the statute impedes the adoption of any efficiency enhancing changes, reducing the profitability of the acquisition to the bidder as well as imposing significant social costs.

IV. Methodology

The technique used to measure the effects of the two statutes on shareholder wealth consists of a variation of the "event study" method. This method differs considerably from that used by Jarrell and Bradley (1980) and Guerin-Calvert *et al*. (1987) because it allows for the measurement of the net effect of New York's statutes on all shareholders ex ante, not merely those of firms actually acquired ex post.

The event study technique measures the impact of an event by measuring the "abnormal" return caused by the event. This abnormal return is the portion of a firm's stock return not explained by a model generating normal, expected returns. Let R_{it} be the return of a share of stock of the ith firm in period t and R_{mt} be the return of the market portfolio for the same period. We assume that the joint distribution of the returns on all assets is multivariate normal. Therefore, the joint distribution of R_{it} and R_{mt} is bivariate normal and the relationship between R_{it} and R_{mt} can be expressed as:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it}. \qquad (1)$$

Equation (1), commonly referred to as the market model, has been used to estimate expected return in a large number of event studies, and it will be used for that purpose here.[14] The assumption that asset returns follow a joint multivariate distribution implies that the joint distribution of any two linear combinations of returns will be bivariate normal. Consequently, we can replace R_{it} in equation (1) with R_{pt}, where R_{pt} is the return on any portfolio of assets contained in the market (such as a portfolio of firms governed by the New York takeover regulations).

Abnormal return is measured through the inclusion of dummy variables in equation (1) such that

$$R_{pt} = \alpha_p + \beta_p R_{mt} + \sum_{w=1}^{W} \gamma_{wp} D_{wt} + \epsilon_{pt}. \qquad (2)$$

D_{wt} is a dummy variable equal to one during announcement window w and zero otherwise, and R_{pt} is the daily return on an equally weighted portfolio of stocks of firms governed by New York's takeover regulations.

γ_{wp} measures the average level of abnormal performance of the portfolio of New York firms during announcement window w; that is, it measures the average deviation of the portfolio's actual return from the expected normal return predicted by equation (1). If N_w is the number of days in window w, then $N_w\gamma_{wp}$ is the sum of the abnormal returns over window w. This sum is generally referred to as the cumulative abnormal return (CAR).[15]

V. Data

The sample portfolio contains the returns of 94 firms governed by the two takeover statutes and listed on either the New York or American Stock Exchanges.[16] Each of these firms is incorporated in New York and has its principal executive offices there. Moody's 1985 Manual series and the 1985 NRPC Directory of Corporate Affiliations were used to select an initial sample of firms incorporated in New York and listed on one of the two exchanges. Standard and Poor's COMPUSTAT file and the NRPC Directory were used to determine the location of these firms' principal executive offices. Firms incorporated in New York but with headquarters outside of the state were excluded from the final sample since they are not governed by either of the statutes.

Daily stock returns for each firm in the sample come from the Center for Research in Security Prices (CRSP) daily return file. The return on the CRSP value weighted index of the New York and American Stock Exchanges is used as the proxy for the return on the market portfolio, R_m.

VI. Results

Schumann (1987) previously studied the effects of New York's takeover statutes by measuring the abnormal performance of the portfolio of New York firms during a number of narrow three-day windows. These windows encompassed the announcement of the first statute (hereafter referred to as BILL1) in the press, the announcement of the veto of BILL1, and the announcement of the Governor's own statute (BILL2). Schumann found no significant reaction to the announcement of BILL1 in the press, but did report a CAR of 0.76% for the three-day veto window and a CAR of -0.96% for the three-day BILL2 window. These latter CARs were significant at the 0.1 and 0.05 levels, respectively.

In this paper, rather than concentrating on narrow windows around a few particular announcements, we examine the entire period in which the legislative process fashioned a takeover statute. There are a number of reasons for taking this approach. First, the results reported in Schumann (1987) could merely measure marginal adjustments to announcements that were previously anticipated.

Second, the examination of CARs over longer windows lengths offers the advantage of avoiding a fundamental problem associated with using event analysis to study regulations. Legal statutes tend to evolve over time. Special interest groups often lobby for particular statutes well before they are actually introduced in a legislature. Once introduced, statutes are amended and voted on in legislative committees, debated in these committees, debated by the legislature, voted on by the legislature, and then finally signed or vetoed. Any attempt to decide a priori which of these events actually provide new information to investors and which ones may have been anticipated by investors is vulnerable to the criticism of arbitrariness.[17]

Third, there is some reason to expect that information concerning BILL1 tended to disseminate gradually over time, rather than through unexpected announcements. Neither the introduction of the Assembly bill (on March 26) nor the introduction of Senate bill (on May 8) was covered by the press. The New York Times first discussed the bill in a story that appeared June 26, the day before the bill passed in the Assembly and two days before the bill passed in the Senate. The first report of the bill in the Wall Street Journal appeared the on June 27. Even though the announcement of the bill's existence did not appear in the press until just before it passed, the introductions of the Assembly and Senate versions of the bill as well the their progress through legislative committees were publicly recorded events, so it is likely that information concerning these events did affect stock prices before passage of the bill was imminent.

Examining abnormal performance over longer periods may avoid the problems associated with the arbitrary selection of specific events that may or may not provide new information to investors; yet, this benefit may be very costly. The longer the window length, the more noise is introduced into the estimated CARs and, while the expected value of the noise is zero, the power of hypothesis tests will diminish.

Table 1 provides a detailed chronology of events pertinent to the passage of the two statutes.[18] In order to examine the entire period in which New York adopted its takeover regulations, we estimated two specifications of Equation 2. The first specification, Equation 2.A, examined a single 205-day window begining twenty trading days (exactly one month) before the introduction of BILL1 and ending December 17, the day after Governor Cuomo signed BILL2 into law (the day that the signing was reported in the press). The second specification, Equation 2.B, divided this period into three distinct windows corresponding to the passage of BILL1, the veto, and the passage of BILL2. The BILL1 window extends from February 26 through July 1, 1985 (twenty trading days before introduction of the bill in the Assembly through the day after Senate approval, the day on which passage of BILL1 was reported in the press); the veto window extends from July 2 through August 14 (the later date being the day on which the veto was reported in the press); and the BILL2 window extends from August 15 through December 17 (the day on which the signing of Bill2 was reported in the press). Both equations were estimated with 443 daily returns beginning 250 trading days (approximately one year) before the introduction of BILL1 in the Assembly and ending December 30, 1985.

The results from these regressions are summarized in Table 2. As indicated in this table, only the CAR corresponding to the BILL1 window meets standard measures of statistical significance, but this is not surprising given the long window lengths. What is somewhat unexpected is that the t-statistic for the CAR corresponding to the entire 205-day period is as high as indicated. Since the power of the event study method does substantially decline with increasing window length, the

0.13 probability level for this period, while somewhat greater than standard measures of statistical significance, is surprisingly low. The CAR for the entire period, -9.7%, is roughly ten times as large as the effect attributed to BILL2 in Schumann (1987).

Each of these windows admittedly contain a great deal of noise. Further, we can not rule out the possibility that other events could have occurred during this relatively long period that affected the returns of firms headquartered and incorporated in New York State relative to the market as a whole. To get a better idea of how the individual events affecting the passage of the statutes influenced returns, cumulative abnormal returns were plotted for the entire 205-day period. These abnormal returns were calculated as the difference between the actual portfolio returns during this period and the predicted returns formed from the market model parameters estimated for Equation 2.A. Figure 1 contains the plots of these CARs.

As indicated in Figure 1, the movement of the CARs appears to roughly correspond to periods encompassing actions that affected the adoption of an anti-takeover statute in New York. This result should lessen concern over the effects of possible confounding events.

In the statement that Governor Cuomo issued when he vetoed BILL1, he strongly expressed his sympathy with the objectives of the regulations, and investors may well have anticipated that a second statute would be forthcoming from the Governor's office. The positive abnormal returns during the period from the passage of BILL1 through the veto is consistent with the belief that any future takeover regulations would be less restrictive than those contained in the vetoed statute.

The marked decline in returns preceding the announcement of BILL2 is testimony to the fact that this statute is both highly restrictive and innovative in ways that could not have been anticipated by investors. Unlike other previous state takeover regulations, BILL2 does not affect the tender offer process, only business combinations that might follow a hostile takeover. In this manner, Governor Cuomo fashioned a bill that avoids one of the major constitutional objections to state takeover regulations: that such regulations conflict with the intentions of Congress in passing the Williams Act. Since states traditionally regulate business combinations in their state corporation codes, the five-year ban on the merger or sale of acquired assets appears to be within the prerogatives of the state.

VII. Conclusion

The results reported in this paper clearly indicate that the adoption of New York's anti-takeover statute did not benefit the shareholders of the firms affected. Any expected benefits to shareholders in the form of higher premiums appear to be more than offset by the harm created through the deterrence of takeovers that might otherwise take place and the further insulation of managers from the discipline of competitive capital markets.

The decline in wealth that this statute precipitated has, in fact, extended to a far greater number of firms than those headquartered and incorporated in New York. Little more than two months following the signing of the New York statute, Indiana passed its own anti-takeover bill that contained both a highly restrictive control share provision as well as a fair price provision containing a five-year ban on business combinations modeled after the New York law. Since the Supreme Court's ruling in CTS Corporation v. Dynamics Corporation of America upholding the constitutionality of the Indiana statute,[19] a continuously increasing list of states, including Delaware, have passed takeover regulations at least in part modeled after the New York statute.[20]

Finally, the negative effects on shareholder wealth of state anti-takeover statutes is not unique to New York. Recent studies by the Office of the Chief Economist, Securities and Exchange Commission (1987) and Sidak and Woodward (1988) have found similar effects from takeover regulations adopted in Ohio and Indiana. The SEC report finds that the Ohio statute, that was passed during Sir James Goldsmith's unsuccessful takeover of Goodyear, reduced the value of firms incorporated in Ohio by over three percent, on average. Sidak and Woodward's study of Indiana's statute finds that this regulation reduced the value of Indiana corporations by over six percent. The evidence from New York, Ohio, and Indiana strongly suggests that state regulation of takeovers systematically lowers the value of publicly owned corporations.

Table 1

Legislative History of New York Takeover Statutes

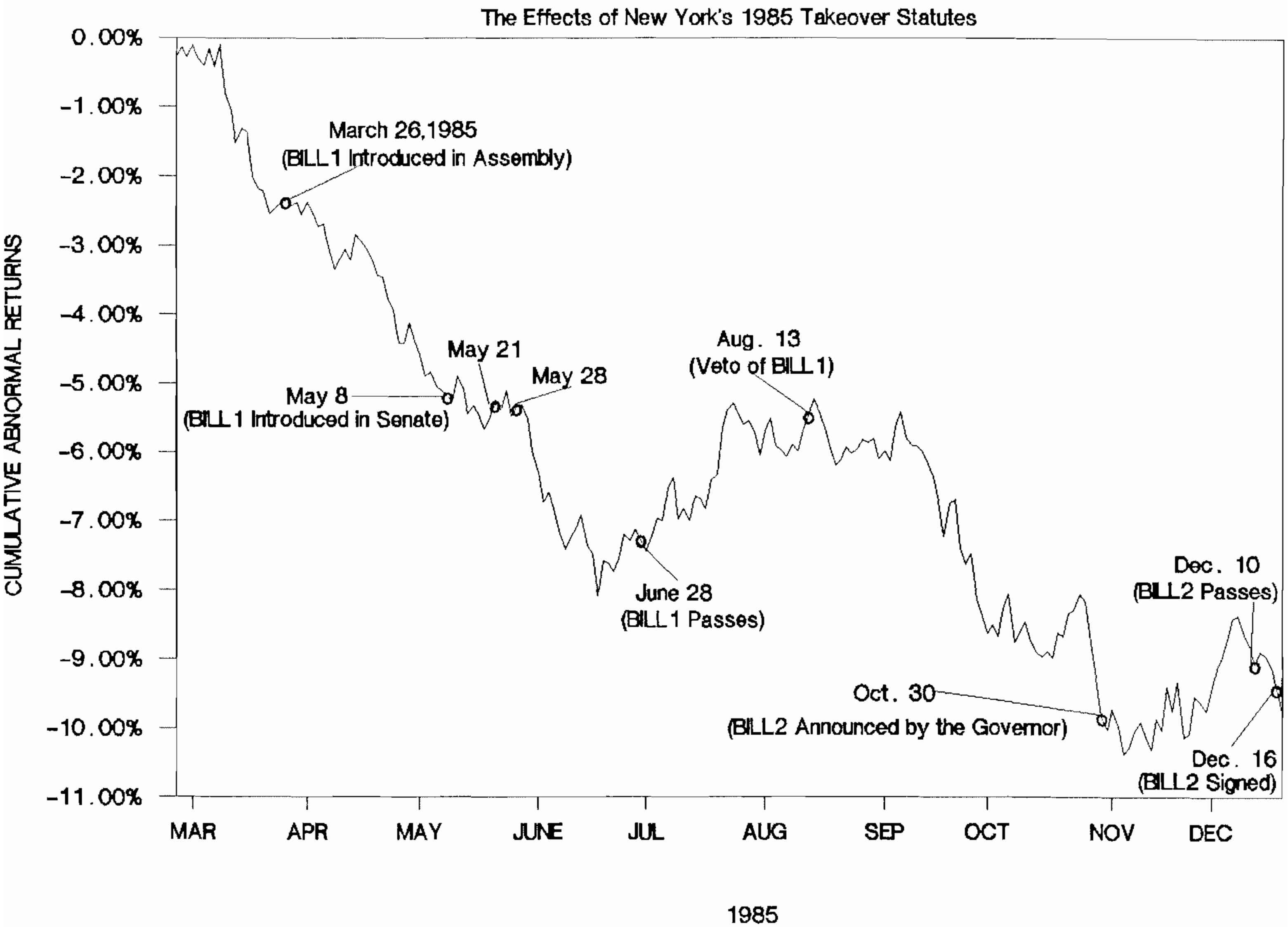
1.	March 26, 1985	BILL1 introduced in New York State Assembly
2.	May 8, 1985	BILL1 introduced in State Senate
3.	May 21, 1985	1st Reading in State Senate
4.	May 22, 1985	2nd Reading in State Senate
5.	May 28, 1985	3rd Reading in State Senate
6.	June 24, 1985	Assembly bill referred to Ways and Means Committee
7.	June 26, 1985	<u>New York Times</u> article on BILL1
8.	June 27, 1985	3rd Reading Amended Senate bill
		Reported to 3rd Reading in Assembly
		BILL1 passes in Assembly and delivered to Senate
		<u>Wall Street Journal</u> article on BILL1
9.	June 28, 1985	BILL1 passes in Senate
10.	July 22, 1985	BILL1 delivered to Governor Cuomo
11.	August 13, 1985	Veto of BILL1 by the Governor
12.	October 30, 1985	Governor Cuomo announces BILL2
13.	December 10, 1985	BILL2 Passes
14.	December 16, 1985	BILL2 is signed by the Governor

Table 2

Regression Estimates of Percentage Cumulative Abnormal Returns

Equation	Window	Period	CAR	t-statistic	Prob. Value
2.A	Entire Period	Feb. 26-Dec. 17/205 days	-9.7%	1.513	0.13
2.B	Bill 1	Feb. 26-July 1/88 days	-7.4	-2.057	0.04
	Veto	July 2-Aug. 14/31 days	2.1	1.083	0.28
	Bill 2	Aug. 15-Dec. 17/86 days	-4.4	-1.250	0.21

FIGURE 1


The Effects of New York's 1985 Takeover Statutes
CUMULATIVE ABNORMAL RETURNS
0.00%
-1.00%
-2.00%
-3.00%
-4.00%
-5.00%
-6.00%
-7.00%
-8.00%
-9.00%
-10.00%
-11.00%
March 26,1985
(BILL1 Introduced in Assembly)
May 8
(BILL1 Introduced in Senate)
May 21
May 28
June 28
(BILL1 Passes)
Aug. 13
(Veto of BILL1)
Oct. 30
(BILL2 Announced by the Governor)
Dec. 10
(BILL2 Passes)
Dec. 16
(BILL2 Signed)
MAR
APR
MAY
JUNE
JUL
AUG
SEP
OCT
NOV
DEC
1985

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FOOTNOTES

1. Pub. L. No. 90-439, 82 Stat. 454 (July 29, 1968).

2. For a discussion of the intent of Congress in passing the Williams Act, see Justice White's opinion in Edgar v. MITE, 457 U.S. 624, 1982. Whether or not the Williams Act actually does serve the interests of shareholders is, of course, a separate issue from that of the intent of Congress in passing it. For a more detailed discussion of the Williams Act and its effects, see Jarrell and Bradley (1980).

3. Congress specifically intended that the Williams Act not be used as a weapon by management to discourage takeover bids. As noted by Senator Williams, "We have taken extreme care to avoid tipping the scales either in favor of management or in favor of the person making the takeover bids." (113 Cong. Rec. 24664, 1967, quoted by Justice White in Edgar v. MITE).

4. See Jarrell and Bradley (1980) and Guerin-Calvert, McGuckin, and Warren-Boulton (1987).

5. The replacement of ineficient managers or other efficiency gains created by takeovers should increase the value of the firms to the benefit of shareholders. Nevertheless, whether or not the gains that shareholders actually receive from takeovers arise from the realization of efficencies is an altogether different matter. Shleifer and Summer (1987), for example, argue that the gains from takeovers could come at the expense of labor through the exploitation of implicit contracts. For a thorough survey of the literature that concludes that takeovers indeed increase wealth, see Jarrell, Brickley, and Netter (1988). For a discussion of

"the other side," see Scherer (1988).

6. Bebchuk, (1982), p. 1041.

7. The bill was written and submitted to the Legislature by the New York Business Council and supported by both the Democratic and Republican leadership. Aggressive lobbying by CBS resulted in changes in the bill that insured that Ted Turner's pending takeover bid for CBS would be covered by the bill's provisions.

8. The lobbying efforts of CBS were in part responsible for the governor's veto. In the statement which Governor Cuomo issued when he vetoed the bill he noted that "the felony provision in the amended Security Takeover Disclosure Act, if applied to pending tender offers, would be an <u>ex post facto</u> penalty and therefore patently unconstitutional." (See "Veto Jacket #80," p. 4, available from the Executive Chamber, State of New York.)

9. See Romano (1987) pp. 113-117.

10. The bill defined a "control share acquisition" as the acquisition of shares, that when added to any other shares owned or controlled by the acquirer, result in control of a new <u>range</u> of voting power. The bill defined three ranges of voting power: 1) at least 20% but less than 34% of a company's shares, 2) at least 34% but less than a majority of shares, and 3) at least a majority.

11. Disinterested board members and shareholders are ones who are not a party to the purchase of the tendered shares.

12. Romano (1987), p. 116.

13. New York Business Corporation Law, Article 9, section 912(a)(5).

14. For a discussion of the use of the market model in event studies, see Brown and Warner (1980, 1985).

15. Since the CAR equals $N_w\gamma_{wp}$, the variance of the CAR is N_w^2 times the variance of γ_{wp}. Consequently, the standard error of the CAR, STD(CAR), is N_w times the standard error of γ_{wp}, STD(γ_{wp}). This implies that the t-statistic for the CAR equals the t-statistic for γ_{wp} since $\gamma_{wp}/\mathrm{STD}(\gamma_{wp}) = N_w\gamma_{wp}/N_w\mathrm{STD}(\gamma_{wp}) = \mathrm{CAR}/\mathrm{STD}(\mathrm{CAR})$.

16. The sample of firms is contained in Schumann (1987) and is available on request from the author.

17. See Binder (1985) and Smith, Bradley, and Jarrell (1986) for more detailed discussions of the difficulty of applying event analysis to the study of regulation and the legislative process.

18. The source for the legislative history of BILL1 is the New York State Legislative Digest: Regular Session 1985 (January 9-September 18, 1985). BILL2 was introduced during the 1985 extraordinary session of the State Legislature, and a detailed legislative history is not available. The dates of events pertaining to BILL2 were compiled from information supplied by the New York State Archives and press reports.

19. In the CTS decision (107 S. Ct. 1637, 1987), the Supreme Court ruled only on the control share provision in Indiana's takeover regulations. The restrictions on business combinations contained in the Indiana statute that were modeled on New York's law were not challenged in the suit.

20. As of April 1988, the list of states with regulations imposing post-acquisition moratoriums on business combinations, including asset sales, consisted of Arizona, Delaware, Georgia, Idaho, Indiana, Kentucky, Minnesota, Missouri, New Jersey, New York, Pennsylvania, Tennessee, Virginia, Washington, and Wisconsin.