Examining the Implications of Financing Choice for Cash Acquisitions

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ABSTRACT

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In this paper, we take a relatively unexplored approach to examining the abnormal returns around cash acquisition announcements by considering the impact of the *source of financing* in addition to the method of payment. We find the general result that cash acquisitions earn higher abnormal returns than those for stock, but, more importantly, that the source of financing for this cash does indeed matter. We find significant results: acquisitions where the method of payment is cash experience significant positive abnormal returns at announcement, while returns to stock acquisitions are found to be insignificant in the announcement window. Acquisitions paid in cash financed via borrowing and corporate funds each experience significantly positive abnormal returns at announcement, while those financed by stock-issue proceeds earn insignificant abnormal returns. However, these equity-financed transactions show large and highly significant losses over a wider event window. Using a novel dummy variable approach to estimating abnormal returns that incorporates prior-year financing activity results in finding negative and significant abnormal returns upon the announcement of a stock-proceeds-financed acquisition, and insignificant returns at announcements of acquisitions financed by either debt or a mix of debt and equity.

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ABSTRACT

In this paper, we take a relatively unexplored approach to examining the abnormal returns around cash acquisition announcements by considering the impact of the *source of financing* in addition to the method of payment. We find the general result that cash acquisitions earn higher abnormal returns than those for stock, but, more importantly, that the source of financing for this cash does indeed matter. Acquisitions financed by stock issue proceeds result in significantly lower returns than those financed by either borrowing or corporate funds. Using a novel dummy variable approach[1] to estimating abnormal returns that incorporates prior-year financing activity results in finding negative and significant abnormal returns upon the announcement of a stock-proceeds-financed acquisition, and insignificant returns at announcements of acquisitions financed by either debt or a mix of debt and equity.

INTRODUCTION

On January 15, 2001, Nestle SA announced its acquisition of Ralston Purina Co. – a deal which was valued at almost $10.5 billion.[2] While this sizeable acquisition is not the largest ever announced, it is quite considerable given that the method of payment was not stock, but cash. Even more surprisingly, the source of financing for this acquisition is listed as corporate funds – that is, cash already available at Nestle SA. This research

[1] Our methodology is a new application of that employed in Eckbo and Betton (2000)
[2] Securities Data Corporation Merger & Acquisition Database

asks the question: does the source of financing matter for acquisitions where the method of payment is cash?

Empirical research regarding the implications of payment method in acquisitions is ubiquitous, with many studies finding the same result: acquisitions paid in cash experience positive or insignificant abnormal returns at announcement, while acquisitions where the method of payment is stock experience negative and significant abnormal returns [see, for example, Travlos (1987), Bradley, Desai, and Kim (1988), Mulherin and Boone (2000), Asquith, Bruner, and Mullins (1990)]. Yet, in almost all cases, the source of funds used to finance these cash acquisitions is not considered. In a recent paper, Schlingemann (2004) begins to address this issue by examining the financing activity of bidders in the year prior to acquisition and relating bidders' various cash flows to the abnormal returns experienced upon acquisition announcement. He finds that pre-acquisition financing activity does have an impact on returns experienced by acquirers: the greater is the pre-acquisition equity financing, the more positive the abnormal return at announcement; a significantly negative relationship is found to exist between free cash flow and abnormal returns, while the relationship between debt financing and abnormal returns appears to be weak.

In this study, we continue to fill the gap in the available literature by analyzing the source of funds in cash acquisitions and determining the various sources' impact on the abnormal returns at acquisition announcement. We examine the source of financing for 2,255 acquisitions where the medium of exchange is cash and match these acquisitions to new security issues occurring in the year prior to the acquisition. We then separate our sample into four main financing-type samples: corporate funds, debt/borrowing, stock

proceeds, and mixed financing. We then run event studies on these samples and examine whether prior-year financing activity plays a role in the returns to bidders at acquisition announcement. We find significant results: acquisitions where the method of payment is cash experience significant positive abnormal returns at announcement, while returns to stock acquisitions are found to be insignificant in the announcement window. Acquisitions paid in cash financed via borrowing and corporate funds each experience significantly positive abnormal returns at announcement, while those financed by stock-issue proceeds earn insignificant abnormal returns. However, these equity-financed transactions show large and highly significant losses over a wider event window.

In order to overcome biases present in the use of traditional event study methodology for our research, we further employ a dummy variable approach that incorporates the financing activity of bidders into the abnormal return estimation. Using this approach, we find that bidders in equity-financed acquisitions paid in cash experience significantly negative abnormal returns even when the equity issue is incorporated into the model. These findings are in direct contrast to those of Schlingemann (2004), who does not adjust his model to account for the bias occurring in the normal-return estimation window.

The remainder of this paper is organized as follows: Section II discusses the relevant literature regarding acquisition performance, method of payment effects, the pecking order hypothesis, and other financing considerations. Section III develops our hypotheses. Section IV presents our data sample design, and initial methodology with preliminary results. Section V describes a different methodology and presents its results. Section VI concludes.

SECTION II - LITERATURE REVIEW

General Acquisition Performance

When considering acquisition performance, the empirical results are mixed – some researchers provide evidence that mergers add value, others find they destroy value, and several find a combination of the two. For example, Bradley, Desai, and Kim (1988) find positive total gains in their sample and thus argue that acquisitions are value-enhancing activities. Conversely, though target returns are found to be positive, acquirer returns are found to be negative the majority of the time. For example, Mulherin and Boone (2000) find large and significantly positive returns to target firm shareholders but find negative and insignificant returns to acquirers. Other empirical research consistent with these results includes Asquith (1983), Bradley, Desai, and Kim (1983), Jensen and Ruback (1983), Malatesta (1983), Servaes (1991), Andrade, Mitchell, and Stafford (2001), and Fuller, Netter, and Stegemoller (2002).

Method of Payment Implications

One of the most commonly researched issues in mergers and acquisitions is the effect of the method of payment on returns and performance. Several of the available papers in the area will be explored below.

In an early paper, Carleton, Guilkey, Harris, and Stewart (1983) argue that the method of payment in acquisitions reflects differing merger motives and that acquisitions paid in cash are significantly different from those where common stock is the acquisition consideration. They find significant differences in the two acquisition types: the

probability of a cash payment increases as both the market-to-book and dividend payout ratios decrease. Thus, the authors conclude that it is inappropriate to treat all acquisitions as being the same when attempting to make inferences regarding acquisition activity.

Hansen (1987) develops a model that ascertains the choice of method of payment, either cash or stock. He argues that acquiring firms will use cash when their stock is undervalued and will use stock when it is overvalued, noting that the method of payment choice acts as a valuation signal to both firms and can determine the success of the deal. He further demonstrates that cash is more likely to be used in cases where the target is very small in comparison to the acquirer or when the target has high debt levels, while stock is the preferred choice when the acquirer has large debt levels.

In a similar vein as Hansen (1987), Grammatikos and Makhija (1988) develop a utility-based model regarding the method of payment in corporate acquisitions, with cash, junk bonds, and equity as the possible choices. In general, they find that the financing choice of the acquirer is dependent upon "... the extent of the production improvement possible, the acquisition price, the extent of the acquirer's personal wealth and the rate on junk bonds and effects on existing bonds" (p. 227). More specifically, they determine that for favourable deals, more debt will be used; stock will be preferred when deal favourability is less certain.

In a well-known paper, Fishman (1989) examines the method of payment choice in the presence of competition. He argues that competition can be deterred if the first bidder is able to signal a sufficiently large valuation of the target; if so, expected profits to other potential bidders are reduced, and these firms are much less likely to make their own bids for the target. Hence, the first firm has preempted the competition. Given that

the method of payment choice influences the valuation signal made, with cash providing the clearest signal, Fishman (1989) argues that firms wishing to preempt competition will pay in cash, as the valuation implied by a stock offer is much more uncertain to target shareholders and is less likely to be accepted. Consequently, stock offers are used in cases where the bidder has a lower valuation of the target firm.

Berkovitch and Narayanan (1990) also examine the method of payment choice in the competition framework and determine its impact on the returns to both acquiring and target firms. Their model classifies acquirers into two types, high and low, based on the value of the combined firm. They argue that both the type of acquirer and the respective knowledge of the acquirer's type will determine the method of payment chosen. Overall, the model predicts that greater cash proportions in the financing method will result in higher abnormal returns for both acquirer and target firms, and, consistent with Fishman (1989), find that more cash is used the greater the level of potential competition. In terms of types and competition, the authors assert that except for the lowest type, all firms will make pure-cash offers when faced with actual competition.

Murphy and Nathan (1989) examine the method-of-payment choice with regard to post-merger cash and leverage levels, arguing that the success of the merger is dependent on the financing method and its implications for the financial position of the newly-merged firm. If the acquisition is paid using cash, then post-merger liquidity will be reduced; if stock is used, post-merger leverage is decreased. Based on their sample, they conclude that acquirers with significant amounts of cash should pay in cash for greater returns, while those who have less liquidity should pay in stock. They further assert that if the targets have high debt levels (capacity), a stock (cash) offer should be made.

Eckbo, Giammarino, and Heinkel (1990) also develop a model for the choice of method of payment based on two-sided asymmetric information, but, in a novel approach, they also allow for a mixed payment method to be used. Their model indicates that an optimal mix is achievable, and that the composition of a mixed payment offer of both cash and stock can signal to the target firm the true post-acquisition value of the acquirer. Empirically, based on a sample of 182 takeovers, they do find a mixed offer containing both cash and stock results in significantly higher abnormal returns than does a pure-cash or pure-stock offer.

Asquith, Bruner, and Mullins (1990) empirically test the hypothesis that the method of payment affects the market returns at announcement of the acquisition. They find the general result that, for acquisitions paid in cash, abnormal returns to acquirers are significantly positive, while stock payments result in significantly negative returns to acquirers. Further analysis of the stock offer sample reveals that, if abnormal returns to acquirers are adjusted for the well-established negative market reaction to equity offerings, acquisitions paid with stock are in fact value-increasing investments. Thus, they conclude that the abnormal returns at announcement are a function of both the reaction to the acquisition itself and the choice of payment method.

Amihud, Lev, and Travlos (1990) consider the method of payment in light of corporate control issues, arguing that managers who are concerned about retaining control will use a different form of payment than those who are not. More specifically, they argue that managers who wish to retain control will use cash and/or debt, rather than equity, to finance acquisitions as the use of equity dilutes their holdings. Their hypothesis is supported by their empirical findings: the greater is the managerial

ownership of the acquiring firm, the greater is the propensity to use cash in the acquisition. Interestingly, they further find that the negative abnormal returns on using all stock in the acquisitions occur primarily in cases where managerial ownership is low, yet do not find negative returns to stock acquisitions where managerial ownership is high. Thus, they find evidence suggesting that managerial ownership is a determinant of the abnormal returns experienced in acquisitions and conclude overall that corporate control issues can shape capital structure decisions. Martin (1996) provides some support for the managerial ownership-cash offer relationship found by Amihud, Lev, and Travlos (1990) as he finds a negative relationship between managerial ownership and stock financing when managers own 5-25% of the firm, and concludes these findings are indicative of dilution avoidance.

Chang and Mais (2000) consider the ownership concentration of the target firm in their study of merger financing and find that bidders will prefer to use cash as the method of payment for target firms having high ownership concentration in order to prevent target-firm shareholders from becoming blockholders in the merged firm. Furthermore, they find that stock financing is preferred for bidders with high-variance stock returns in order to reduce managers' personal risk through leverage reduction.

Trifts (1991) examines the effect of leverage on abnormal announcement returns while controlling for the method of payment and finds that, while the payment method does have some explanatory power, leverage changes are more significant in explaining the abnormal returns at acquisition announcement. Maloney, McCormick, and Mitchell (1993) also examine the effects of leverage on abnormal returns and find a positive relationship between acquiring-firm leverage and abnormal returns to acquirers. Based

on the argument that post-leverage-increase acquisitions should have better performance, they further test the debt-monitoring hypothesis of Jensen (1986) and Grossman and Hart (1982) by analyzing acquisitions made by firms who have undergone significant increases in leverage; they find their hypothesis to be supported.

Yook (2003) considers two main hypotheses to explain the differences in abnormal returns to stock and cash acquisitions – the "benefit of debt" theory and signaling theory. He tests these simultaneously using Standard and Poor's debt rating changes as a measure of both leverage change and signaling effects. He finds empirical support for the benefit of debt hypothesis in his cash-financed sample, but none for the signaling hypothesis. For his stock-financed sample, the opposite occurs. Yook (2003) concludes that the sources of value for acquisitions financed by cash are distinct from those financed with stock.

Nayar and Switzer (1998) consider acquisitions where debt – not cash proceeds from issuing debt – is the method of payment. When comparing the debt-consideration acquisitions to pure-cash, pure-stock, and cash-stock mix transactions, the greatest positive abnormal return for bidders is found to occur in acquisitions where the consideration contains at least some debt. Abnormal return differences between the payment-method types are statistically significant and Nayer and Switzer (1998) conclude that their results indicate the monitoring role of debt.

Taxes can play an important role in determining the method of payment in acquisitions. Brown and Ryngaert (1991) argue that the use of stock rather than cash to pay for an acquisition has tax benefits as deals containing at least fifty percent stock are nontaxable. Thus, they find that bidders whose stock is overvalued are more likely to

make offers that contain at least fifty percent stock so that capital gains taxes are mitigated, while cash offers, which are immediately taxable, are made in cases where the bidders would prefer not to issue undervalued stock.

In a novel paper very relevant to our study, Schlingemann (2004) considers the source of financing for cash acquisitions, arguing that the financing decisions made by the bidding firms will impact their abnormal returns upon announcement, over and above the effect of the method of payment. He examines the relationship between pre-acquisition financing activity of bidding firms and the subsequent abnormal acquisition-announcement returns and finds that a bidder's financing decisions in the year prior to making an acquisition do indeed play a significant role in determining its abnormal returns, even after controlling for the medium of exchange. More specifically, there is a significantly positive relationship between the amount of cash raised via equity offerings and abnormal returns, and Schlingemann asserts that the positive relationship indicates that the use of the equity proceeds resolves the uncertainty of investors regarding the equity issue. Furthermore, he finds no relationship between abnormal returns and the use of debt issue proceeds, and, consistent with Jensen (1986), a significantly negative relationship between abnormal returns and the use of free cash flow.

The Pecking Order Hypothesis

The Pecking Order Hypothesis (hereafter POH), first advanced by Myers (1984), argues that firms favor internal financing over external financing, and if internal funds are not available, would prefer to issue debt rather than equity. According to POH, cash already on hand would be first in the pecking order, followed by debt, convertible debt, and, lastly, equity. Myers (1984) notes that "...the [POH] can be quickly rejected if we

require it to explain everything. There are plenty of examples of firms issuing stock when they could issue investment-grade debt. But when one looks at aggregates, the heavy reliance on internal finance and debt is clear" (p. 582). The pecking order exists because firms face cost of capital considerations, asymmetric information issues, agency problems, risk, and taxes. The POH contrasts with static tradeoff theory, whereby firms establish a desired debt-to-value ratio and make financing decisions that move them closer to achieving this goal. Myers (1984) argues that the explanatory power of the static tradeoff theory is quite low, while the general POH is insufficient as stated. He proposes a modified pecking order whereby internally-generated cash is used first, followed by limited amounts of safe debt, risky debt, and equity, respectively. He also notes that a firm may issue equity during times when funds are not required merely to build up financial slack and move the firm back down the pecking order.

Myers and Majluf (1984) develop a model that considers a manager's decision of whether to issue stock in order to invest in a positive NPV project or to forego the investment because there are not sufficient cash reserves to finance it. In the model, the authors incorporate the information available to both managers and investors, and argue that when managers have superior information to that of investors, they may in fact forego value-increasing investments in order to avoid an equity issue if the firm is undervalued in the market. Myers and Majluf (1984) extend their study to consider acquisitions and find that the combined value of a slack-poor firm with good investment opportunities and a slack-rich firm is greater than the sum of the values of the individual firms. Thus, mergers between these two firm types create value. The authors note, however, that "*negotiating* such mergers will be hopeless unless the slack-poor firms'

managers can convey their special information to the prospective buyers" (p. 220). Otherwise, unless the potential buyer takes the initiative and makes a tender offer, Myers and Majluf (1984) argue that it would be better for the slack-poor firm to issue equity in the market directly.

Viswanath (1993) examines the POH and the Myers-Majluf (1984) model and argues that since the Myers-Majluf model does not completely explain all firm behavior and because it is based entirely on the POH, the POH cannot fully explain firm financing decisions either. Viswanath (1993) builds a multi-period framework which demonstrates that the POH does not necessarily have to hold in all instances. In this framework, a manager may find it optimal to accept dilution by issuing equity to finance a current project, even if cash or debt is available, when the cost of foregoing a future positive NPV investment is too high. Thus, Viswanath argues that not all equity issue announcements are perceived by the market to be overvaluation signals.

Shyam-Sunder and Myers (1999) conduct a comprehensive analysis that tests whether the POH or the static tradeoff model have greater explanatory power over time. The authors find that, separately, the POH and static tradeoff model have significant explanatory power. However, when tested jointly, the static tradeoff model loses explanatory power while the significance of the POH remains relatively unaffected. Overall, the authors conclude that the POH is superior to the static tradeoff model. Chirinko and Singha (2000) argue that there are significant problems inherent in the testing methodology of Shyam-Sunder and Myers (1999) and "...their empirical evidence can evaluate neither the [POH] nor Static Tradeoff Models" (p. 417). While Chirinko

and Singha (2000) argue that different methodologies should be used, they do not provide any alternative methods that may alleviate the problems.

Ghosh and Cai (1999) examine whether firms follow Myer's (1984) POH or whether firms move towards an optimal capital structure (defined as the industry means of the debt-to-asset and equity-to-asset ratios) over time. Interestingly, they find significant support for both hypotheses, with stronger evidence for the POH, and conclude that the two are not mutually exclusive. Kholdy and Sohrabian (2001) test Myer's (1984) POH and Jensen's (1986) free cash flow theory in a sample of small, medium, and large firms using a vector error correction model and they find interesting results. The free cash flow theory is supported by the sample of large firms, where cash flow is found to influence investment, while the POH is supported by the small firms as their debt levels are influenced by cash flow. Medium-sized firms do not support either hypothesis, with investment being found to be unaffected by both cash flow and debt.

Quan (2002) analyzes the POH in tandem with Proposition I of Modigliani and Miller (1958) and points out how the two theories are linked. He argues that the former is merely an extension of the latter if certain assumptions are relaxed. He further notes that since it is generally found that firms prefer debt to equity, it must be that the benefits of debt, such as tax incentives, signaling incentives, managerial risk incentives, and the mitigation of transactions costs, outweigh the benefits of equity, namely the mitigation of bankruptcy costs and asset substitution incentives for firms.

Frank and Goyal (2003) test the explanatory power of the POH and find intriguing results. Firms with insufficient internal financing sources are more likely to raise external financing through equity rather than debt issues, a finding that is in direct

contrast to the POH. They further assert that the POH has lost support over time because of the increase in the number of small publicly-traded firms – who they argue do not follow the POH, contrary to Kholdy and Sohrabian (2001) – and the growing popularity of equity financing in general.

Free Cash Flow

One of the primary ways that companies finance acquisitions is via cash already on hand. These corporate funds can be comprised of either internally-generated funds, such as retained earnings, or from externally-generated funds, such as those remaining from previous financing activities, or both. However, irrespective of their source, it may be the case that the cash reserves are those remaining after the firm has invested in all positive net present value (NPV) projects and thus are deemed free cash flow (Jensen, 1986). Therefore, based on Jensen's (1986) definition, any investments or projects undertaken using these excess funds have negative NPV and reduce firm value. Jensen and Meckling (1976) and Jensen (1986) further argue that managers act to maximize their own utility rather than acting in the best interests of the shareholders, and thus have the incentive to use firm free cash flow for self-serving but value-destroying investments, instead of redistributing the funds to shareholders.

Mann and Sicherman (1991) examine the impact of agency costs of free cash flow on market reactions to equity issues. Since issuing equity increases agency costs and the potential for misuse of the cash, the market reaction upon equity offerings is usually negative. In this vein, Mann and Sicherman assert that the magnitude of the negative reaction upon the equity announcement is conditioned by the market's assessment of the firm's prior use/abuse of free cash flow. Abuse of free cash flow is defined by the

authors as making acquisitions in unrelated lines of business. The authors argue that if the issuing firm's reputation is a favourable one, the reaction at announcement should be less negative than for those of issuing firms with a bad or no reputation for free cash flow abuse. They find the reaction at the announcement of the equity issue is negative, consistent with Jensen's (1986) theory. Additionally, their hypothesis regarding a firm's reputation for free cash flow use/abuse is supported by their findings: there is a negative reaction to equity issue announcements by firms with no or unfavourable track records, and a less negative reaction for favourable reputations.

In his study of free cash flow and tender offers, Hanson (1992) argues that, based on free cash flow theory, the gains from acquisitions will be zero or smaller than average for acquiring firms with significant amounts of free cash flow as "...managers with control over free cash flow are prone to engage in low-benefit or value-reducing acquisitions. They are likely to overpay and transfer most gains to the target firm" (p. 188). Hanson (1992) determines free cash flow by examining the "mismatch" between firm resources and growth opportunities for both target and acquiring firms. Based on his sample of 243 tender offers over the period 1973-1987, he finds support for his hypotheses. Acquiring firms with large free cash flows undertake acquisitions that both reduce firm value and provide relatively lower returns to target firm shareholders; conversely, targets of high free cash flow acquirers experience greater abnormal returns as potential agency problems are reduced.

Lang, Stulz, and Walkling (1991) empirically test Jensen's (1986) free cash flow theory by considering the investment opportunities available to bidding firms. As a proxy for the opportunities, they incorporate Tobin's q into the measure of free cash flow,

based on the argument that acquisitions undertaken by high-q bidders are more likely to have a positive NPV and those undertaken by low-q bidders are more likely have a negative NPV. They find a negative relationship between bidder abnormal returns and cash flow. They also find a negative relationship between cash flow of low-q firms and low-q firm abnormal returns when compared with high-q firm abnormal returns. The authors further find that returns for the target firm are unaffected by the level of the bidder's free cash flow and that, while free cash flow enables managers to make value-decreasing acquisitions, it does not necessarily cause a wealth transfer between bidders and targets.

Further support of Myers and Majluf's (1984) theory is provided by Bruner (1988), who examines the impact of financial slack on acquisition motives. He defines financial slack as the sum of excess cash and unused debt capacity and finds that value is created when slack-poor targets are combined with slack-rich bidders. Bowers, Moore, and Tse (2000) extend the Myers-Majluf (1984) model and consider the reverse of Bruner (1988) – the case of slack-poor bidders and slack-rich targets. They find that, because of asymmetric information, slack-poor bidders with good investment opportunities may be better off by acquiring a slack-rich target and paying in stock than by issuing stock directly.

In a related study, Smith and Kim (1994) examine acquisitions between financial-slack-poor firms and firms with free cash flow, arguing that when a cash-rich firm is combined with a slack-poor firm, any resource allocation problems are mitigated and returns to these acquisitions should be larger than those of other acquisitions on average. Smith and Kim (1994) find that combinations of slack-poor and cash-rich firms result in

higher total returns than those of other combination types, and the combination of cash-rich targets and slack-poor bidders is superior to acquisitions of slack-poor targets by cash-rich bidders. The authors then examine the corresponding changes of debt levels and liquid assets and find that acquisitions by cash-rich bidders have lower returns when the amount of liquid assets available increases (potentially due to greater agency problems) and higher returns when debt levels increase since debt commitments reduce managerial discretion and limit overinvestment.

McCabe and Yook (1997) examine bidder returns in light of the theories of both Jensen (1986) and Myers and Majluf (1984) and employ the free cash flow measure used by Lang, Stulz, and Walkling (1991). McCabe and Yook (1997) argue that the free cash flow theories of both Jensen (1986) and Myers and Majluf (1984) would predict higher (or less negative) returns to cash-rich bidders who pay in cash; the former because the cash used in the acquisition will no longer be available for management perquisites, and the latter because slack and its later uses are viewed in the Myers-Majluf (1994) model as positive NPV investments. For these reasons, the authors hypothesize that "both Jensen and M-M firms will exhibit positive (less negative) excess returns over the announcement of a cash acquisition" (p. 699). Based on a sample of 234 acquisitions, McCabe and Yook (1997) find strong support for Jensen's (1986) theory but find little evidence in support of the free cash flow theory of Myers and Majluf.

Harford (1999) examines the cash-richness of firms and acquisitions in light of free cash flow theory. He finds the general result that firms with large amounts of excess cash are more likely to make acquisitions, and most of these acquisitions are diversifying and are made by firms with greater potential for agency conflict, as proxied by

managerial ownership levels. In addition, the announcement of these acquisitions results in significantly negative returns for the acquirers, indicating that the transactions are value-decreasing, consistent with traditional free cash flow theory. Opler, Pinkowitz, Stulz, and Williamson (1999) conduct a comprehensive study on the motives for holding and using corporate cash reserves and find a positive relationship between excess cash and acquisitions, consistent with Harford (1999). Thus, as might be expected, more acquisitions occur at higher excess cash levels. However, the authors find limited evidence in support of the idea that having a large free cash flow results in firms spending significantly more on acquisitions, noting that "... the propensity to use excess cash on investments and acquisitions is quite limited" (pp. 44).

Debt Financing

Debt, whether publicly-issued or provided by banks or private investors, is a popular form of acquisition financing. During the 1980s, for example, the majority of takeovers were highly-leveraged transactions [see Scherer (1988), Holmström and Kaplan (2001), and Müller and Panunzi (2004)]. Here we examine some of the available research documenting the role played by debt in corporate acquisitions.

Israel (1991) argues that firms choose their capital structure based on the probability that the firm will be acquired in the future, and the level of risky debt determines how the synergies of the acquisition are divided among the various parties. He develops a model which argues that acquirer profits decrease with the level of risky debt of the target firm, as much of the synergies are transferred to both the target firm's debtholders and shareholders. He asserts "...higher levels of debt increase the minimal ability required for the acquirer to find an acquisition profitable. As a result, the

probability that synergistic acquisition will materialize is lower. This is the value-decreasing effect of debt for the shareholders of the target firm" (p. 1392). Thus, Israel (1991) argues that when there is a great possibility of becoming acquired, target firms will issue risky debt in order to capitalize on the post-acquisition increase in firm value. Conversely, Asquith, Gertner, and Scharfstein (1994) find that firms with greater leverage are less likely to merge, and suggest that "this may be because shareholders of highly leveraged firms oppose such mergers; they receive little of the payment in the merger, while reducing their upside option value" (p. 649)

Chowdry and Nanda (1993) examine the implications of debt in takeover contests, arguing that firms with greater levels of debt in their capital structure would be willing to bid more aggressively for their targets as existing bondholders bear some of the acquisition costs. As a result, most or all potential competition can be deterred, and the firm is able to acquire the target for a lower price than would be paid under a bidding war. However, the model developed by Chowdry and Nanda (1993) demonstrates that the aggressive bidding strategy of these firms can also cause them to pay more for the targets than would be optimal, given their valuations.

In their analysis of the role played by leverage in tender offers, Müller and Panunzi (2004) argue that corporate raiders profit by extracting some or all of the acquisition's gains from the target firm shareholders and using these gains as collateral for the debt. The authors focus their study on leveraged buyouts (LBOs) and develop a model that suggests that, consistent with the available empirical evidence, as the corporate raider's leverage increases, the returns to shareholders of the target firm decline and the profit for the raider increases. Thus, Müller and Panunzi (2004) conclude that

LBOs both redistribute and create wealth, with the level of the raider's profits being determined or constrained by the bidding environment.

Stein (1992) observes that "convertible bonds are an important source of financing for many corporations" (p. 3). He argues that convertible bonds are an attractive financing method as they allow firms to indirectly add equity to their capital structures in cases where issuing equity directly would have a negative impact on share price, while also helping to mitigate the increased costs of financial distress that can arise from a debt issue. Thus, Stein (1992) terms the use of convertible bonds as "backdoor equity financing."

In a novel study, Bharadwaj and Shivdasani (2003) examine the implications of bank financing in corporate acquisitions, asserting, as we do, that the *source* of acquisition financing, more so than even the method of payment, can be a significant determinant of both transaction-specific characteristics and announcement returns. The authors find that bank financing is used most often when the relative transaction size is large and the acquiring firm has low cash reserves available. Abnormal announcement returns for transactions financed completely via bank borrowings are significantly positive, providing strong support for the screening, monitoring, and certification roles played by banks. Small and/or poorly-performing acquirers are shown to benefit most from bank financing. Overall, Bharadwaj and Shivdasani (2003) demonstrate that the source of financing does indeed play a significant role in acquisitions, and thus lends support for our own study.

Rao and Edmunds (2001) argue that bank financing can be detrimental to shareholders of European firms as floating interest rates and restrictive covenants can

introduce greater volatility in firm cash flows and deter growth, respectively. They assert that issuing fixed-rate bonds is a superior financing strategy. While their analysis does not specifically consider corporate acquisitions, but rather capital expenditures, Rao and Edmund's findings are still a relevant consideration for our research.

Preferred Stock Financing

The use of preferred stock as a means of financing began in the 1830s when the railroad industry required a source of emergency financing (Fergusson, 1952). While the popularity of preferred stock financing has increased over time, its use is generally limited to public utilities (Moyer et al., 1987). Although relatively limited, the use of preferred stock financing and its implications are still quite relevant to our research, with several of the available papers in the area discussed below.

Fischer and Wilt (1968) examine preferred stock financing in order to determine the motive for its use and its future as a viable financing method. The authors find three overarching motives for the use of preferred stock financing: to increase the benefits from secondary leverage sources, to increase borrowing capacity, and "... to maintain a balanced capital structure" (p. 621). They note that, because of the tax disadvantage for preferred stock issuers over using debt, the use of preferred stock as a source of financing will remain fairly limited to utilities unless federal corporate income tax rates decline enough or are restructured in order to offset the tax benefits of using debt. However, Fischer and Wilt (1968) argue that preferred stock financing should not be dismissed because it can provide firms with additional liquidity in tighter times.

In a study that examines the use of preferred stock as the method of payment in mergers and acquisitions, Pinches (1968) notes that shareholders of the target firm are not

taxed only if either common stock or convertible preferred stock is used. He hypothesizes that firms should prefer using convertible preferred stock instead of common stock to finance a merger because net earnings available to acquiring firm shareholders will be higher using the former financing method. Empirical testing of this hypothesis finds supporting evidence, although the net earnings difference under the two methods is significant but small. Pinches (1968) notes that the small difference is explained by the "trade-off between an increase in cash dividends and a 'savings' in common shares outstanding" (p. 897). Interestingly, he also finds that firms using convertible preferred stock are larger than those using common stock, and that the motive for the use of convertible preferred stock lies in its ability to merge the differing cash dividend policies of the acquiring and target firms.

In a later and more comprehensive study, Pinches (1970) examines the use of convertible preferred stock financing much in the vein of Fischer and Wilt (1968) and again focuses on its increased use for acquisition financing. He suggests three reasons why firms may prefer to use convertible preferred stock over common stock: the expectation of acquirers of greater long-run returns than would be achieved under other financing methods, the ability of convertible preferred stock to harmonize the cash dividend policies of the target and acquiring firms, and a possible desire of the acquiring firm to report instantaneous increases in earnings upon merging. Overall, he asserts that while the popularity of using convertible preferred stock will likely not increase significantly, it will likely not decrease either, given his three aforementioned reasons.

Sprecher (1971) contrasts the three reasons suggested by Pinches (1970) for why convertible preferred stock may be used over common stock with his own survey results

regarding convertible preferred stock use. His survey, based on 72 mergers using convertible preferred stock over the period 1962-1967, reveals the main reasons why firms use preferred stock include: deferring acquiring-firm shareholders' income taxes, averting immediate earnings-per-share dilution, matching the dividend payout policies of the acquiring and target firms, and providing shareholders with a security type of lower risk. Thus, only one (the third) of these reasons corresponds to those of Pinches (1970).

Basing their study on Donaldson (1962), who argues that the relative riskiness of debt and preferred stock changes when firm survival is put into question because of scarce cash, Moyer, Marr, and Chatfield (1987) assert that "...preferred stock becomes an attractive financing alternative because of the reduced risk of forced bankruptcy if preferred stock dividends cannot be paid (as compared to the failure to pay bond interest)" (p. 81). In testing the hypothesis that industrial (non-utility) firms in financial distress will be the primary issuers of preferred stock, the authors find supporting evidence – the financial ratios considered for preferred stock issuers were either not significantly different from or, more frequently, were significantly worse than non-issuing firms. The authors conclude that the use of preferred stock financing may be a signal of an expectation of lower future corporate tax rates or of impending financial distress.

In a related study, Lee and Figlewicz (1999) examine and compare the characteristics of firms issuing convertible preferred stock with those issuing convertible debt. While the two security types are fairly similar, the authors hypothesize that the characteristics of the firms using each type will differ significantly. They find that the firms issuing convertible preferred stock are financially weaker, less profitable, less able

to take advantage of debt-tax shields, have higher leverage, and are riskier in terms of bankruptcy and operations than firms issuing convertible debt. Thus, their findings are consistent with the financial distress hypothesis of Moyer, Marr, and Chatfield (1987) and they conclude that "convertible preferred stock is issued by firms that have no room for additional risk, and thus, need the assistance from the outside to capture any tax benefits from their offerings" (p. 561)

In terms of announcement effects, Linn and Pinegar (1988) study the market price reaction to the announcement of preferred stock offerings and find interesting results. They find that abnormal returns to common shareholders are small but significantly positive for utilities issuing fixed-rate preferred stock, significantly negative for industrial firms issuing convertible preferred shares, and significantly positive for banking firms issuing variable-rate preferred stock. Furthermore, the stock price change at announcement is found to be substantially determined by the size and risk of the preferred stock issue, with both showing a negative relationship with abnormal returns at announcement.

Financing via Rights Issues

Rights issues are another method by which firms raise funds to finance investments and acquisitions. Rights offerings can be much less expensive than stock offerings, and when underwritten, the proceeds of the rights offering are guaranteed, similar to a bought deal (firm commitment) for common stock issues (Hansen, 1989). Hansen (1989) notes that there has been a decline in the popularity of rights issues over time in the United States, with most firms choosing to issue stock via a public offering. He examines a sample of 102 underwritten rights issues over the period 1963 to 1981 in

order to determine the reasons for the popularity decline. He finds significant abnormal price drops of approximately four percent prior to the subscription period and significant increases of about two percent subsequently. Hansen (1989) argues that this price behavior, in contrast to that of ordinary stock issues, is reflective of a transaction cost effect, as the price concessions increase floatation costs. He concludes that the decline in the popularity of rights issues relative to underwritten public offerings is the result of the higher indirect transaction costs of the rights issue outweighing the lower underwriter fees.

Eckbo and Masulis (1992) also examine the popularity decline of rights issues in the U.S. and find that while firm-commitment rights offers are the most expensive in terms of direct floatation costs, most firms still prefer this method over its less expensive counterparts, the uninsured issue and standby offering. They find further that the popularity decline is linked to the adoption by firms of dividend reinvestment plans and assert that these plans are akin to a periodic rights issue. However, they argue that this explanation is not sufficient to fully explain the decline, nor is the conclusion of Hansen (1989) regarding transaction cost effects. Using an adverse selection framework, Eckbo and Masulis (1992) argue that "...observed floatation method choices reflect shareholder characteristics, the information asymmetry between the issuer and the market, and direct floatation costs" (p. 330) and find significant evidence in support of their model.

Though rights offerings may have become less popular in the United States, they are still the financing method of choice for other countries. Kabir and Roosenboom (2003) note that, in the Netherlands, rights offerings are extremely popular. Consistent with Hansen (1989), they too find a significant stock price decline around the

announcement of a rights offering. However, contrary to Hansen's (1989) findings, they find continued price declines in the subscription period, with corresponding declines in firm operating performance as well. They assert that their results are indicative of asymmetric information between managers and investors, and also partially reflect the agency problems caused by free cash flow.

SECTION III - HYPOTHESES

In this study, we test several main hypotheses. The first hypothesis we test is that acquisitions where the method of payment is cash will experience positive and significant abnormal returns for bidders and targets at announcement. We expect to make this finding based on the empirical findings of Berkovitch and Narayanan (1990) and Asquith, Bruner, and Mullins (1990), for example, who find that bidders earn positive and significant abnormal returns when they make cash offers. Conversely, we expect that abnormal returns to bidders in acquisitions where the method of payment is stock should be negative or insignificant based on the results of studies such as Bradley, Desai, and Kim (1988), Mulherin and Boone (2000), and Asquith, Bruner, and Mullins (1990), where acquirer returns are found to be negative the majority of the time.

We next test if the source of financing of the cash used to pay for acquisitions matters. While financing and investment decisions are traditionally viewed in financial theory as being independent [see, for example, Modigliani and Miller (1958)], we argue that this theory does not hold in reality. We base this argument in part on the fact that returns to bidders paying in cash differ from those paying in stock, as previously mentioned. If this difference exists, then the financing method does have an impact on

the outcome of the investment decision. Cash offers require a larger payment in order to compensate target shareholders for the tax penalty a cash payment would bring. Conversely, paying in stock circumvents the tax penalty but involves an implicit equity issue, which generally results in significantly negative returns to the issuers [see, for example, Loughran and Ritter (1995)]. As well, the benefits and costs of various financing methods are not all equivalent and we therefore argue that these differences will result in differences in abnormal returns to the acquisitions being studied.

We hypothesize that dividing the acquisitions where the method of payment is cash into subsamples based on the source of funds will result in finding differing abnormal returns. For instance, we hypothesize that acquisitions using excess cash reserves will experience different abnormal returns than those financed by debt. The monitoring and bonding roles played by debt, in tandem with the free cash flow hypothesis of Jensen (1986) suggest that the abnormal returns to debt-financed acquisitions will be significantly higher than those using corporate funds. We further argue that acquisitions financed by stock proceeds will experience positive abnormal returns based on the argument of Schlingemann (2004), who asserts that the use of the stock issue proceeds eases the uncertainty regarding the equity issue and the possible use of these funds. That is, Schlingemann (2004) argues that at the time of the equity issue, investors are uncertain regarding how the equity issue proceeds will be used, given there is the potential for either value-enhancing or value-destroying investments. However, upon the announcement of an acquisition by the firm, the uncertainty of investors regarding the use of the equity issue proceeds is resolved, with the acquisition being viewed as a value-enhancing investment, and thus the firm's share price increases.

Thus, overall, we argue that abnormal returns to debt-financed acquisitions will be positive, to corporate-funds-financed acquisitions will be negative, and to stock-proceeds-financed acquisitions will be positive. Acquisitions using a mix of these financing methods are hypothesized to be insignificant, as the negative effect of equity financing may rule out the positive effect of debt financing.

In addition, we wish to test the relationship between the abnormal returns of stock-proceeds-financed acquisitions and those of acquisitions where stock itself is the method of payment. We hypothesize that the abnormal returns of the former will be greater than those of the latter, in part due to the general superiority of cash over stock as a method of payment, along with Schlingemann's (2004) equity-issue resolution argument.

SECTION IV – DATA SOURCES, DESIGN AND INITIAL METHODOLOGY

Data Samples and Characteristics

A sample of acquisitions covering the period 1980 to 2003 is initially obtained from the Securities Data Corporation Mergers and Acquisitions database. We specify that the transactions must be completed, deal-value-disclosed mergers involving U.S. targets and find 17,390 transactions. We then exclude LBOs and transactions where there either is no payment method information or where a mixed payment method is used (such as a mix of cash and stock). We term this resulting sample of 10,094 transactions our sample universe. The characteristics of this sample are available in Table I in the Appendix.

Next, we remove any confounding acquisitions[3] and partition our universe into pure cash and pure stock samples. The pure cash sample contains acquisitions where the method of payment is solely cash, while the pure stock sample contains acquisitions where common stock alone is used as the method of payment. For both samples, we specify that the acquirer must be publicly traded. After imposing this criterion, we are left with a pure cash sample of 2,255 transactions and a pure stock sample of 3,260 transactions. The characteristics of these samples are available in Table I.

For the pure cash sample, we then consider the source of financing. While the SDC database provides the source of financing for many of the transactions, we employ a new approach that infers the source of financing for those transactions where the information is not provided. Furthermore, if the SDC source of financing is listed as "corporate funds," we use this approach to infer the source of financing for these funds as well. We infer that if a bidder has issued stock or debt in the year prior to the acquisition, then the proceeds of these issues will be used to finance the acquisition. Under this approach, we search the SDC New Issues database for new debt or stock issues over the period 1979 to 2003 and match these new issues to the transactions in our pure cash sample. We then examine the use of proceeds for each of these issues and exclude any in which the use is considered to be unrelated to acquisition activity. Finally, we determine the source of financing for the pure cash sample transactions by noting the type of issue(s) made by the bidder.

For example, suppose ABC Company makes an acquisition on April 26, 2002 and pays in cash. Further suppose that source of financing information for this transaction is

[3] A confounding acquisition is an acquisition that occurs within the estimation period or event windows of another acquisition by the same firm. These acquisitions cause the incorrect estimation of abnormal returns and thus we remove them from our sample.

not available from SDC. We then look for new issues made by ABC over the period from April 26, 2001 to the announcement date and find that ABC made a debt issue in December 2001. The use of proceeds for this issue is noted to be for general corporate purposes. We therefore infer that the April 2002 acquisition by ABC was financed by debt. For cases where a firm makes more than one issue type in the prior year (for example, debentures and common stock), both are assumed to be the financing method for the acquisition, and the transaction is moved to the mixed-financing source sample.

On a transaction-by-transaction basis, we compare the SDC-listed sources of financing for the acquisition to the inferred sources. In most cases, the two methods of classification are consistent. Where a discrepancy between the two occurs, we check the Securities and Exchange Commission's EDGAR Database for the acquisition announcement (Form 14-D) and use the financing method listed therein. We employ the EDGAR database check for approximately 50 cases for our sample.

Once the source of financing has been established, we have 1,743 acquisitions for which the source of financing is available from SDC (1,216) or inferred (527). We further divide these 1,743 acquisitions into four main subsamples based on the source type: debt/borrowing, corporate funds, stock issue proceeds, and mixed source. The borrowing subsample contains all transactions where the source of financing is a debt issue, borrowing, line of credit, bridge loan, and/or mezzanine financing. The stock sample contains all transactions where the source of financing is the proceeds from a common stock issue, preferred stock issue, and/or rights issue. The mixed source comprises all transactions where a mix of borrowing, corporate funds, and/or stock proceeds are the source of financing. The corporate funds subsample contains all

acquisitions that were financed by corporate funds, along with those were not able to be matched to any new issue in the previous year. Further details about these samples are provided in Table II.

We also further divide the financing samples into their "pure" forms. For example, the borrowing sample mentioned earlier comprises the transactions financed by borrowing, line of credit, debt issue, mezzanine finance, and so on, or a combination therein. For those transactions financed by just *one* borrowing source, such as purely line of credit financing, we create a separate sample and conduct our event study analysis on it where the number of transactions is greater or equal to 30. For our entire pure cash sample, we have enough transactions to create pure debt issue, pure line of credit, pure borrowing, and pure common stock issue subsamples.

We next examine whether the main financing samples are significantly different in some way. We first look to the deal value. We test whether the average deal value of each sample is statistically significantly different from the others and the results of these tests are provided in Panel A of Table III. We find that each sample is significantly different (p-value < 0.0001) level when deal value is the variable of interest. A median test in Panel A of Table IV finds that all medians are significantly different, save those of the corporate funds and stock proceeds samples. Overall, the biggest deals, as one might expect, are contained in the mixed-source financing sample, while the smaller deals are, on average, in the stock proceeds sample.

We then consider the size of the bidder as a distinguishing feature of the sample and test whether there are significant differences in bidder size, as proxied by total assets. The results are presented in Panel B of Table III. The average size of bidders in the

borrowing sample is significantly different (one-tail p-value = 0.020) from both that of the corporate funds and stock proceeds samples, with the biggest bidders in the borrowing sample, and smallest in the stock proceeds sample. The corporate funds and stock proceeds samples are not significantly different from each other when mean bidder size is the basis of comparison, nor are the corporate funds and mixed financing samples. There is evidence of dissimilarity between the stock proceeds and mixed financing samples (one-tail p-value = 0.058), but not between the borrowing and mixed financing samples. A median test in Panel B of Table IV reveals similar results as those from the means test, but now there is no evidence of dissimilarity between bidder size for stock-proceeds and mixed-source financing transactions.

Test Methodology

For this study, short-term event study methodology using Eventus software is employed. Under this approach, we attempt to measure the impact of an acquisition announcement on the returns of both the bidding and target firms. The following figure illustrates the event timeline with the respective windows of interest:

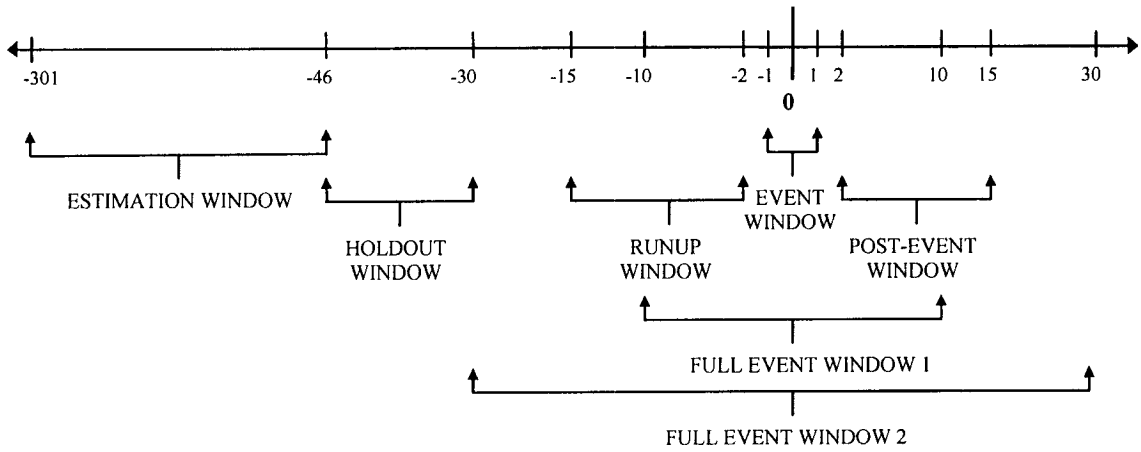

Figure 1 - Event Study Timeline

We employ a 255-trading-day estimation window over which we compute the "normal" return for each firm's security, with the last estimation day ending 46 days before the acquisition announcement. Thus, a minimum holdout period of 16 days is employed. We analyze several event windows: (-15, -2) to capture any run-up in returns caused by information leakage to the market, (-1, 1) to measure the impact of the announcement on returns, where day 0 is the announcement date, (2, 15) to look for post-announcement effects, and both (-10, 10) and (-30, 30) to provide a broad range over which to analyze the impact of the acquisition announcement.

We estimate the normal return using the market model. The market model returns are calculated from MacKinlay (1997) as follows:

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

where R_{it} and R_{mt} are the respective returns on the firm's security and the market portfolio at time t, and β_i is the beta of the firm's security. Abnormal returns for each day of the event window are then computed as the actual return of that day less the estimated normal return:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt} \qquad (2)$$

[MacKinlay, 1997]. Thus, abnormal returns capture, with some error, the market reaction to an event – in our case, an acquisition announcement. The abnormal returns are then aggregated for each security over the event window and cumulative abnormal returns are calculated, per MacKinlay (1997) as follows:

$$\overline{CAR}\,(\tau_1, \tau_2) = \sum_{\tau=\tau_1}^{\tau_2} \overline{AR}_\tau \qquad (3)$$

We estimate abnormal returns for the bidder and target firms individually and in combination. The combination approach groups the bidder and target abnormal returns to reflect the overall effect of the acquisition announcement. The abnormal return for the combined firm is the weighted average of the bidder and target abnormal returns; in our case, the weights employed are 70% for the bidders and 30% for the target firms, as the size data (based on total assets) of our overall sample indicated this weighting to be appropriate.

Graphs of the abnormal returns for each main sample over the (-10, 10) window can be found in Figures I through VI and for each subsample in Figures VII and VIII. An extended chart is also provided in Figure IX for the (-30, 30) window for the stock issue proceeds sample as the (-10, 10) window appears remarkably different for this sample than any other sample. In this case, there is no large abnormal return (either positive or negative) around the announcement window; rather, the significant abnormal returns happen prior to and after the announcement window.

After obtaining the CARs for our samples, we then test the significance for each in order to determine whether the abnormal return is statistically significantly different from zero using a Z-test. Eventus provides the Z-test statistic and the corresponding level

of significance for each CAR. If the CAR is statistically significant, we can reasonably conclude that the acquisition announcement had an impact on returns.

We run event studies for the aforementioned event windows for the pure cash, pure stock payment, borrowing, corporate funds, stock proceeds, and mixed financing source samples. Results of these studies using the market model with an equally-weighted index can be found in Tables V through VII. We also run the same event studies for the pure borrowing, pure debt issue, pure line of credit, pure common stock issue, and pure preferred stock issue subsamples. The results of these event studies can be found in Tables VIII and IX.

Preliminary Event Study Results

Main Sample Event Study Results

From Panel A in Table V, we see that for the entire cash sample, bidders experience a significant (at the 1% level) mean abnormal return of 1.09% over the (-1, 1) window, while targets earn 26.54%. The combined effect is a significantly positive 8.78%. In comparison, when considering the sample of acquisitions where stock is the method of payment in Panel B, we find a surprisingly positive but insignificant return to bidders of 1.00% over the announcement window. However, returns over the (2, 15) window are significantly negative and erase the pre-announcement stock price increase. Targets in this sample earn a significant 15.83% during the announcement window. Overall, when considering the (-30, 30) window, we find that cash acquisitions have negative but insignificant abnormal returns to bidders while stock acquisitions result in significantly negative returns. These bidder findings are consistent with prior empirical

research by Asquith, Bruner, and Mullins (1990), Wansley, Lane, and Yang (1983) and Travlos (1987), and others. Interestingly, the combined effect for stock transactions over the (2, 15) window is significantly negative.

When considering the financing samples in Tables VI and VII, we find that acquisitions financed via a borrowing method result in a positive and very significant abnormal return to bidders of 1.64%, while targets receive 27.29% (refer to Panel A of Table VI). In Panel B, acquisitions financed with corporate funds result in positive and significant returns of 1.11% to bidders; targets earn a significant 25.65% over the announcement window for this sample. The combined returns for the two samples over the (-30, 30) window are 11.73% and 11.58%, respectively.

In the sample of acquisitions financed by stock issue proceeds in Panel A of Table VII, we find interesting results: bidders experience significantly negative returns of 2.03% and 2.44% over the (-15, -2) and (2, 15) windows, respectively. Even more interestingly, over the (-30, 30) window, we find that acquisitions financed with stock issue proceeds cause severe mean losses to acquirers of more than 11% (median losses amount to 6.09%). Therefore, the stock-proceeds-financed acquisitions actually perform worse than acquisitions paid directly in stock, disproving our hypothesis but consistent with negative returns to stock issuers, with the additional tax penalty from the cash method of payment.

This significantly negative result is also inconsistent with the findings of Schlingemann (2004), who finds a positive relationship between stock-issue-proceeds financing and abnormal returns. He uses a smaller time period of study (1984-1998), includes non-US targets, which comprise approximately 23% of his sample, and employs

market-adjusted rather than market-model event study returns. Most importantly, he does not divide his sample of acquisitions into the various financing types to estimate abnormal returns, but estimates the abnormal returns for his entire sample and then uses regression analysis to determine the relationship between financing cash flows (free cash flow, equity, and debt) and abnormal returns. Thus, he does not directly measure abnormal returns to bidders for each financing type.

In Panel A of Table VII, we find that targets for the stock-proceeds-financed sample earn a significant 19.42% over the announcement window and the combined effect is still positive and significant. When considering mixed-financing-source acquisitions in Panel B of Table VII, bidders earn a positive return of 1.55% over the announcement window while targets receive 21.58%. Bidders in acquisitions where mixed sources were used to finance the cash experience positive and significant mean abnormal returns of 1.55%, while targets earn 29.08%.

The event study results above are based on the market model using an equally-weighted index. Overall, the results found are similar when a value-weighted index is used. We further test whether the median abnormal returns in each event window from the event study results presented significantly differ among samples for the bidding firms. Detailed results are presented in Tables X through XIII. In Panel A of Table X, we find that cash bidders earn significantly higher abnormal returns in the (-1, 1) and (2, 15) windows than do stock bidders (p-values = 0.0443, 0.0604, respectively). In Panel A of Table XII, targets paid in cash earn significantly more over all event windows than do targets paid in stock, consistent with empirical evidence by Wansley, Lane, and Yang (1983), Huang and Walkling (1987), and Davidson and Cheng (1997). The combined

abnormal returns are significantly higher for the pure cash sample in all but the first (-15, -2) window (refer to Panel A in Table XIII).

Next, each financing sample is tested against the pure stock sample in order to determine if the median abnormal returns are indeed statistically significantly different. Interestingly, when comparing the pure stock sample with the stock proceeds sample in Panel D, median abnormal returns are significantly higher for bidders paying with stock in the run-up and the (-30, 30) window. In Table XII, targets, as expected, earn more when paid in cash than in stock, even when the cash has been financed by a stock issue. The combined abnormal returns in Panel B of Table XIII are higher for the stock proceeds sample in the (-1, 1) and (-10, 10) windows. Overall, consistent with our hypotheses, abnormal returns are generally significantly higher for bidders and targets in both the borrowing and corporate funds samples than those in the pure stock sample (see Panels B and C of Table X and Panels C and D of Table XII, respectively).

When the three financing samples are tested against each other for bidders in Table XI, we find that median abnormal returns are not significantly different among the borrowing, corporate funds, and mixed samples. Conversely, when abnormal returns of these samples are tested against those of the stock proceeds sample, several significant differences are found, with the general result that acquisitions financed by corporate funds, borrowing, or mixed sources earn higher returns for both bidders and targets (refer to Panels E, F, and G of Table XII) than do acquisitions financed with stock issue proceeds.

Pure Subsample Event Study Results

From Panel A in Table VIII, we see that for the pure borrowing subsample, bidders earn a significant 2.08% over the three-day announcement window, a finding consistent with Bharadwaj and Shivdasani (2003), while the abnormal returns over all other windows are insignificant. Targets firms in this sample earn a significant 26.49% over the announcement window. When considering those acquisitions financed from debt issue proceeds in Panel B, we find that bidders experience a small but significant return of 0.87% over the announcement window. During the same period, target firms earn 28.71%. For both samples, the combined abnormal return is positive and significant for all but the (2, 15) window. The largest announcement reaction occurs for acquisitions financed by a line of credit, with a significant mean abnormal return of 2.65% to bidders (refer to Panel A of Table IX); targets for this sample earn 27.94%.

Echoing the results of the stock proceeds sample presented earlier, for acquisitions financed purely by common stock issue proceeds (Panel B of Table IX), bidders experience significantly negative abnormal returns in all but the announcement window. In fact, acquirers lose more than 11% in the 60-day period surrounding the announcement. Given the large premiums paid to targets, the combined abnormal return is still positive and significant.

The Effect of Target Public Status on Bidder Abnormal Returns

In our analysis thus far, we have not differentiated between public and private target firms in our samples. However, Chang (1998) examines the abnormal returns to

bidders acquiring privately-held targets and finds results inconsistent with the general findings for public target firms. He finds insignificant abnormal returns to bidders for acquisitions of private targets where the method of payment is cash. Surprisingly, though, he finds positive and significant abnormal returns to bidders paying for the privately-held firms with stock. Chang (1998) argues that the acquisition of a privately-held firm is analogous to a private placement of debt or equity as the target firm has very few shareholders and his results are consistent with this argument.

In a recent paper, Da Silva Rosa, Limmack, Supriadi, and Woodliff (2004) also examine acquisitions of privately-held target firms, arguing that when target firms are privately-held, their bargaining power is increased, and they are better able to extract private information from the bidding firm. When the offer is made in stock, an acceptance of this payment by the target firm acts as a positive signal to the market and hence abnormal returns to stock offers by bidders for privately-held firms should be positive and significant. Indeed, the authors find this to be the case, as do Moeller, Schlingemann, and Stulz (2004). They find the general result that both cash and stock acquirers of privately-held firms earn positive and significant abnormal returns upon acquisition announcement.

Thus, as the public status of the target firm appears to have a significant impact on abnormal returns, we divide each of our main samples into two parts – public targets and private targets – and conduct the same event study methodology as described earlier. The results are presented in Table XIV. For our pure cash acquisitions in Panel A, we find a positive and significant abnormal announcement return to bidders of 0.73% acquiring public targets and a significantly positive 1.11% for bidders acquiring private targets. All

other event windows for both subsamples are insignificant, consistent with the results of Chang (1998).

For the pure stock sample in Panel B, we find a negative and significant abnormal return of 1.72% to bidders acquiring public targets and a significantly positive abnormal return of 2.64% to bidders acquiring privately-held targets, consistent with the findings of Chang (1998), Da Silva Rosa, Limmack, Supriadi, and Woodliff (2004), and Moeller, Schlingemann, and Stulz (2004). However, bidders purchasing private targets then lose a significant 2.33% in the (2, 15) window, as compared with -1.04% for bidders buying public targets. Interestingly, over the (-30, 30) window, acquirers buying public targets earn a significant abnormal return of -2.16%, while bidders acquiring privately-held targets experience a negative but insignificant abnormal return of -0.86%. Thus, our results lend support to the argument that privately-held targets hold greater bargaining power and their acceptance of a bidder's stock offer reflects positive private information.

For all but one financing sample, there is the general finding that acquisitions of privately-held targets result in greater abnormal returns to bidders than do acquisitions of public targets (refer to Panels C, D, and F), consistent with the findings mentioned earlier. However, the stock proceeds sample (refer specifically to Panel E) paints a completely different picture. When this sample is split to account for public and private targets, bidders acquiring public targets fare much better than their private-firm-buying counterparts. In the announcement window, abnormal returns to the former are -0.47%, but insignificant while those to the bidders buying private targets are -0.99% and significant. The real difference, though, is in the (-30, 30) window, where bidders buying

public targets lose a significant 7.52% while those buying privately-held targets lose over 17.5%.

A possible explanation of this finding could be the following: if a bidding firm wishes to purchase a privately-held target, but does not have sufficient cash and cannot issue (more) debt, it will choose to use stock. However, knowing the target firm is unlikely to accept a likely-overvalued stock payment, the bidder issues the stock in the market directly and uses the proceeds to finance the offer in cash. Thus, not only does the bidder experience a negative market reaction to the equity offering in this case, but the indirect use of stock proceeds also acts as an unfavourable signal, and the bidding firm's stock price takes another hit. Another possible explanation of this result has been suggested by Faccio and Masulis (2004), who find that acquisitions of privately-held targets are less likely to be financed with stock, and they argue that the preference for cash financing reflects the bidding firm's aversion to new blockholder creation. As large blockholders can improve the monitoring of the activities of bidding-firm management, any attempt to prevent their creation will be priced accordingly by the market and hence could be an explanation for the significant price declines for bidding firms using stock proceeds rather than stock itself.

The Effect of Sample Differences

Given that our samples were earlier found in general to be significantly different in terms of two characteristics, deal value and bidder size, in this section we attempt to create a closer match between the samples and then we examine the effect the sample matching has, if any, on abnormal returns, especially for the stock proceeds sample. We

begin by matching the pure cash and pure stock samples based on deal value. We retain all transactions in the pure stock sample whose deal values are within 10% of the deal values of the pure cash sample. From this smaller set of transactions, we then consider bidder size. All transactions in the pure stock sample for which bidder size is within 10% of the bidder size of the pure cash sample are retained. After doing so, we are left with 346 matches. We then run an event study on each sample and test for significant differences in abnormal returns. We repeat this process for the stock proceeds sample, matching it to each of the pure stock, borrowing, and corporate funds samples. The results are presented in Tables XV through XVIII.

When transactions in the pure stock sample are matched based on deal value and bidder size to those in the pure cash sample in Table XV, the abnormal returns in the run-up and announcement windows are still significantly different. For the match between the pure stock and stock proceeds samples in Table XVI, all significant differences in abnormal returns disappear, except for that in the (-30, 30) window. For that window, there is still a very large negative abnormal return of 8.48% to bidders using stock proceeds to finance their acquisitions.

When the borrowing sample is matched to the stock proceeds sample in Table XVII, the significant positive abnormal returns to borrowing bidders disappear, while the stock proceeds bidders still experience significant negative abnormal returns. Interestingly, even after matching these samples, the differences between the abnormal returns are still significant for all event windows, suggesting that bidders using stock proceeds to finance acquisitions are inherently different from those who take on debt.

SECTION V: A NEW METHODOLOGY AND RESULTS

Methodological Limitations

While the event study methodology described and employed previously is quite sound, its use for the purposes of this study is flawed. That is, by deliberately selecting acquisitions with new security issues in the year prior, we are inherently creating a large bias in our results as these new issues are occurring in the normal-return estimation period. For example, if we deliberately select an acquisition with a debt issue in its estimation period, our estimated normal return will be higher than it should be given the general finding of positive abnormal returns for debt issue announcements. Thus, since our estimated normal return is higher, our abnormal return will be lower than it should be, and we may find insignificant results when they are indeed significant. Conversely, acquisitions with new stock issues in the year prior will have lower estimated normal returns, and consequently, they will appear to have higher abnormal returns at the acquisition announcement.

In order to overcome this bias creation, we employ a different methodology[4] that allows for the treatment of the financing as a separate event. We begin by matching each acquisition to its prior year financing as we did in the previous method. We then determine the first financing date and collect daily bidder and market returns from CRSP for the period starting one year before the first financing date and ending 30 days after the acquisition announcement date. Next, we set up dummy variables to represent abnormal returns in event windows of interest. For example, we create an acquisition

[4] Our methodology is a new application of that originally employed in Eckbo, B.E., and Betton, S., "Toeholds, Bid Jumps, and Expected Payoffs in Takeovers." *Review of Financial Studies*, Vol. 13, 2000, pp. 841-882.

announcement dummy that is equal to 1 if the date of the return is the day prior to, day of, or day after the acquisition announcement, and zero otherwise. Hence, we are effectively creating the (-1, 1) window in this case.

For firms with only one financing date, we create four dummy variables: one to represent the holdout period which comprises the 46-day period before the day prior to first financing date, another to capture the (-1, 1) window around the financing announcement, a third to capture the run-up before the acquisition announcement, and a fourth to capture the (-1, 1) window around the acquisition announcement itself. As the financing dates are different for each firm in our sample, the length of the run-up is firm-specific. A timeline depicting the relevant periods of interest for the one-financing-date sample is as follows:

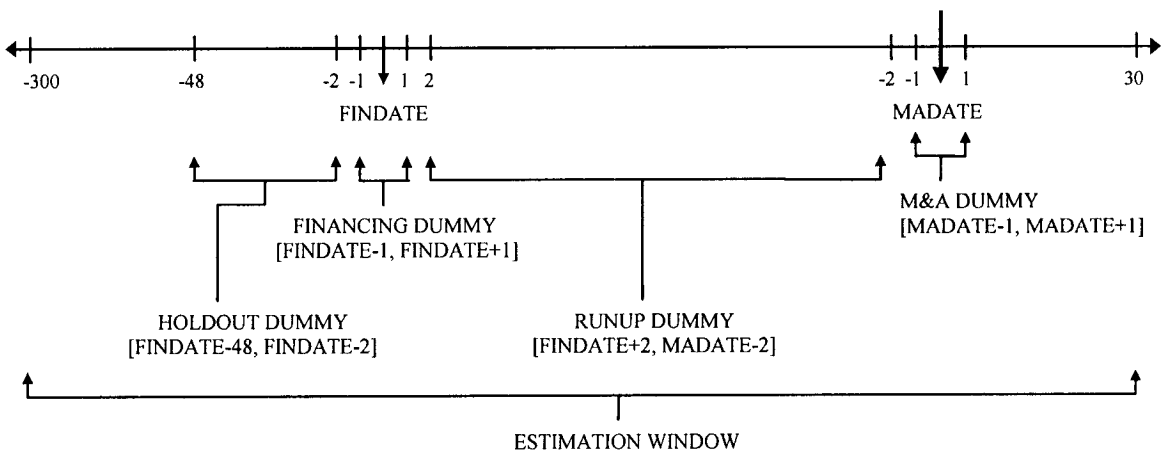

Figure 2 - Timeline for One Financing Date Sample

In our sample, there are many firms who conducted several new issues in the year prior to the acquisition. For these firms, we create five dummy variables: the four previously listed, and a fifth that covers the period two days after the first financing date until the day after the last financing date. In effect, this last dummy captures the effect of

all financing done after the first financing date, and is firm-specific as well. The timeline for this sample is depicted below:

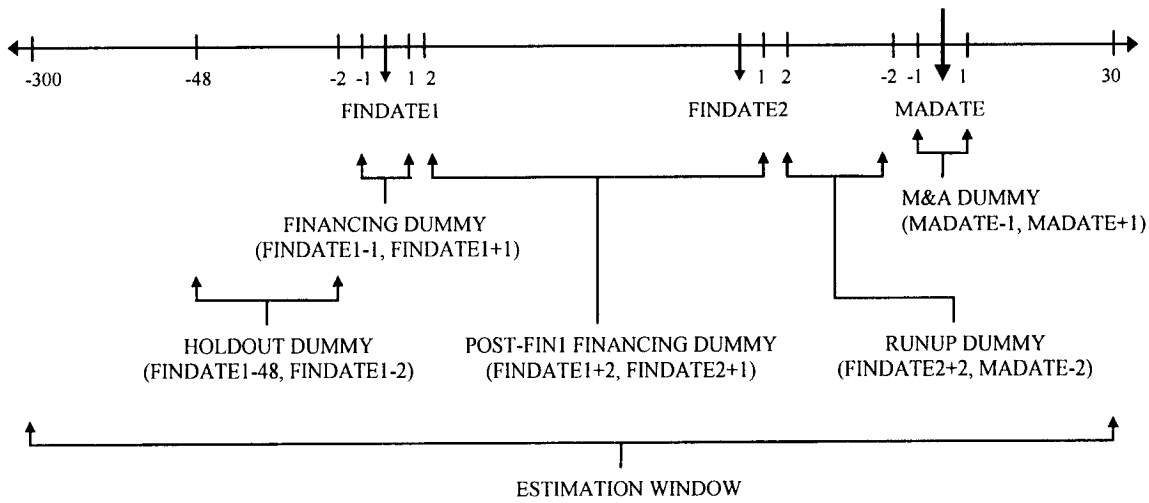

Figure 3 - Timeline for Two Financing Date Sample

After creating the dummy variables, we estimate the following equations:

$$Y_i = \alpha + \beta Y_M + \beta_1(D_1) + \beta_2(D_2) + \beta_3(D_3) + \beta_4(D_4) + \varepsilon_i \qquad (4)$$

for the one-financing date sample and

$$Y_i = \alpha + \beta Y_M + \beta_1(D_1) + \beta_2(D_2) + \beta_3(D_3) + \beta_4(D_4) + \beta_5(D_5) + \varepsilon_i \qquad (5)$$

for the two-financing-date sample, where:

Y_i = the daily observed return on the acquiring firm's stock
Y_M = the daily observed return on the market index
D_1 = the holdout dummy variable
D_2 = the first financing date dummy variable
D_3 = the second financing date dummy variable
D_4 = the run-up dummy variable
D_5 = the acquisition announcement dummy variable
b_x = the respective estimated coefficients

Under the market model, the abnormal return is the difference between the actual return and the market return. In this case, the abnormal return is captured by the dummy

variables. For the one-financing-date sample, the abnormal return in each window is equal to the coefficient of the dummy variable multiplied by its sum. For example, if the coefficient of D_4 in the first equation is -0.01 and the sum is 3 (there are three days in that window), the abnormal return for the acquisition window is -0.03. The total abnormal return for the firm would then be the sum of the products of the dummy sums and coefficients.

In order to get the aggregate abnormal returns for all firms, one possible method would be to sum up all of the firm-specific abnormal returns and calculate the average. However, this approach has limitations as it assumes the each of the firm-specific abnormal returns comes from the same distribution. In order to circumvent this assumption, we standardize each abnormal return by dividing it by its standard error. We then test whether the sum of the standardized abnormal returns is significantly different from zero.

Results and Tests

Main Samples

Descriptive statistics and results for each sample are presented in Table XIX. In Panel A, we find that the holdout dummy, representing the 46-day period before the financing window, is negative and significant (p-value = 0.0103), with an average abnormal return of -3.11%. The run-up dummy, representing the time period occurring post-financing and pre-acquisition-announcement, is found to be statistically significantly negative, with an average abnormal return of almost 7%. Surprisingly, both the financing

and acquisition dummy variables are found to be insignificant. However, the fact that the acquisition dummy is insignificant may reflect the fact that the market has already anticipated the acquisition announcement, given that many firms list "acquisition financing" as the use of proceeds for a debt or stock issue. Schlingemann (2004) argues that the acquisition announcement of a firm having raised equity financing in the prior year acts as a "resolution of uncertainty associated with the firm's decision to issue equity" (p.684). The combination of a lack of significance in the financing dummy and a highly significant holdout dummy suggests that the financing activity was also anticipated by the market.

When considering the overall standardized abnormal return (SAR) for this sample, we find it to be negative and significant (p-value = 0.0074). Thus, when prior-year financing is incorporated into the estimation of abnormal returns for acquisitions where the method of payment is cash, the general positive abnormal return upon the acquisition announcement as found by Berkovitch and Narayanan (1990) and Asquith, Bruner, and Mullins (1990), for example, disappears.

For the sample involving two or more financing dates in Panel B, no dummy is found to be significant. The standardized abnormal returns are marginally insignificant (p-value = 0.1122), as well. A possible partial explanation of this result is that the sample includes firms making several issues over a relatively short period of time. Therefore, we might expect that frequent financing activity reduces the potential for significant abnormal returns around the financing dates. Furthermore, if we consider the results of the one-financing-date sample, whereby we find evidence that the incorporation of the financing activity erases the abnormal return experienced at the acquisition

announcement, we have an explanation for the lack of significant abnormal acquisition announcement return for this sample.

Financing Subsamples

Next, we divide the one-financing-date sample into three financing-type subsamples: stock, debt, and mixed. The stock subsample includes firms making acquisitions using proceeds from a stock issue in the prior year, while the debt subsample includes firms financing acquisitions from a debt offering and/or other borrowing. The mixed subsample comprises the firms who finance their acquisitions via multiple source types but for whom only one issue date was found. We conduct the same dummy-variable abnormal return estimation as described in the previous section, and test for significant abnormal returns. The descriptive statistics and results of these tests are included in Tables XX through XXII.

Beginning with the stock-issue sample, we find interesting results in Panel A of Table XX. The financing date dummy variable is found to be positive, but insignificant, inconsistent with the general finding of negative abnormal returns around an equity offering [see, for example, Loughran and Ritter (1995)]. The run-up dummy is significantly negative (p-value = 0.0257), with an average abnormal return of -11.07%. This finding is consistent with the negative run-up found for the stock proceeds sample under the Eventus-based event study methodology first employed, but still inconsistent with Schlingemann (2004). The acquisition announcement dummy variable for the stock sample is also negative and significant (p-value = 0.079), inconsistent with the general

finding of positive abnormal returns around the announcement of an acquisition where the method of payment is cash.

In addition to the aforementioned methodological differences between our research and that of Schlingemann (2004), one more notable difference now exists. Under this methodology, we are accounting for the financing activity that occurs within the estimation window; however, Schlingemann (2004) does not do so. Rather, he estimates abnormal returns ignoring the financing event and later conducts regression analysis on these abnormal returns that incorporates his chosen financing cash flow variables. Thus, his finding of a positive relationship between equity financing and abnormal returns is somewhat unsurprising – the equity issues in the estimation window will make the normal returns appear smaller and, consequently, abnormal returns higher than they actually are.

Overall, the standardized abnormal return is found to be negative and highly significant (p-value = 0.0005), thereby indicating acquisitions financed with proceeds from a stock issue are not viewed positively by the market. Results are similar when a value-weighted index is used in Panel B; however, the acquisition dummy variable becomes insignificant (p-value = 0.1206). In this case, the majority of the negative abnormal return stems from the run-up period to the acquisition.

When we conduct our analysis on the debt subsample in Table XXI, we find no significant results. The result of a negative and insignificant financing dummy is consistent with the fact that the 3-day window is constructed around the issue date, not the announcement date. The result is also consistent with the findings of Chaplinsky and Hansen (1993), who find an insignificant market reaction to debt offerings and argue that

these issues are partially anticipated. As well, the acquisition dummy variable is positive, as expected, but insignificant. The standardized abnormal returns are negative but highly insignificant (p-value = 0.7347). The results are equivalent if a value-weighted index is used (refer to Panel B).

For the mixed-financing subsample found in Panel A of Table XXII, we find a significant average abnormal return of 1.82% for the financing dummy variable, consistent with the fact that many of the transactions in this sample were matched to a debt issue, even though SDC lists these transactions as including equity-based financing along with the debt. The acquisition dummy is positive but highly insignificant, and there is no evidence of an abnormal return in the holdout and run-up periods. When using a value-weighted index in Panel B, the financing dummy becomes marginally insignificant (p-value = 0.1098) and retains the expected sign; all other variables remain the same. Please note that this sample is small (n = 20) and, thus, the ability to make general inferences based on these results may be limited.

Testing for Significant Differences in Abnormal Returns Between Subsamples

Now that we have established the significance of the variables in question among our financing subsamples, we test whether or not significant differences exist in abnormal returns across financing types. Table XXIII provides the results of these tests. When comparing the stock-financed and debt-financed samples in Panel A, we find significant differences in abnormal returns in the run-up period, the acquisition announcement, and in overall standardized abnormal returns. Abnormal returns are significantly higher in the debt-financed sample for both periods (p-values = 0.0837 and 0.0158, respectively)

and for the standardized abnormal returns. This result supports the notion of debt financing being preferred to equity financing.

When comparing the stock-financing sample versus the mixed-financing sample in Panel B, we find significant differences in the abnormal returns at acquisition announcement, with the latter experiencing the higher returns. We also find a relationship between the abnormal returns for the financing period, but this result is marginally insignificant (p-value = 0.10005). This test indicates that using a mix of debt and stock financing is preferable to using solely equity financing for acquisitions.

Finally, when testing for differences between the debt- and mixed-financing samples in Panel C, results are insignificant in all cases save for the financing window. In this period, abnormal returns are significantly higher for the mixed-financing subsample, contrary to expectations. The inclusion of equity financing should make the returns for this sample lower than for that of pure debt financing. However, this unforeseen result may stem from the small mixed-financing sample size.

SECTION VI: CONCLUSIONS AND AREAS FOR FUTURE RESEARCH

Classical financial theory such as that of Modigliani and Miller (1958) purports that financing and investment decisions are completely separate. However, in light of the empirical findings in the merger and acquisition framework, whereby the method of payment for an acquisition (as a proxy for its financing) is found to have a significant impact on the investment decision, we argue that the traditional theory of financing and investment separation is not valid. Based on this assumption, we hypothesize that returns to acquisitions paid in cash will differ depending on the financing source of that cash.

This hypothesis has been largely unexplored in the available literature, save for a paper by Schlingemann (2004). More specifically, we examine the abnormal returns to acquisitions financed with debt/borrowing, corporate funds, stock-issue proceeds, and mixed sources. We first replicate the tests conducted in previous research regarding cash versus stock acquisitions and find the abnormal returns to be positive and significant for cash-payment acquisitions, and insignificant for stock-payment acquisitions for the announcement window. Further analysis reveals significant positive abnormal returns to the borrowing-financed, corporate-fund-financed, and mixed-source-financed acquisition samples, and these returns are statistically significantly different for the announcement window.

While we find interesting preliminary results, the methodology employed therein is not appropriate for our study, as the abnormal return estimates for bidders are biased by the existence of new security issues in the normal-return estimation window. Thus, caution must be used when making general inferences from these results. In order to circumvent this bias, we employ a novel dummy variable approach to incorporate the presence of financing activity in the year prior to the acquisition announcement. Using this model on a sample of single-financing-date acquisitions, we find significant results in unexpected time periods. We find negative and significant abnormal returns to bidders in the holdout and run-up periods, while the financing and acquisition announcements experience insignificant abnormal returns. The same analysis on a sample of bidders conducting more frequent financing activity yields insignificant results.

When the single-financing-date sample is partitioned into issue type – debt, stock, or mixed – we find interesting results. The incorporation of the stock issue occurring in

the year prior results in a significant negative abnormal return at the acquisition announcement, a finding that is in contrast to the results of Schlingemann (2004). The overall model finds a significant abnormal return to stock-proceeds-financed acquisitions. Conversely, we find no significance when testing the debt-financed sample and significance only at the financing date when testing the mixed-financing sample. Overall, our results provide some support for the Pecking Order Hypothesis – paying in cash is preferable to paying with stock, and when using cash, debt-financed cash is superior to equity-financed cash.

In the future, we will enhance and extend this research in several ways. Firstly, employing a larger sample time period, including acquisitions of majority interest, and finding alternate methods for inferring the source of acquisition financing would help to increase our sample sizes (as our current samples are relatively small) and allow for more detailed testing. Secondly, the addition of control variables such as firm size, book-to-market, and deal value in the second methodology will increase its robustness significantly. Thirdly, we will incorporate into our methodology the approach employed by Schlingemann (2004) in determining firm cash flows and their financing sources. Including this approach would also enhance the robustness of our methodology as it considers share repurchases, self-tenders, and changes in both short- and long-term debt levels, considerations our research does not yet make. In addition, we will conduct long-term analysis to determine if the source of cash financing has implications on the future performance of the combined firm.

Finally, we wish to explore in greater detail firms who issue equity and use the proceeds to finance investments. Are there any defining characteristics for these firms?

What are their motives for using the cash proceeds instead of financing directly via equity? Have these firms reached their debt capacity and/or do they have insufficient cash available to finance their investments? Are these firms trying to prevent the creation of a large blockholder? Are there any defining characteristics of their target firms that would require the use of cash instead of equity? These issues and more will be explored in our future research.

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SECTION VIII – TABLES AND FIGURES

TABLE I – Data Sample Characteristics

The data samples are obtained from the Securities Data Corporation (SDC) database and cover the period from January 1, 1980 to December 31, 2003.

	Universe		Pure Cash *		Pure Stock *	
	n	%	n	%	n	%
Cash-Only Transactions	4,014	39.77%				
Common Stock Transactions	6,080	60.23%				
Total	10,094	100.00%				
Acquirer Public Status						
- Public	8,452	83.73%	2,255	100%	3,260	100%
- Private	733	7.26%				
- Subsidiary	831	8.23%				
- Joint Venture	36	0.36%				
- Unknown	42	0.42%				
Target Public Status						
- Public	4,452	44.11%	1,274	56.50%	1,290	39.57%
- Private	4,470	44.28%	657	29.14%	1,729	53.04%
- Subsidiary	971	9.62%	295	13.08%	170	5.21%
- Joint Venture	54	0.53%	18	0.80%	4	0.12%
- Unknown	147	1.46%	11	0.49%	67	2.06%
Deal Value (in $millions)						
- Average	380.3		246		450.8	
- Minimum	0.001		0.001		0.045	
- Maximum	164,746		11,065		89,168	
Deal Attitude						
- Friendly	9,948	98.55%	2181	96.72%	3,255	99.85%
- Hostile	111	1.10%	62	2.75%	4	0.12%
- Unknown	35	0.35%	12	0.53%	1	0.03%
Number of Bidders						
- 1	9,825	97.34%	2,138	94.81%	3,232	99.14%
- 2	233	2.31%	98	4.35%	24	0.74%
- 3	26	0.26%	14	0.62%	4	0.12%
- 4	9	0.09%	4	0.18%	0	0.00%
- 5	1	0.01%	1	0.04%	0	0.00%
Tender Offers	1,110	11.00%	691	30.64%	10	0.31%
Mergers of Equals	83	0.82%	0	0.00%	56	1.72%

* After removing confounding acquisitions from universe

TABLE II – Main Financing Samples Characteristics

The following table presents further financing characteristics of the pure cash sample. Panel A highlights the various types of cash financing and the number of acquisitions using each. Please note that an acquisition can use one or more of these sources. Panel B presents details for the four main financing samples: borrowing, corporate funds, stock proceeds, and mixed source.

Source of Cash Financing		
	n	%
Borrowing	337	14.94
Bridge Loan	39	1.73
Debt Issue	321	14.24
Foreign	34	1.51
Junk Bond Issue	4	0.18
Line of Credit	287	12.73
Mezzanine Financing	1	0.04
Corp. Funds	1420	62.97
Common Stock Issue	335	14.86
Preferred Stock Issue	59	2.62
Rights Issue	17	0.75

Main Samples	Borrowing	Corporate Funds	Stock Issue Proceeds	Mixed Financing
Sample Size	484	1,184	261	326
Public Targets	345	429	110	261
Private Targets	85	528	108	35
Average Deal Value (in $mil)	367.12	140.30	97.58	571.02
Number of Deals in:				
1980-1989	151	256	49	105
1990-1999	264	620	147	174
2000-2003	69	308	65	47

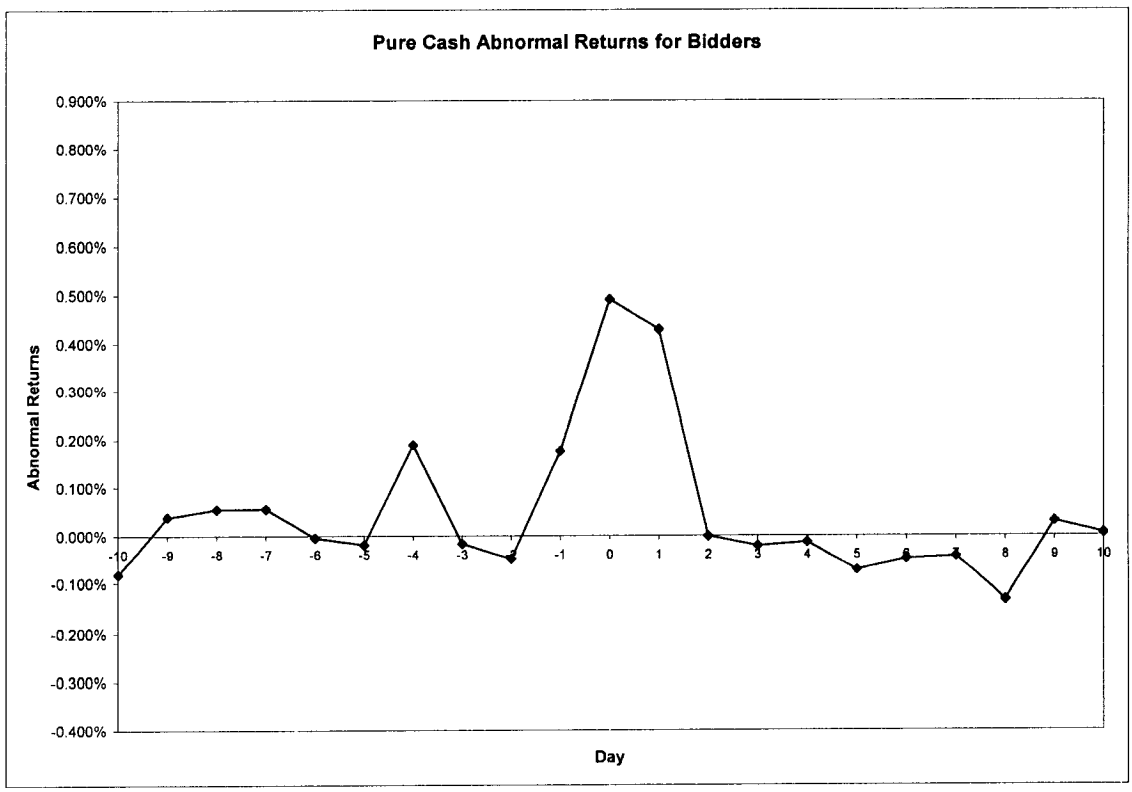
TABLE III – Testing for Significant Differences in Means between Main Financing Samples

Panel	Variable	Sample Combinations	Mean		Mean Difference	Number of Observations		t Stat
			1	2		1	2	
A	Deal Value	Borrowing and Corp. Funds	367.120	140.300	**226.819**	484	1184	**4.902*** **
		Borrowing and Stock Pro.	367.120	97.578	**269.542**	484	261	**6.023*** **
		Borrowing and Mixed Fin.	367.120	571.020	**-203.900**	484	326	**-2.694*** **
		Corp. Funds and Stock Pro.	140.300	97.578	**42.722**	1184	261	**2.234*** **
		Corp. Funds and Mixed Fin.	140.300	571.020	**-430.720**	1184	326	**-6.734*** **
		Stock Pro. and Mixed Fin.	97.578	571.020	**-473.4422**	261	326	**-7.530*** **
B	Total Assets	Borrowing and Corp. Funds	16013.990	9299.775	**6714.215**	343	750	**2.054** **
		Borrowing and Stock Pro.	16013.990	6419.454	**9594.536**	343	163	**2.864** **
		Borrowing and Mixed Fin.	16013.990	15167.170	846.820	343	241	0.141
		Corp. Funds and Stock Pro.	9299.775	6419.454	2880.321	750	163	1.221
		Corp. Funds and Mixed Fin.	9299.775	15167.170	-5867.395	750	241	-1.064
		Stock Pro. and Mixed Fin.	6419.454	15167.170	**-8747.716**	163	241	**-1.572***

TABLE IV – Testing for Significant Differences in Medians between Main Financing Samples

Panel	Variable	Sample Combinations	n	Median Difference	Wilcoxon's W Statistic	p-Value
A	Deal Value	Borrowing and Corp. Funds	**484**	**99.650**	**93288**	**0.0000**
		Borrowing and Stock Pro.	**261**	**75.382**	**24686**	**0.0000**
		Borrowing and Mixed	**326**	**-88.461**	**20645**	**0.0004**
		Corp. Funds and Stock Pro.	261	7.864	18558	0.1892
		Corp. Funds and Mixed	**326**	**-183.230**	**8905**	**0.0000**
		Stock Pro. and Mixed	**261**	**-173.482**	**5751**	**0.0000**
B	Total Assets	Borrowing and Corp. Funds	**343**	**1358.825**	**37682**	**0.0000**
		Borrowing and Stock Pro.	**163**	**937.675**	**8261**	**0.0089**
		Borrowing and Mixed	241	-45.100	14383	0.8553
		Corp. Funds and Stock Pro.	163	-99.425	6462	0.7142
		Corp. Funds and Mixed	241	-317.750	12933	0.1283
		Stock Pro. and Mixed	163	-2.275	6674	0.9881

FIGURE I – Abnormal Return Plots for Pure Cash Sample



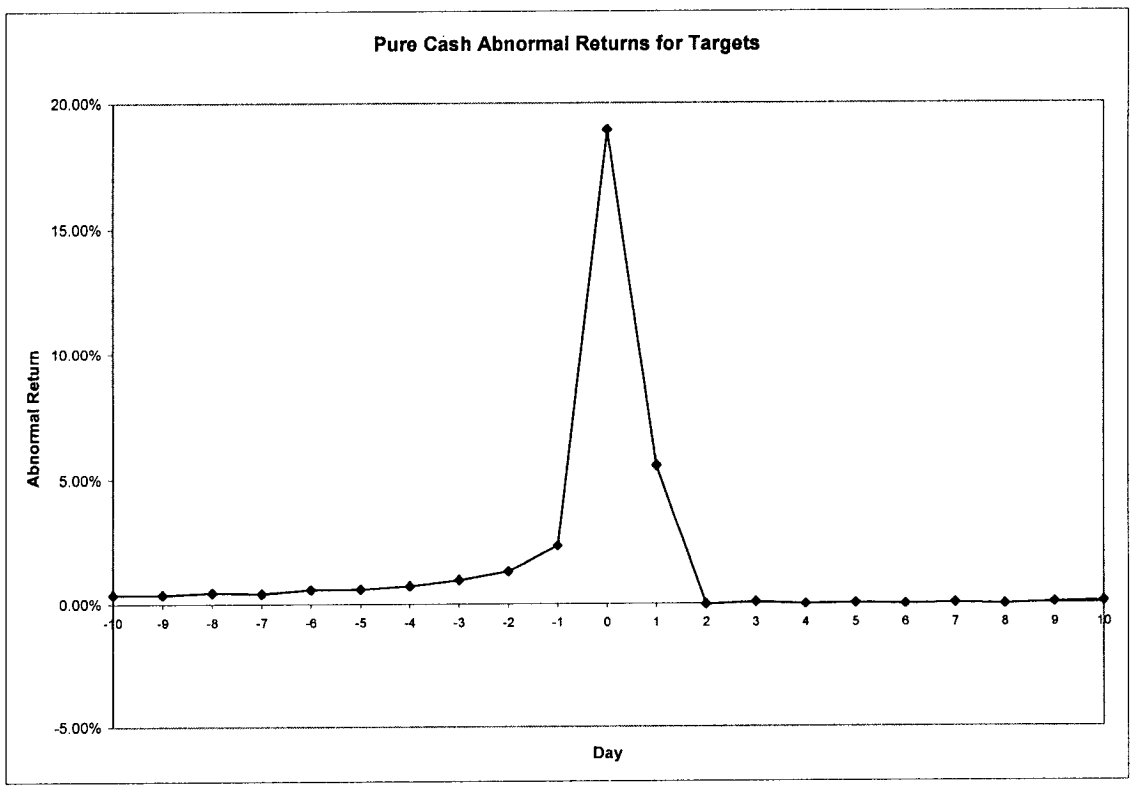
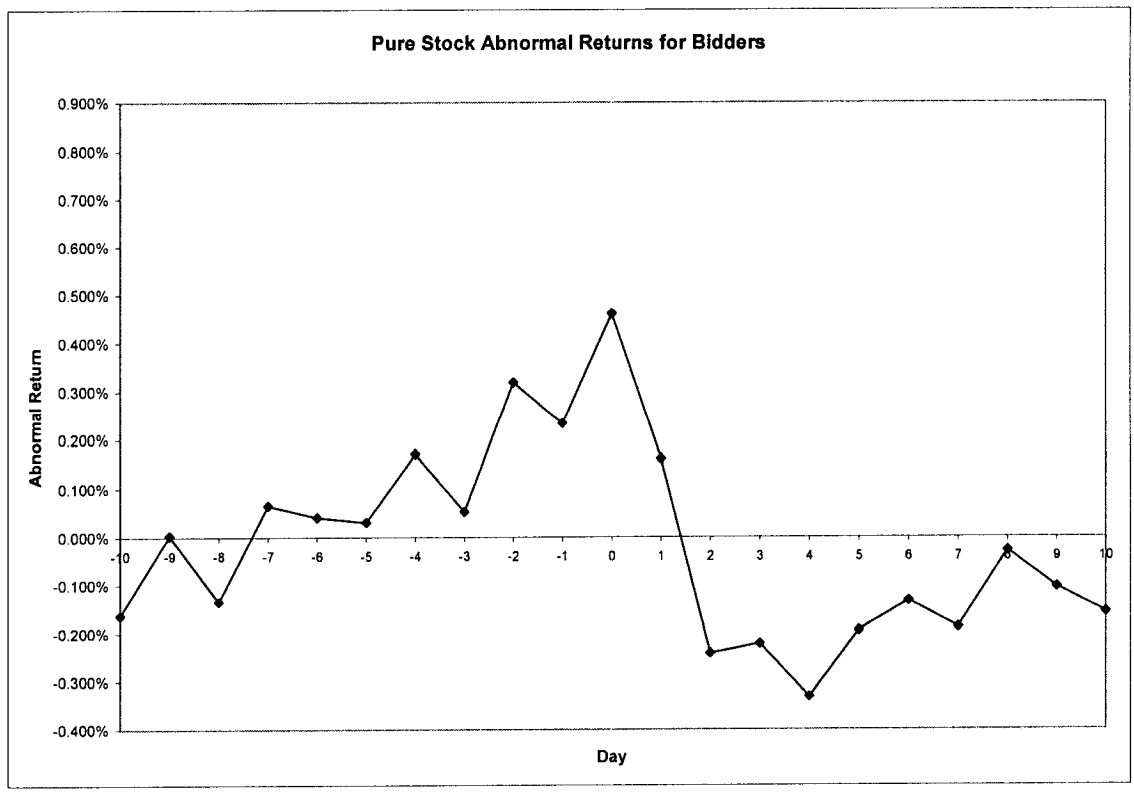


FIGURE II – Abnormal Return Plots for Pure Stock Sample



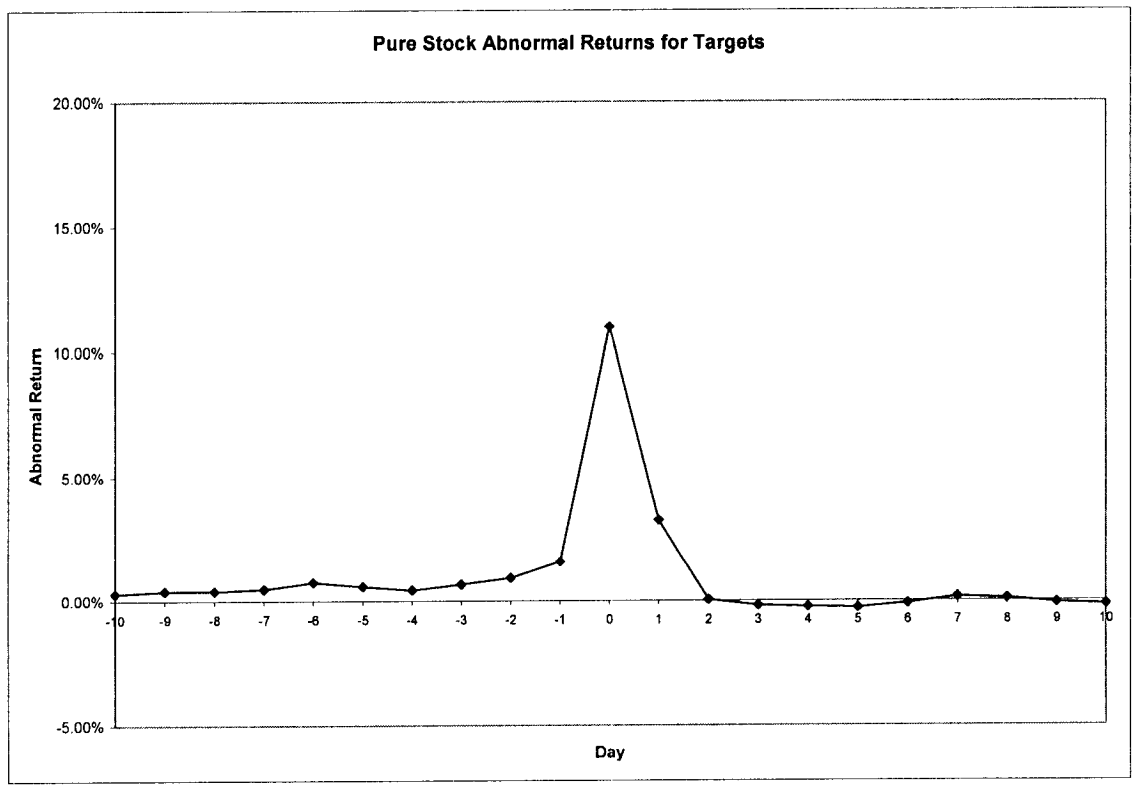
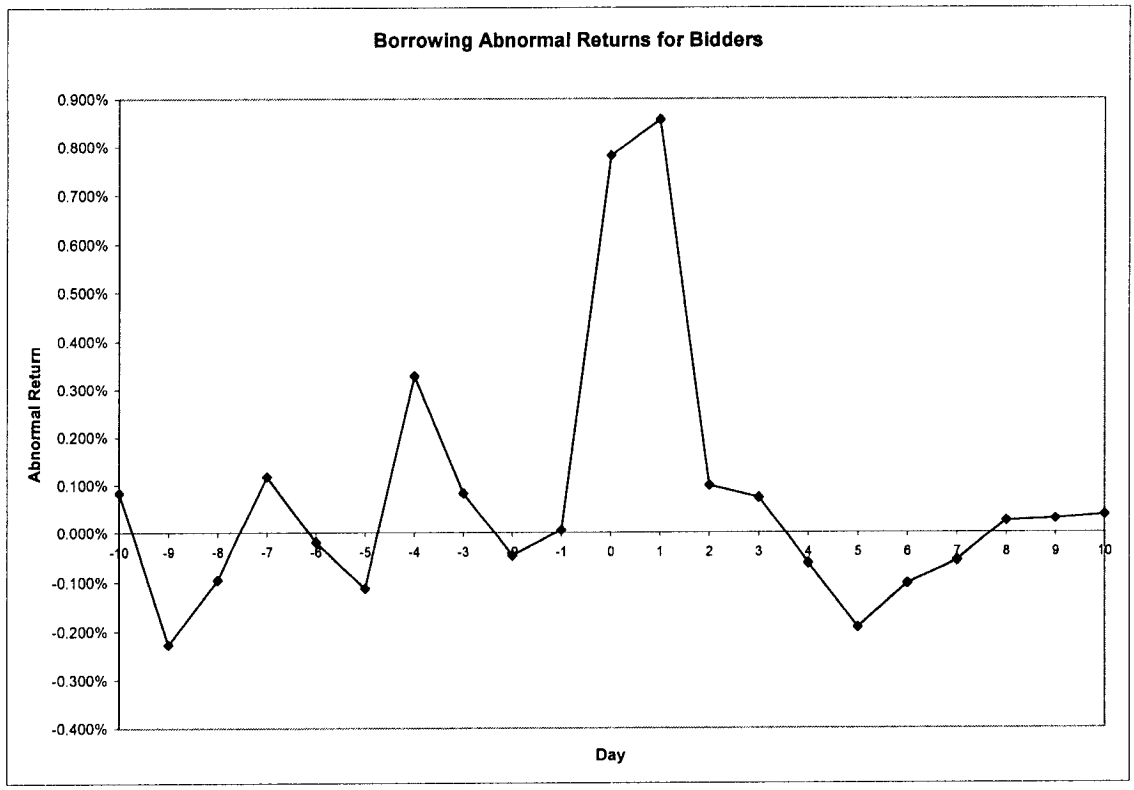


FIGURE III – Abnormal Return Plots for Borrowing Sample



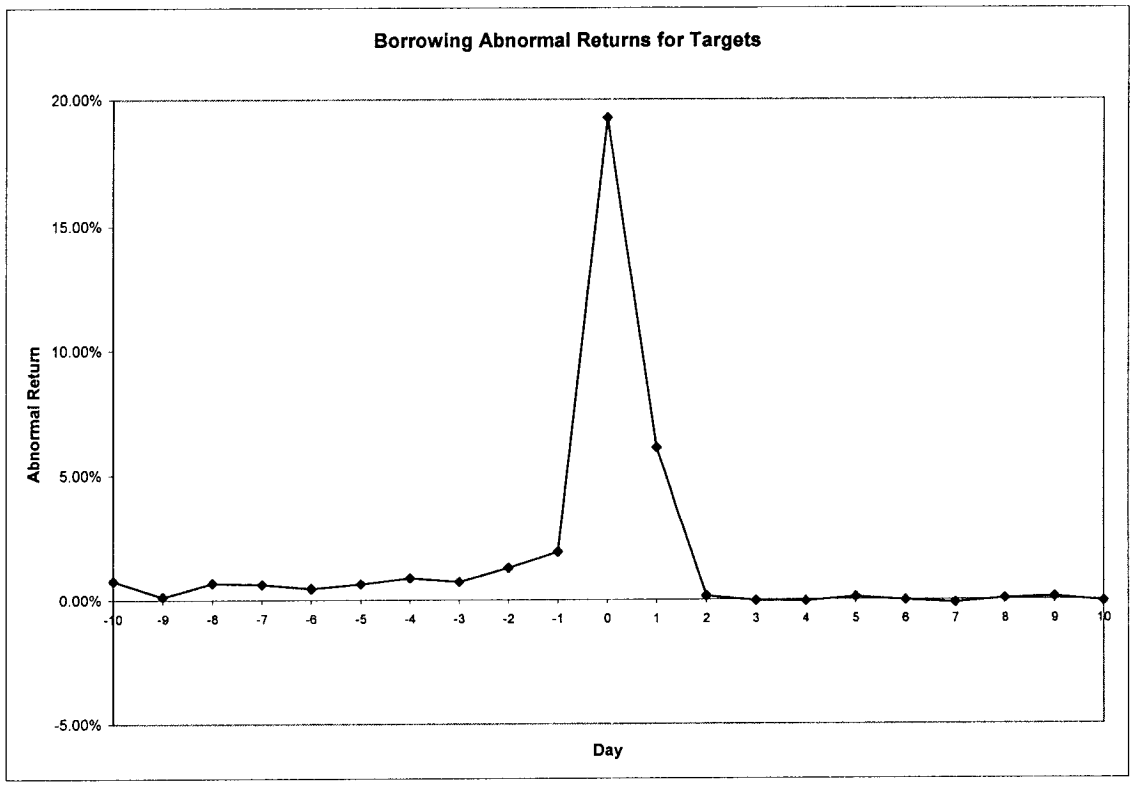
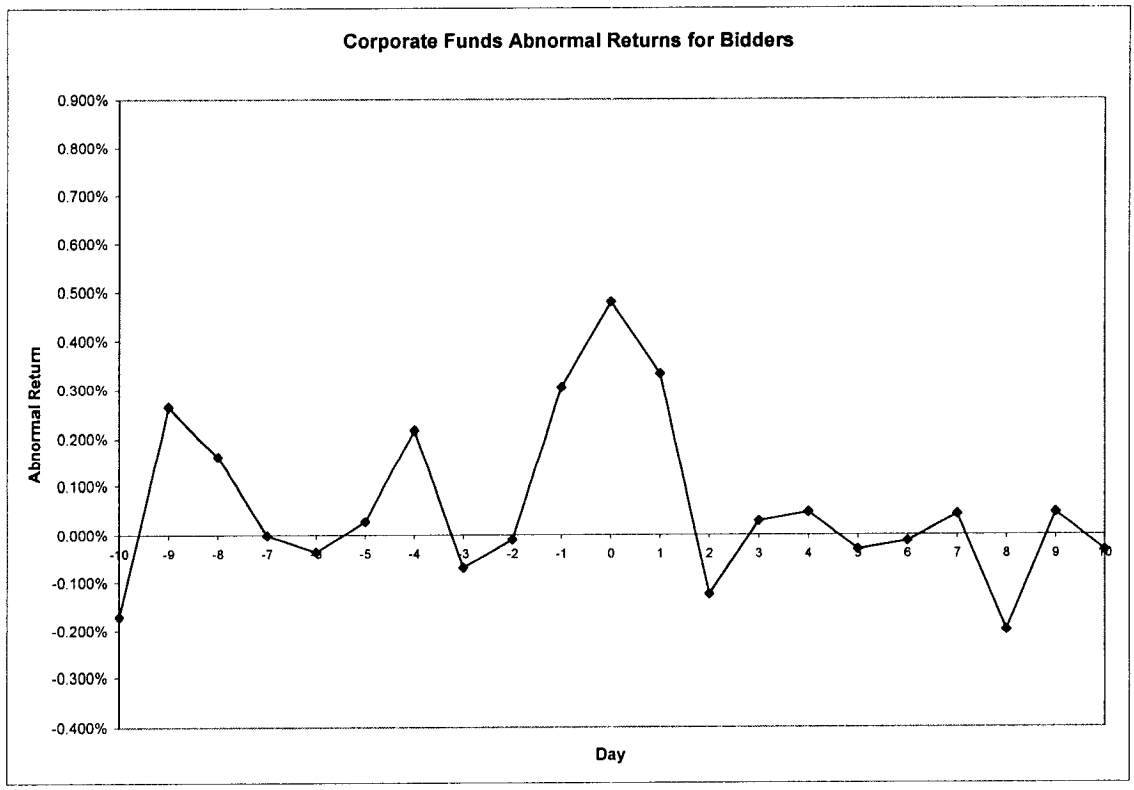


FIGURE IV – Abnormal Return Plots for Corporate Funds Sample



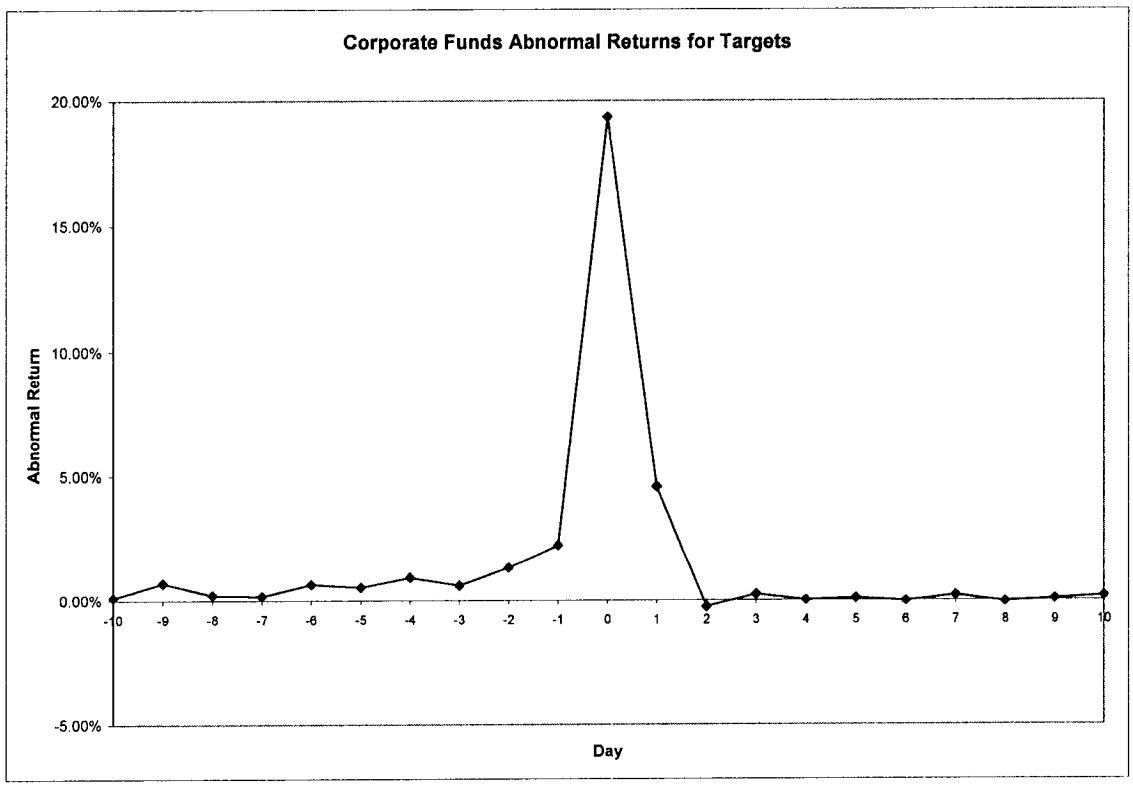
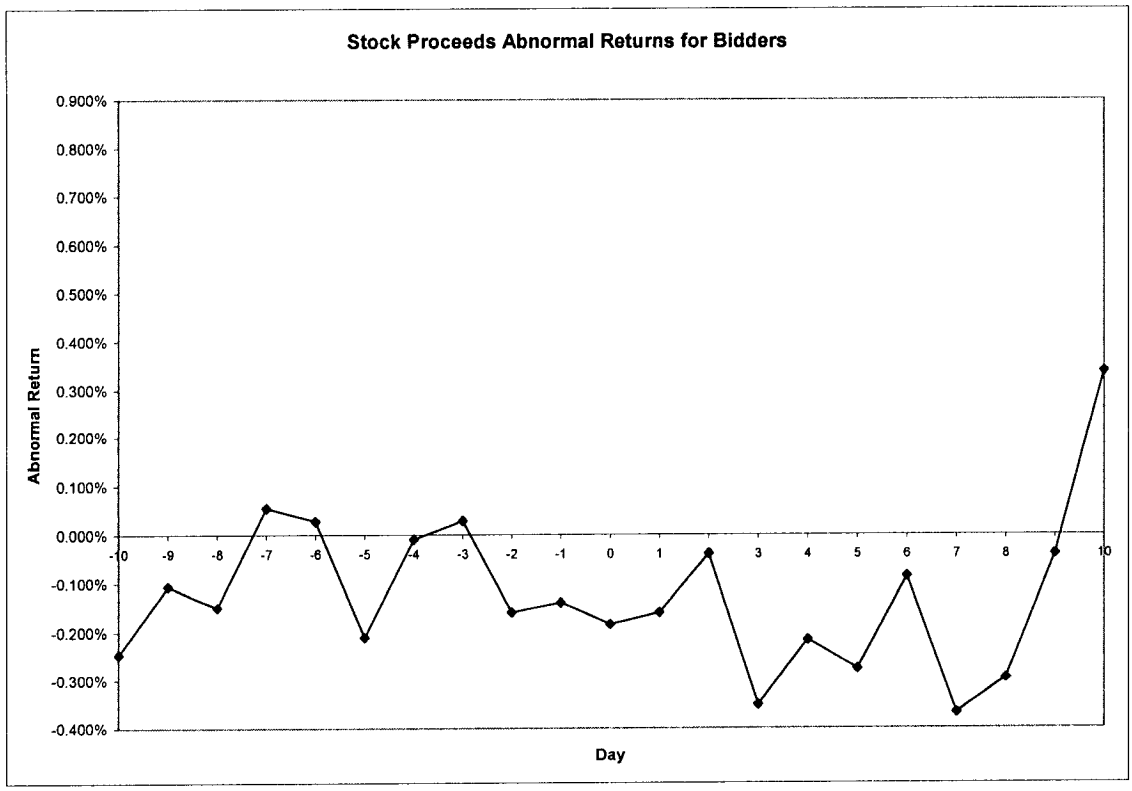


FIGURE V – Abnormal Return Plots for Stock Proceeds Sample



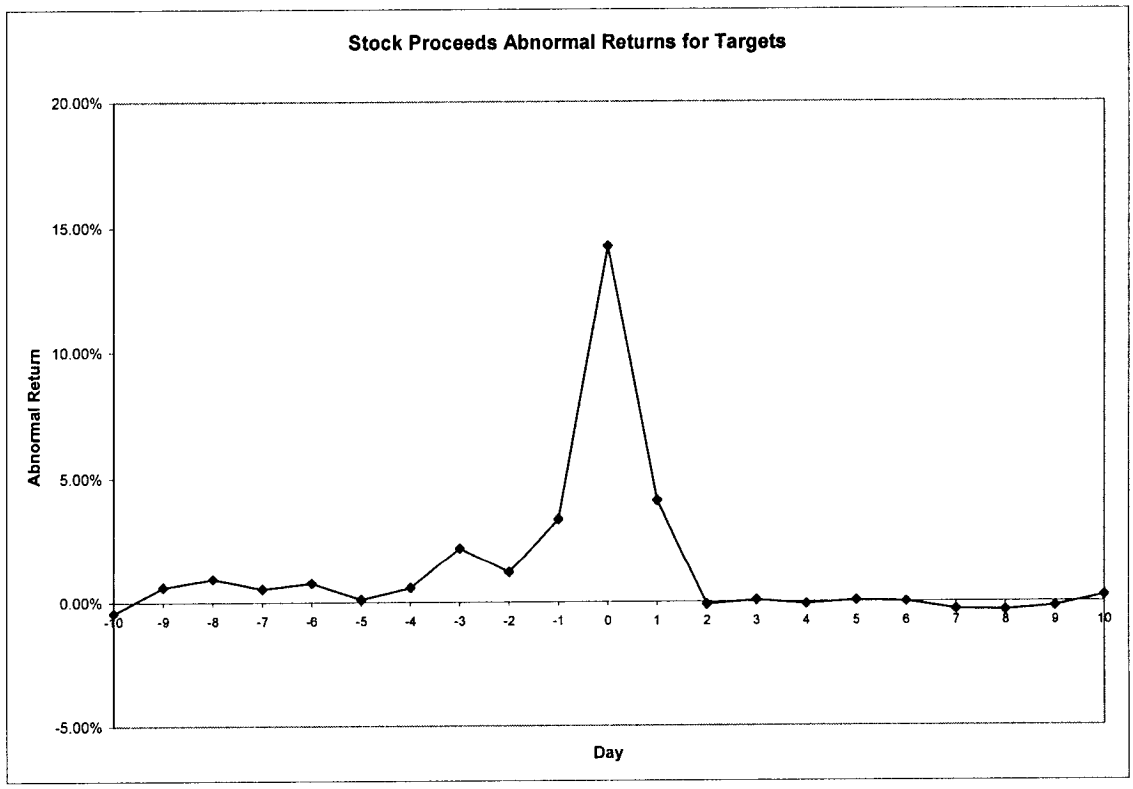
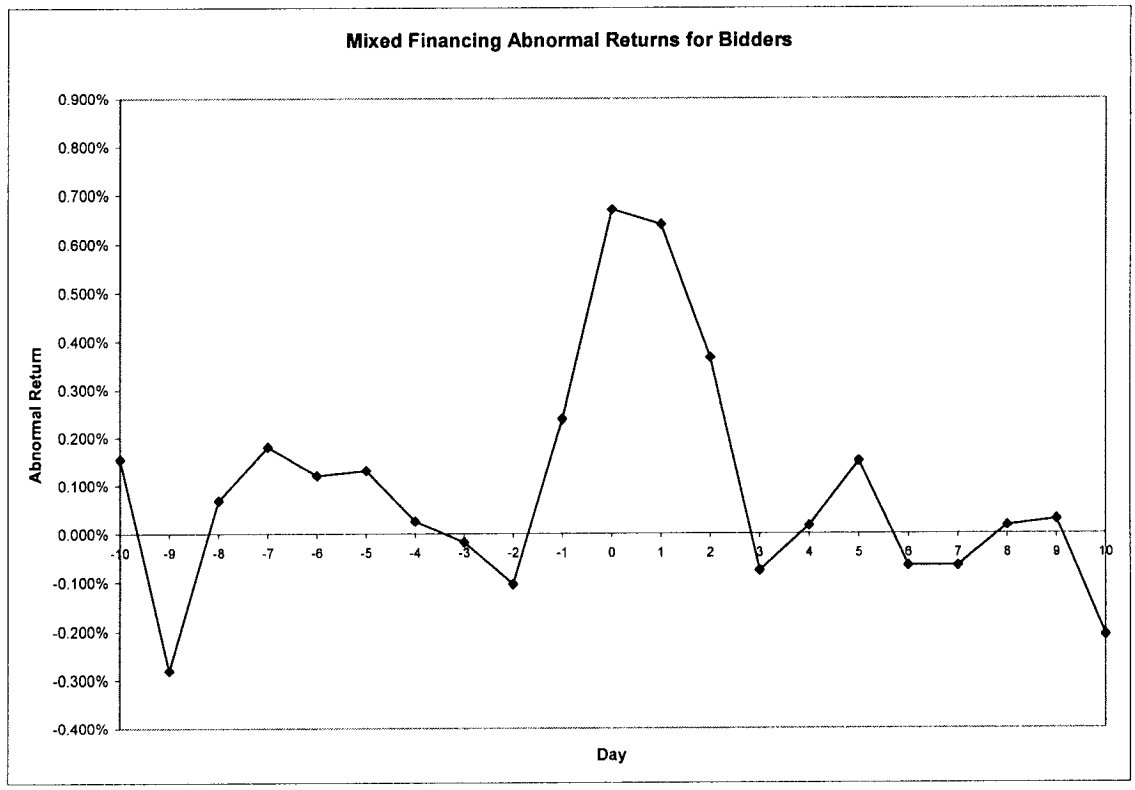


FIGURE VI – Abnormal Return Plots for Mixed Financing Source Sample



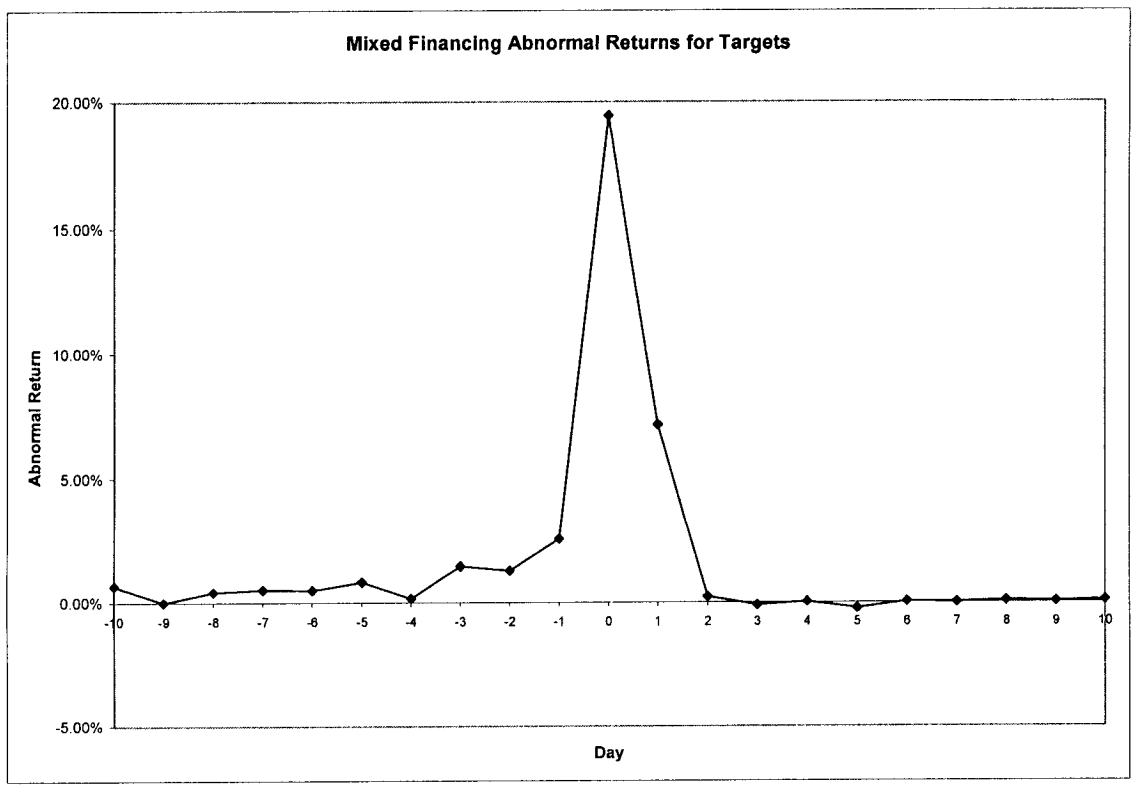
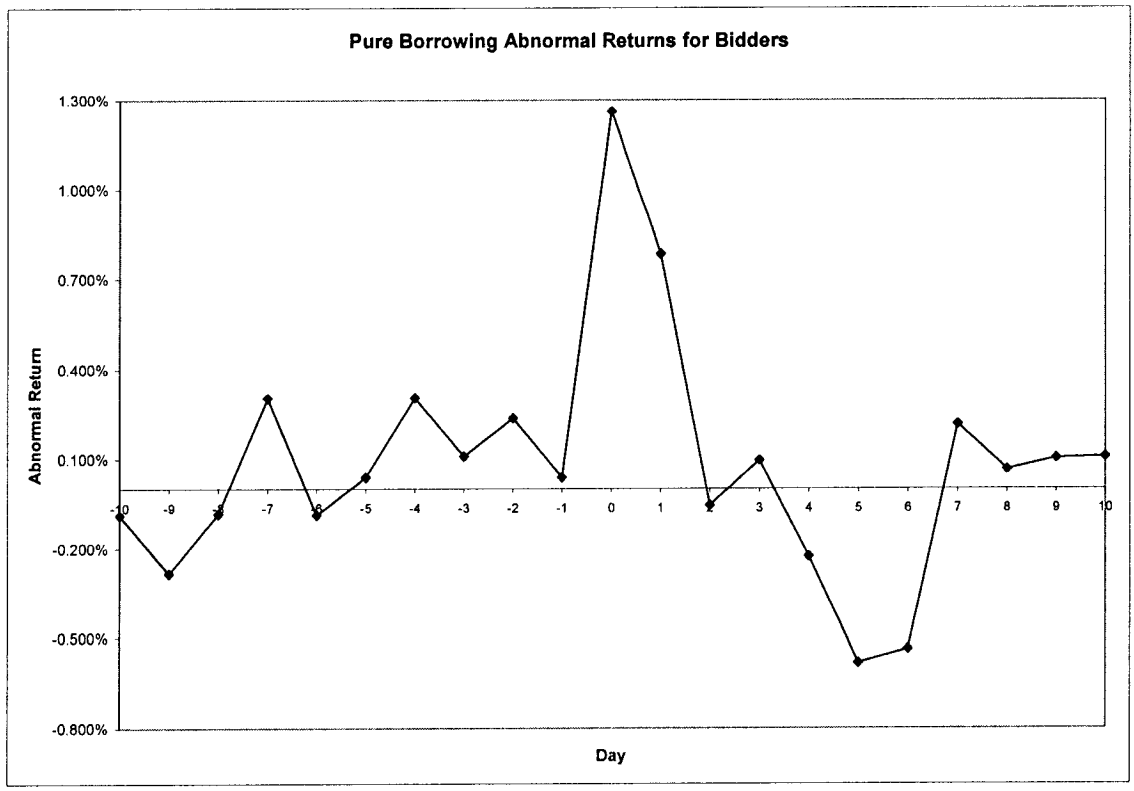


FIGURE VII – Abnormal Return Plots for Pure Borrowing and Pure Debt Issue Subsamples



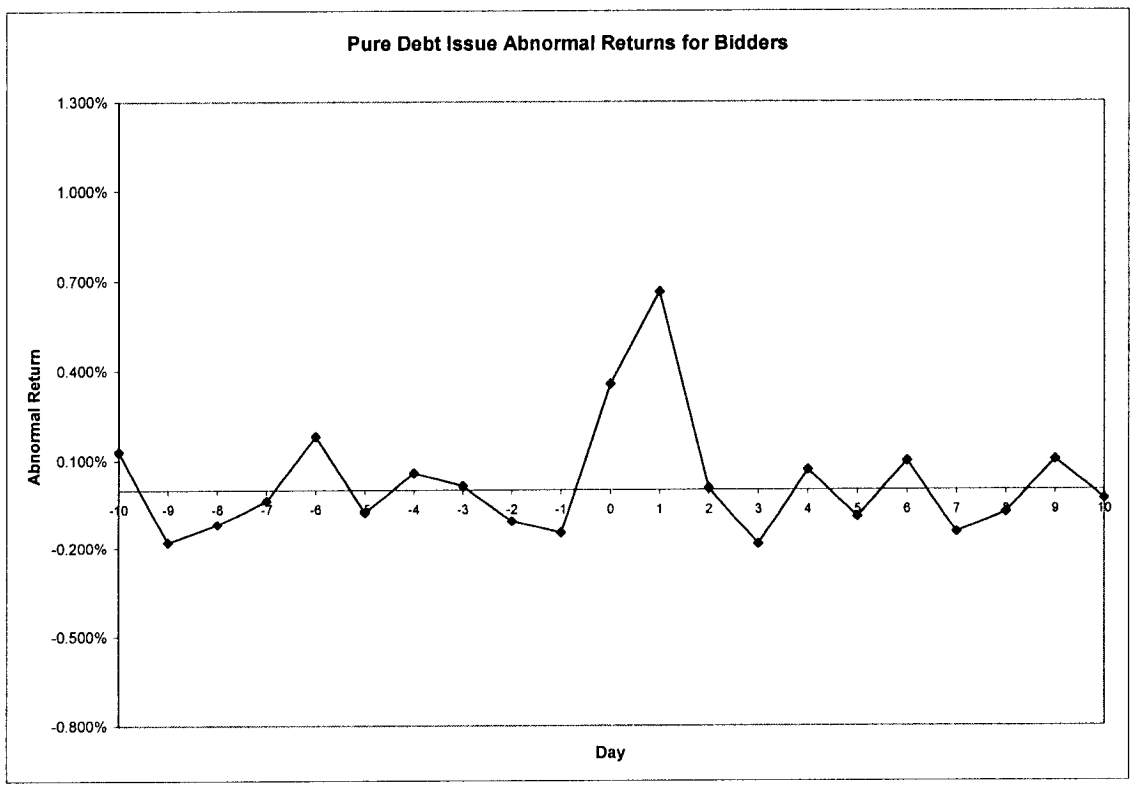
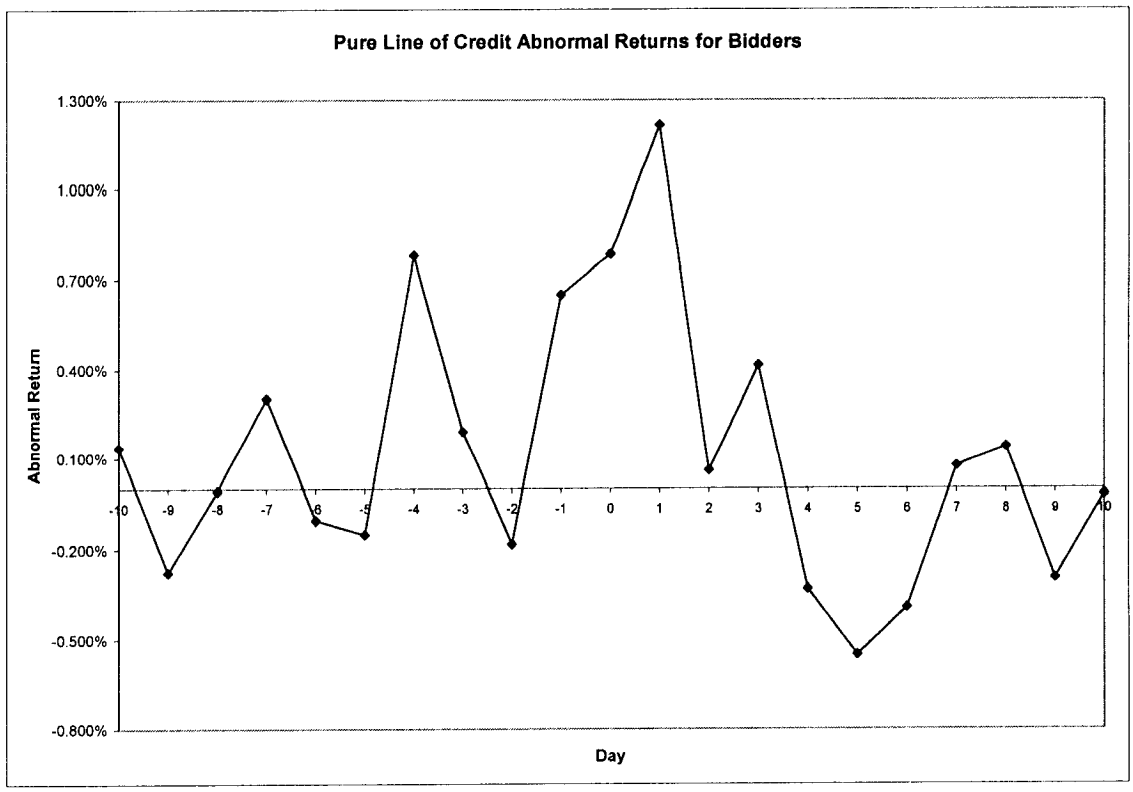


FIGURE VIII – Abnormal Return Plots for Pure Line of Credit and Pure Stock Proceeds Subsamples



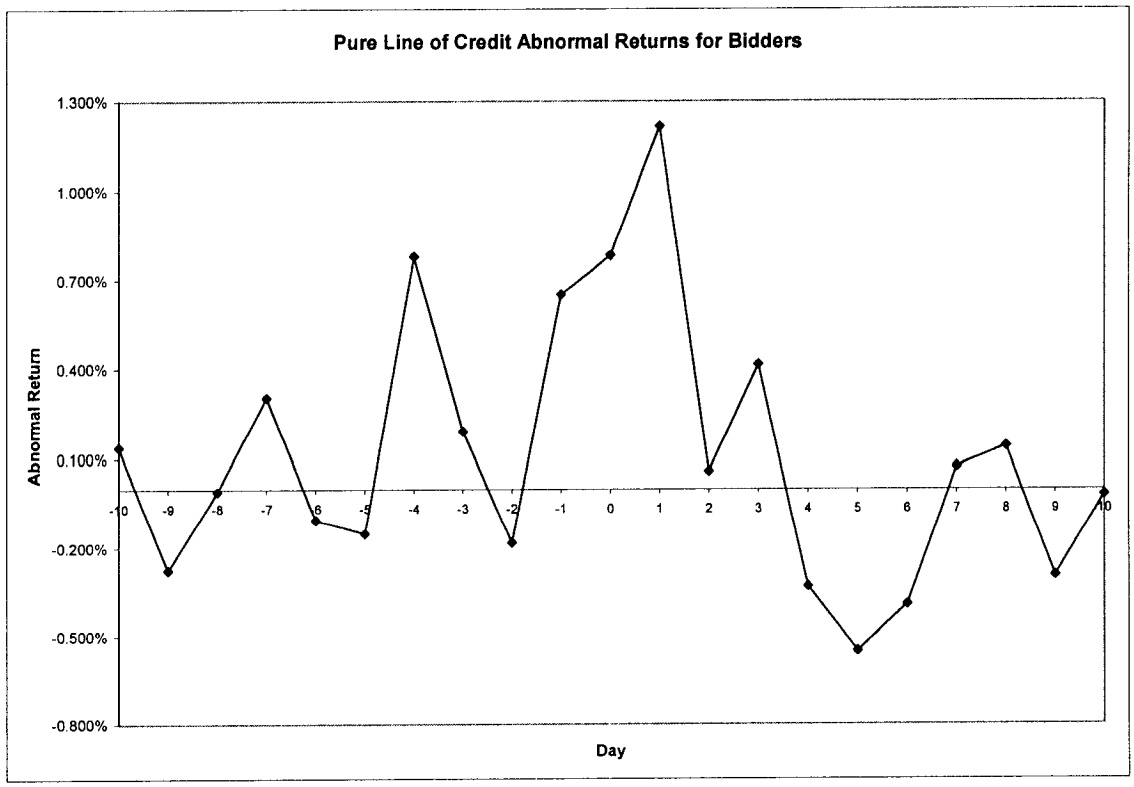


FIGURE IX – Extended Abnormal Return Plot for Pure Stock Proceeds Subsample

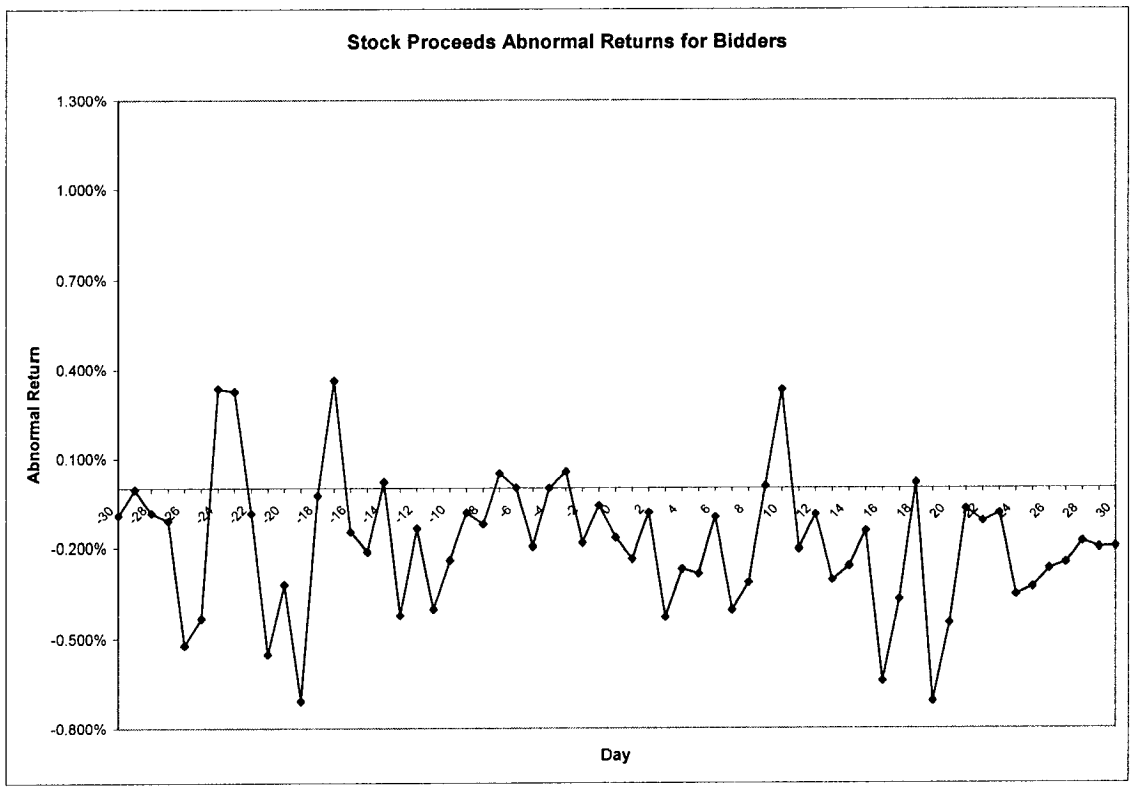


TABLE V – Event Study Results for the Pure Cash and Pure Stock Samples

Pure Cash Event Study Results

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	1876	-0.12%	-0.62%	873:1003	-1.298	1159	**7.27%**	**4.49%**	**787:372**	**21.599*** **	1057	**2.07%**	**1.51%**	**631:426**	**8.553*** **
(-1, 1)	1876	**1.09%**	**0.35%**	**1009:867**	**8.397*** **	1159	**26.54%**	**20.47%**	**1060:99**	**175.117*** **	1057	**8.78%**	**6.51%**	**883:174**	**82.882*** **
(2, 15)	1875	-0.41%	-0.46%	883:992	-1.03	1156	0.07%	-0.50%	535:621	0.783	1057	0.19%	-0.32%	507:550	0.57
(-10, 10)	1876	**0.96%**	**0.58%**	**982:894**	**2.562***	1159	**32.38%**	**26.76%**	**1053:106**	**80.654*** **	1057	**10.75%**	**8.43%**	**841:216**	**37.682*** **
(-30, 30)	1876	-0.38%	-0.20%	928:948	-0.371	1159	**37.50%**	**32.04%**	**1020:139**	**54.915*** **	1057	**12.22%**	**10.30%**	**785:272**	**25.084*** **

Pure Stock Event Study Results

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	3001	**0.76%**	**-0.22%**	**1475:1526**	**2.384***	1075	**6.02%**	**3.41%**	**673:402**	**13.895*** **	1068	**2.24%**	**1.08%**	**625:479**	**6.998*** **
(-1, 1)	2999	1.00%	-0.18%	1441:1558	1.595	1075	**15.83%**	**12.41%**	**854:221**	**92.866*** **	1068	**3.68%**	**2.83%**	**744:360**	**32.283*** **
(2, 15)	2999	**-1.68%**	**-1.60%**	**1279:1720**	**-5.399*** **	1071	-0.78%	-0.91%	481:590	-1.541	1068	**-1.36%**	**-1.28%**	**474:630**	**-3.142** **
(-10, 10)	3001	-0.53%	-0.66%	1427:1574	-0.546	1075	**19.89%**	**17.16%**	**859:216**	**42.621*** **	1068	**4.50%**	**3.46%**	**696:408**	**14.994*** **
(-30, 30)	3001	**-1.06%**	**-1.55%**	**1390:1611**	**-2.943** **	1075	**23.88%**	**21.52%**	**828:247**	**29.934*** **	1068	**5.31%**	**3.93%**	**647:457**	**9.944*** **

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1% and 0.1% levels, respectively, using a 2-tail test.[5]

[5] Cowan, Arnold R. Eventus 7 User's Guide, revised edition. (Cowan Research LC, Ames, Iowa, 2002.)

TABLE VI – Event Study Results for the Borrowing and Corporate Funds Samples

Borrowing Event Study Results

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	416	0.36%	-0.18%	203:213	-0.171	335	**7.88%**	**5.17%**	**240:95**	**12.876*****	309	**2.27%**	**1.73%**	**192:117**	**5.841*****
(-1, 1)	416	**1.64%**	**0.46%**	**233:183**	**6.740*****	335	**27.29%**	**21.52%**	**309:26**	**98.292*****	309	**8.74%**	**7.07%**	**261:48**	**48.317*****
(2, 15)	416	-0.06%	-0.46%	192:224	-0.176	333	-0.05%	-0.37%	158:175	-0.027	309	-0.11%	-0.32%	147:162	-0.088
(-10, 10)	416	**1.61%**	**1.42%**	**227:189**	**1.889$**	335	**33.45%**	**27.68%**	**310:25**	**45.802*****	309	**10.42%**	**9.21%**	**243:66**	**21.886*****
(-30, 30)	416	2.17%	1.16%	223:193	1.513	335	**38.64%**	**32.17%**	**299:36**	**31.386*****	309	**11.73%**	**11.25%**	**238:71**	**14.960*****

Corporate Funds Event Study Results

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	989	0.05%	-0.66%	460:529	-0.044	477	**6.53%**	**3.76%**	**305:172**	**12.068*****	441	**7.61%**	**1.21%**	**256:185**	**4.240*****
(-1, 1)	989	**1.11%**	**0.36%**	**536:453**	**5.293*****	477	**25.65%**	**18.93%**	**431:46**	**101.504*****	441	**7.84%**	**4.98%**	**366:75**	**14.198*****
(2, 15)	989	-0.18%	-0.08%	487:501	-0.077	476	0.21%	-0.59%	211:265	0.802	441	0.60%	0.27%	228:213	1.143
(-10, 10)	989	**1.25%**	**0.70%**	**527:462**	**2.360***	477	**31.22%**	**23.68%**	**429:48**	**46.838*****	441	**9.80%**	**7.39%**	**354:87**	**21.084*****
(-30, 30)	989	0.57%	-0.12%	493:496	0.758	477	**35.19%**	**29.28%**	**404:73**	**30.704*****	441	**11.58%**	**8.73%**	**325:116**	**13.865*****

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1% and 0.1% levels, respectively, using a 2-tail test.

TABLE VII – Event Study Results for the Stock Proceeds and Mixed Source Samples

Stock Proceeds Event Study Results

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	227	-2.03%	-2.00%	90:137	-2.926**	94	7.98%	6.17%	68:26	6.980***	93	1.47%	0.88%	53:40	1.569
(-1, 1)	227	-0.48%	-0.20%	108:119	-1.087	94	21.58%	20.18%	83:11	41.303***	93	6.60%	5.22%	72:21	16.380***
(2, 15)	227	-2.44%	-1.56%	94:133	-2.088*	94	-0.75%	-0.68%	41:53	-0.398	93	-0.27%	-0.54%	38:55	-0.09
(-10, 10)	227	-2.59%	-1.66%	102:125	-2.056*	94	27.36%	24.30%	83:11	19.503***	93	8.52%	7.76%	69:24	7.977***
(-30, 30)	227	-11.06%	-6.09%	86:141	-5.453***	94	32.04%	24.80%	83:11	13.398***	93	6.51%	7.22%	60:33	4.373***

Mixed Financing Event Study Results

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	244	0.12%	-0.19%	120:124	-0.451	253	7.61%	4.65%	174:79	10.588***	214	2.93%	1.97%	130:84	4.865***
(-1, 1)	244	1.55%	0.60%	132:112	4.890***	253	29.08%	23.05%	237:16	96.995***	214	11.71%	8.38%	184:30	49.670***
(2, 15)	244	-0.08%	-0.86%	110:134	-0.443	253	0.26%	-0.08%	125:128	0.845	214	-0.01%	-0.65%	94:120	-0.207
(-10, 10)	244	1.99%	0.31%	126:118	1.884$	253	35.01%	31.62%	231:22	43.705***	214	14.16%	11.31%	175:39	21.899***
(-30, 30)	244	1.34%	0.45%	126:118	0.763	253	42.40%	36.68%	234:19	31.103***	214	16.75%	12.49%	162:52	14.973***

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1% and 0.1% levels, respectively, using a 2-tail test.

TABLE VIII – Event Study Results for Pure Borrowing and Pure Debt Issue Financing Subsamples

Pure Borrowing Sample

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	141	-0.15%	-0.79%	66:75	-0.879	129	**8.15%**	**5.49%**	**98:31**	**8.212*** **	109	**1.81%**	**1.74%**	**62:47**	**2.733*** **
(-1, 1)	141	**2.08%**	**0.63%**	**83:58**	**4.411*** **	129	**26.49%**	**21.52%**	**124:5**	**61.638*** **	109	**8.38%**	**7.46%**	**96:13**	**27.030*** **
(2, 15)	141	-0.81%	-0.85%	62:79	-1.034	129	0.19%	-0.97%	53:76	0.055	109	-0.64%	-1.16%	49:60	-1.087
(-10, 10)	141	1.71%	1.76%	78:63	0.618	129	**32.25%**	**28.89%**	**122:7**	**28.618*** **	109	**9.56%**	**8.90%**	**90:19**	**11.532*** **
(-30, 30)	141	2.14%	1.07%	74:67	0.185	129	**37.90%**	**33.19%**	**120:9**	**19.857*** **	109	**10.24%**	**9.06%**	**83:26**	**7.565*** **

Pure Debt Issue Sample

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	222	0.63%	0.12%	113:109	0.029	158	**8.47%**	**4.96%**	**113:45**	**9.453*** **	156	**2.65%**	**1.63%**	**100:56**	**4.681*** **
(-1, 1)	222	**0.87%**	**0.06%**	**115:107**	**2.724*** **	158	**28.71%**	**22.51%**	**143:15**	**65.510*** **	156	**9.17%**	**7.02%**	**132:54**	**35.974*** **
(2, 15)	222	-0.12%	-0.33%	104:118	-0.158	158	-0.77%	-0.47%	73:83	-0.853	156	-0.45%	-0.92%	68:88	-0.591
(-10, 10)	222	0.48%	0.62%	116:106	0.29	158	**34.92%**	**27.69%**	**141:17**	**30.491*** **	156	**10.55%**	**9.27%**	**115:41**	**15.763*** **
(-30, 30)	222	1.21%	-0.16%	110:112	0.407	158	**40.12%**	**33.08%**	**139:19**	**20.942*** **	156	**11.67%**	**10.64%**	**116:40**	**10.551*** **

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1% and 0.1% levels, respectively, using a 2-tail test.

TABLE IX – Event Study Results for Pure Line of Credit and Pure Common Stock Issue Financing Subsamples

Pure Line of Credit Sample

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	129	1.07%	0.33%	67:62	1.153	113	**7.55%**	**5.90%**	**85:28**	**9.251*** **	98	**3.10%**	**2.40%**	**65:33**	**5.003*** **
(-1, 1)	129	**2.65%**	**1.09%**	**79:50**	**5.776*** **	113	**27.94%**	**20.56%**	**107:6**	**68.726*** **	98	**8.90%**	**8.11%**	**85:13**	**30.726*** **
(2, 15)	129	-0.77%	-1.42%	53:76	-1.007	113	1.20%	0.47%	60:53	0.905	98	-0.32%	-0.49%	45:53	-0.228
(-10, 10)	129	**2.44%**	**2.09%**	**72:57**	**1.800$**	113	**35.21%**	**31.84%**	**110:3**	**33.018*** **	98	**10.81%**	**10.04%**	**86:12**	**14.522*** **
(-30, 30)	129	2.37%	2.50%	76:53	0.986	113	**39.49%**	**37.47%**	**102:11**	**22.465*** **	98	**12.42%**	**12.95%**	**79:19**	**9.685*** **

Pure Common Stock Proceeds Sample

Event Windows	Bidders					Targets					Combined				
	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
(-15, -2)	208	**-1.88%**	**-1.93%**	**85:123**	**-2.416***	80	**9.06%**	**6.32%**	**60:20**	**7.335*** **	78	**1.96%**	**1.60%**	**46:32**	**1.821$**
(-1, 1)	208	-0.47%	-0.26%	98:110	-1.061	80	**21.61%**	**19.59%**	**71:9**	**35.824*** **	78	**5.86%**	**5.35%**	**60:18**	**13.178*** **
(2, 15)	208	**-2.56%**	**-1.54%**	**89:119**	**-1.934$**	80	-1.24%	-0.92%	34:46	-0.612	78	-0.43%	-0.12%	34:44	-0.135
(-10, 10)	208	**-2.74%**	**-1.67%**	**92:116**	**-1.999***	80	**27.77%**	**26.72%**	**70:10**	**17.443*** **	78	**7.97%**	**7.18%**	**56:22**	**6.685*** **
(-30, 30)	208	**-11.17%**	**-5.47%**	**82:126**	**-4.966*** **	80	**32.51%**	**24.34%**	**70:10**	**12.091*** **	78	**6.08%**	**6.89%**	**49:29**	**3.779*** **

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1% and 0.1% levels, respectively, using a 2-tail test.

TABLE X – Testing for Significant Median Differences in Bidder Abnormal Returns

This table tests for significant median differences between the pure stock abnormal returns in each window against the abnormal returns of the respective windows for the pure cash and each of the main financing samples.

Panel	Sample Combinations	Event Window	n	Median Difference	Wilcoxon's W Stat.	p-Value
A	Pure Stock & Pure Cash	(-15, -2)	1876	0.0040	910296	0.2013
		(-1, 1)	**1874**	**-0.0040**	**831310**	**0.0443**
		(2, 15)	**1873**	**-0.0060**	**833542**	**0.0604**
		(-10, 10)	1876	-0.0020	869137	0.6339
		(-30, 30)	1876	0.0070	902211	0.3507
B	Pure Stock & Borrowing	(-15, -2)	416	-0.0030	41946	0.5622
		(-1, 1)	**415**	**-0.0160**	**31604**	**0.0000**
		(2, 15)	416	-0.0030	42060	0.5940
		(-10, 10)	**416**	**-0.0130**	**39095**	**0.0816**
		(-30, 30)	416	-0.0160	40387	0.2244
C	Pure Stock & Corporate Funds	(-15, -2)	989	-0.0010	242113	0.7668
		(-1, 1)	**987**	**-0.0050**	**223729**	**0.0251**
		(2, 15)	**986**	**-0.0100**	**222045**	**0.0175**
		(-10, 10)	989	-0.0080	232017	0.1556
		(-30, 30)	989	-0.0080	237130	0.3947
D	Pure Stock & Stock Proceeds	**(-15, -2)**	**227**	**0.0180**	**15287**	**0.0178**
		(-1, 1)	226	-0.0010	12671	0.8752
		(2, 15)	227	0.0140	14440	0.1297
		(-10, 10)	227	0.0180	14423	0.1341
		(-30, 30)	**227**	**0.0740**	**16215**	**0.0009**
E	Pure Stock & Mixed Financing	(-15, -2)	244	-0.0010	14803	0.8976
		(-1, 1)	**243**	**-0.0150**	**11626**	**0.0036**
		(2, 15)	244	-0.0030	14484	0.6762
		(-10, 10)	244	-0.0140	13473	0.1823
		(-30, 30)	244	-0.0090	14390	0.6150

TABLE XI – Testing for Significant Median Differences in Bidder Abnormal Returns

This table tests for significant median abnormal return differences between each of the main financing samples for each event window.

Panel	Sample Combinations	Event Window	n	Median Difference	Wilcoxon's W Stat.	p-Value
A	Borrowing & Corporate Funds	(-15, -2)	416	-0.0010	42797	0.8160
		(-1, 1)	416	0.0050	46798	0.1622
		(2, 15)	416	0.0000	43319	0.9841
		(-10, 10)	416	-0.0030	42558	0.7413
		(-30, 30)	416	0.0160	46230	0.2435
B	Borrowing & Stock Proceeds	**(-15, -2)**	**227**	**0.0220**	**15824**	**0.0036**
		(-1, 1)	**227**	**0.0110**	**15156**	**0.0252**
		(2, 15)	227	0.0090	13924	0.3200
		(-10, 10)	**227**	**0.0270**	**15164**	**0.0247**
		(-30, 30)	**227**	**0.0940**	**17397**	**0.0000**
C	Borrowing & Mixed Financing	(-15, -2)	244	-0.0010	14740	0.8526
		(-1, 1)	244	-0.0020	14474	0.6695
		(2, 15)	244	-0.0060	14007	0.3954
		(-10, 10)	244	-0.0110	13829	0.3119
		(-30, 30)	244	0.0060	15420	0.6669
D	Corporate Funds & Stock Proceeds	**(-15, -2)**	**227**	**0.0250**	**16323**	**0.0006**
		(-1, 1)	227	0.0020	13447	0.6081
		(2, 15)	**227**	**0.0170**	**14775**	**0.0638**
		(-10, 10)	**227**	**0.0310**	**15892**	**0.0029**
		(-30, 30)	**227**	**0.0780**	**16648**	**0.0002**
E	Corporate Funds & Mixed Financing	(-15, -2)	244	0.0040	15500	0.6150
		(-1, 1)	244	-0.0040	13934	0.3596
		(2, 15)	244	-0.0010	14753	0.8619
		(-10, 10)	244	0.0010	15050	0.9242
		(-30, 30)	244	-0.0120	14150	0.4713
F	Stock Proceeds & Mixed Financing	**(-15, -2)**	**227**	**-0.0240**	**10284**	**0.0074**
		(-1, 1)	**227**	**-0.0100**	**10862**	**0.0360**
		(2, 15)	227	-0.0140	11398	0.1198
		(-10, 10)	**227**	**-0.0290**	**10494**	**0.0136**
		(-30, 30)	**227**	**-0.0990**	**8653**	**0.0000**

TABLE XII – Testing for Significant Differences in Abnormal Returns to Target Firms

Panel	Sample	Event Window									
		(-15, -2)		(-1, 1)		(2, 15)		(-10, 10)		(-30, 30)	
A	*Pure Stock and Pure Cash*										
	Mean	0.0602	0.0727	0.1583	0.2654	-0.0078	0.0007	0.1989	0.3238	0.2388	0.3750
	Observations	1075	1159	1075	1159	1071	1156	1075	1159	1075	1159
	t Stat	**-1.8652****		**-10.1770*****		**-1.8601****		**-9.8317*****		**-8.2999*****	
B	*Pure Stock and Stock Proceeds*										
	Mean	0.0602	0.0798	0.1583	0.2158	-0.0078	-0.0075	0.1989	0.2737	0.2388	0.3204
	Observations	1075	94	1075	94	1071	94	1075	94	1075	94
	t Stat	-1.2767		**-2.4208*****		-0.0472		**-2.7022*****		**-2.3083****	
C	*Pure Stock and Corp. Funds*										
	Mean	0.0602	0.0653	0.1583	0.2565	-0.0078	0.0021	0.1989	0.3122	0.2388	0.3519
	Observations	1075	477	1075	477	1071	476	1075	477	1075	477
	t Stat	-0.5722		**-6.3815*****		**-1.7203****		**-6.2458*****		**-5.1455*****	
D	*Pure Stock and Borrowing*										
	Mean	0.0602	0.0788	0.1583	0.2729	-0.0078	-0.0005	0.1989	0.3345	0.2388	0.3864
	Observations	1075	335	1075	335	1071	333	1075	335	1075	335
	t Stat	**-2.0214****		**-7.1356*****		**-1.3465***		**-7.3241*****		**-6.2311*****	
E	*Borrowing and Stock Proceeds*										
	Mean	0.0788	0.0798	0.2729	0.2158	-0.0005	-0.0075	0.3345	0.2737	0.3864	0.3204
	Observations	335	94	335	94	333	94	335	94	335	94
	t Stat	-0.0639		**2.109****		0.9366		**1.9726****		**1.6958****	
F	*Corp. Funds and Stock Proceeds*										
	Mean	0.0653	0.0798	0.2565	0.2158	0.0021	-0.0075	0.3122	0.2737	0.3519	0.3204
	Observations	477	94	477	94	476	94	477	94	477	94
	t Stat	-0.8957		**1.525***		1.2479		1.2579		0.8316	
G	*Borrowing and Corp. Funds*										
	Mean	0.0788	0.0653	0.2729	0.2565	-0.0005	0.0021	0.3345	0.3122	0.3864	0.3519
	Observations	335	477	335	477	333	476	335	477	335	477
	t Stat	1.2746		0.8143		-0.4705		0.9840		1.2591	

The symbols *,**, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE XIII – Testing for Significant Differences in Abnormal Returns to Combined Bidders and Targets

Panel	Sample	Event Window									
		(-15, -2)		(-1, 1)		(2, 15)		(-10, 10)		(-30, 30)	
A	*Pure Stock and Pure Cash*										
	Mean	0.0224	0.0207	0.0368	0.0878	-0.0136	0.0019	0.0450	0.1075	0.0531	0.1222
	Observations	1104	1057	1104	1057	1104	1057	1104	1057	1104	1057
	t Stat	0.3637		**-9.9188*** **		**-3.5142*** **		**-8.4391*** **		**-6.0031*** **	
B	*Pure Stock and Stock Proceeds*										
	Mean	0.0224	0.0147	0.0368	0.0660	-0.0136	-0.0027	0.0450	0.0852	0.0531	0.0651
	Observations	1104	93	1104	93	1104	93	1104	93	1104	93
	t Stat	0.5070		**-2.7844*** **		-0.8196		**-1.686*** **		-0.3641	
C	*Pure Stock and Corp. Funds*										
	Mean	0.0224	0.0164	0.0368	0.0784	-0.0136	0.0060	0.0450	0.0980	0.0531	0.1158
	Observations	1104	441	1104	441	1104	441	1104	441	1104	441
	t Stat	1.0886		**-6.2610*** **		**-3.6838*** **		**-5.7953*** **		**-4.4306*** **	
D	*Pure Stock and Borrowing*										
	Mean	0.0224	0.0227	0.0368	0.0874	-0.0136	-0.0011	0.0450	0.1042	0.0531	0.1173
	Observations	1104	309	1104	309	1104	309	1104	309	1104	309
	t Stat	-0.0520		**-7.7001*** **		**-2.3646*** **		**-6.4152*** **		**-4.7167*** **	
E	*Borrowing and Stock Proceeds*										
	Mean	0.0227	0.0147	0.0874	0.0660	-0.0011	-0.0027	0.1042	0.0852	0.1173	0.0651
	Observations	309	93	309	93	309	93	309	93	309	93
	t Stat	0.5214		**1.8968** **		0.1155		0.7790		**1.5562***	
F	*Corp. Funds and Stock Proceeds*										
	Mean	0.0164	0.0147	0.0784	0.0660	0.0060	-0.0027	0.0980	0.0852	0.1158	0.0651
	Observations	441	93	441	93	441	93	441	93	441	93
	t Stat	0.1119		1.0936		0.6496		0.5254		**1.4990***	
G	*Borrowing and Corp. Funds*										
	Mean	0.0227	0.0164	0.0874	0.0784	-0.0011	0.0060	0.1042	0.0980	0.1173	0.1158
	Observations	309	441	309	441	309	441	309	441	309	441
	t Stat	1.0749		1.1451		**-1.3078***		0.5915		0.1067	

The symbols *,**, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE XIV – Event Study Results Accounting for the Public Status of Target Firm

This table presents the results of event studies conducted for each sample, where a distinction is made between public and private target firms. Cumulative abnormal returns (CARs) to bidders buying public targets are provided for each event window in the left-hand panel, while CARs to bidders buying private targets are found in the right-hand panel.

	Sample	Event Window	Bidder CAR where Target Public					Bidder CAR where Target Private				
			N	Mean CAR	Median CAR	Pos: Neg	Z	N	Mean CAR	Median CAR	Pos: Neg	Z
A	Pure Cash	(-15, -2)	999	-0.15%	-0.54%	465:534	-0.935	585	-0.16%	-0.70%	271:314	-0.787
		(-1, 1)	999	**0.73%**	**0.04%**	**501:498**	**3.830*** **	585	**1.11%**	**0.72%**	**336:249**	**5.171*** **
		(2, 15)	999	-0.07%	-0.43%	471:528	-0.656	584	-1.19%	-1.21%	264:320	-1.241
		(-10, 10)	999	0.76%	0.39%	515:484	0.793	585	0.58%	0.21%	299:286	1.558
		(-30, 30)	999	0.01%	-0.36%	490:509	-0.653	585	-2.40%	-1.14%	281:304	-0.876
B	Pure Stock	(-15, -2)	1194	1.00%	-0.28%	584:609	1.543	1585	0.46%	-0.37%	766:819	1.113
		(-1, 1)	1194	**-1.72%**	**-1.40%**	**460:733**	**-13.846*** **	1584	**2.64%**	**0.37%**	**853:731**	**12.118*** **
		(2, 15)	1194	**-1.04%**	**-1.52%**	**521:672**	**-2.881** **	1584	**-2.33%**	**-1.85%**	**657:927**	**-4.646*** **
		(-10, 10)	1194	**-1.76%**	**-2.03%**	**491:702**	**-5.832*** **	1585	**1.65%**	**0.36%**	**808:777**	**3.193** **
		(-30, 30)	1194	**-2.16%**	**-2.69%**	**511:682**	**-5.279*** **	1585	-0.86%	-1.17%	752:833	-0.021
C	Borrow	(-15, -2)	294	0.21%	-0.19%	142:152	-0.262	71	1.45%	0.56%	36:35	0.76
		(-1, 1)	294	**1.45%**	**0.34%**	**157:137**	**4.715*** **	71	**1.91%**	**1.27%**	**45:26**	**3.486*** **
		(2, 15)	294	0.04%	-0.60%	130:164	-0.062	71	-0.37%	-1.07%	33:38	-0.101
		(-10, 10)	294	1.42%	1.23%	158:136	1.153	71	2.54%	2.09%	41:30	1.577
		(-30, 30)	294	1.19%	1.08%	155:139	0.800	71	**6.64%**	**3.46%**	**43:28**	**2.102***
D	Corp. Funds	(-15, -2)	429	-0.01%	-0.69%	194:225	0.189	385	-0.06%	-0.70%	179:206	-0.539
		(-1, 1)	429	0.21%	-0.10%	208:221	0.274	385	**1.39%**	**-0.72%**	**224:161**	**4.607*** **
		(2, 15)	429	0.53%	-0.42%	227:202	0.671	384	-0.84%	-0.83%	178:206	-0.796
		(-10, 10)	429	0.61%	0.49%	226:203	0.457	385	**1.26%**	**0.38%**	**197:188**	**1.836$**
		(-30, 30)	429	1.05%	-0.83%	208:221	0.111	385	-0.60%	-0.77%	188:197	0.296
E	Stock Pro.	(-15, -2)	90	**-1.45%**	**-1.73%**	**39:51**	**-1.890$**	97	-1.76%	-1.32%	42:55	-1.014
		(-1, 1)	90	-0.47%	-0.69%	41:49	-0.898	97	**-0.99%**	**-0.34%**	**45:52**	**-1.905$**
		(2, 15)	90	-1.84%	-2.13%	33:57	-1.186	97	**-3.63%**	**-1.83%**	**39:58**	**-1.661$**
		(-10, 10)	90	-1.11%	-2.25%	41:49	-0.935	97	**-3.84%**	**-0.64%**	**45:52**	**-1.788$**
		(-30, 30)	90	**-7.52%**	**-6.10%**	**34:56**	**-2.900** **	97	**-17.51%**	**-7.35%**	**34:63**	**-4.938*** **
F	Mixed Fin.	(-15, -2)	186	-0.43%	-0.38%	90:96	-0.796	32	-0.12%	-0.47%	14:18	-0.85
		(-1, 1)	186	**1.35%**	**0.06%**	**94:92**	**3.042** **	32	**2.40%**	**2.16%**	**22:10**	**4.337*** **
		(2, 15)	186	-0.77%	-0.90%	81:105	-1.638	32	0.12%	-1.32%	14:18	0.524
		(-10, 10)	186	0.98%	-0.66%	90:96	0.376	32	1.48%	0.53%	16:16	1.111
		(-30, 30)	186	-0.58%	-0.06%	93:93	-0.611	32	1.75%	0.03%	16:16	0.796

The symbols *,**, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

TABLE XV – Event Study Results for Matched Samples – Pure Cash and Pure Stock

Panel A presents the event study results for the pure cash and pure stock samples that have been matched on deal value and bidder size. Panel B tests for significant differences in abnormal returns for each matched sample in each event window. *CASH1* indicates the (-15, -2) window for the pure cash sample, *CASH2* indicates the (-1, 1) window for the pure cash sample, and so on. The same pattern follows for *STOCK1* through *STOCK5*.

Pure Cash Sample Matched to Pure Stock Sample

Event Windows	Pure Cash Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	221	1.12%	106:115	0.368
(-1, 1)	221	**1.82%**	**130:91**	**3.743*** **
(2, 15)	221	**-1.35%**	**108:113**	**-1.660$**
(-10, 10)	221	1.51%	118:103	0.525
(-30, 30)	221	-1.44%	107:114	-0.654

Pure Stock Sample Matched to Pure Cash Sample

Event Windows	Pure Stock Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	346	**3.07%**	**178:168**	**3.353*** **
(-1, 1)	345	0.44%	162:183	-1.404
(2, 15)	345	**-2.21%**	**134:211**	**-3.030****
(-10, 10)	346	0.38%	158:188	-1.129
(-30, 30)	346	-0.28%	166:180	-0.888

t-Test: Two-Sample Assuming Unequal Variances - BIDDERS

	CASH1	*STOCK1*	*CASH2*	*STOCK2*	*CASH3*	*STOCK3*	*CASH4*	*STOCK4*	*CASH5*	*STOCK5*
Mean	0.0112	0.0307	0.0182	0.0044	-0.0135	-0.0221	0.0151	0.0038	-0.0144	-0.0028
Observations	221	346	221	345	221	345	221	346	221	346
t Stat	**-1.4920***		**1.4630***		0.7552		0.6621		-0.3945	

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

TABLE XVI – Event Study Results for Matched Samples – Pure Stock and Stock Proceeds

Panel A presents the event study results for the pure stock and stock proceeds samples that have been matched on deal value and bidder size. Panel B tests for significant differences in abnormal returns for each matched sample in each event window. *STOCK1* indicates the (-15, -2) window for the pure stock sample, *STOCK2* indicates the (-1, 1) window for the pure cash sample, and so on. The same pattern follows for *STKPRO1* through *STKPRO5*.

Pure Stock Sample Matched to Stock Proceeds Sample

Event Windows	Pure Stock Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	237	0.07%	105:132	-0.843
(-1, 1)	237	0.69%	115:122	0.759
(2, 15)	237	**-2.18%**	**94:143**	**-2.382***
(-10, 10)	237	**-2.00%**	**96:141**	**-2.321***
(-30, 30)	237	-1.29%	100:137	-1.453

Stock Proceeds Sample Matched to Pure Stock Sample

Event Windows	Stock Proceeds Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	103	-0.40%	43:60	-1.470
(-1, 1)	103	-0.23%	55:48	-0.061
(2, 15)	103	-1.74%	39:64	-1.008
(-10, 10)	103	-0.64%	49:54	-0.549
(-30, 30)	103	**-8.48%**	**41:62**	**-2.782****

t-Test: Two-Sample Assuming Unequal Variances - BIDDERS

	STKPRO1	*STOCK1*	*STKPRO2*	*STOCK2*	*STKPRO3*	*STOCK3*	*STKPRO4*	*STOCK4*	*STKPRO5*	*STOCK5*
Mean	-0.0040	0.0007	-0.0023	0.0069	-0.0174	-0.0218	-0.0064	-0.0200	-0.0848	-0.0129
Observations	103	237	103	237	103	237	103	237	103	237
t Stat	-0.2497		-1.0323		0.2510		0.5634		**-1.6263***	

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

TABLE XVII – Event Study Results for Matched Samples – Borrowing and Stock Proceeds

Panel A presents the event study results for the borrowing and stock proceeds samples that have been matched on deal value and bidder size. Panel B tests for significant differences in abnormal returns for each matched sample in each event window. *BORR1* indicates the (-15, -2) window for the borrowing sample, *BORR2* indicates the (-1, 1) window for the pure cash sample, and so on. The same pattern follows for *STKPRO1* through *STKPRO5*.

Borrowing Sample Matched to Stock Proceeds Sample

Event Windows	Borrowing Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	85	0.19%	40:45	-0.200
(-1, 1)	85	1.26%	43:42	1.376
(2, 15)	85	0.92%	39:46	0.766
(-10, 10)	85	0.99%	43:42	0.089
(-30, 30)	85	2.72%	46:39	1.190

Stock Proceeds Sample Matched to Borrowing Sample

Event Windows	Stock Proceeds Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	86	**-2.27%**	**33:53**	**-2.435***
(-1, 1)	86	-0.73%	43:43	-0.656
(2, 15)	86	-1.85%	33:53	-0.733
(-10, 10)	86	**-4.72%**	**36:50**	**-2.436***
(-30, 30)	86	**-8.98%**	**27:59**	**-3.213****

t-Test: Two-Sample Assuming Unequal Variances - BIDDERS

	BORR1	*STK PRO1*	*BORR2*	*STK PRO2*	*BORR3*	*STK PRO3*	*BORR4*	*STK PRO4*	*BORR5*	*STK PRO5*
Mean	0.0019	-0.0227	0.0126	-0.0073	0.0092	-0.0185	0.0099	-0.0472	0.0272	-0.0898
Observations	85	86	85	86	85	86	85	86	85	86
t Stat	**1.4774***		**2.0340****		**1.6808****		**2.8089****		**3.6475*****	

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

TABLE XVIII – Event Study Results for Matched Samples – Corporate Funds and Stock Proceeds

Panel A presents the event study results for the corporate funds and stock proceeds samples that have been matched on deal value and bidder size. Panel B tests for significant differences in abnormal returns for each matched sample in each event window. *CORP1* indicates the (-15, -2) window for the corporate funds sample, *CORP2* indicates the (-1, 1) window for the pure cash sample, and so on. The same pattern follows for *STKPRO1* through *STKPRO5*.

Corporate Funds Sample Matched to Stock Proceeds Sample

Event Windows	Corp. Fund Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	34	0.33%	17:17	-0.135
(-1, 1)	34	0.38%	16:18	0.142
(2, 15)	34	-0.82%	13:21	-0.686
(-10, 10)	34	1.63%	14:20	-0.078
(-30, 30)	34	-5.13%	16:18	-1.208

Stock Proceeds Sample Matched to Corporate Funds Sample

Event Windows	Stock Proceeds Bidders			
	N	CAR	Pos: Neg	Z
(-15, -2)	37	-2.09%	15:22	-1.612
(-1, 1)	37	-0.19%	18:19	0.462
(2, 15)	37	-4.08%	14:23	-1.213
(-10, 10)	37	-3.07%	16:21	-1.095
(-30, 30)	37	**-14.70%**	**12:25**	**-2.576****

t-Test: Two-Sample Assuming Unequal Variances

	CORP1	*STKPRO1*	*CORP2*	*STKPRO2*	*CORP3*	*STKPRO3*	*CORP4*	*STKPRO4*	*CORP5*	*STKPRO5*
Mean	0.00332	-0.02086	0.00378	-0.00194	-0.00818	-0.04077	0.01633	-0.03068	-0.05128	-0.14703
Observations	34	37	34	37	34	37	34	37	34	37
t Stat	0.90094		0.37685		1.23895		**1.43765***		1.25702	

The symbols $,*,**, and *** denote statistical significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

TABLE XIX – Descriptive Statistics and Results for Each Financing Date Sample

The HOLDOUT dummy represents the 46-day window occurring before the day prior to the financing issue date and the FINANCING dummy represents the three-day period surrounding the issue date. The RUNUP dummy refers to the period occurring two days after the financing issue date until two days before the acquisition announcement date (firm-specific). The M&A dummy represents the (-1, 1) window surrounding the acquisition announcement. EINDEX refers to the equally-weighted market index and SAR is the standardized abnormal return.

One Financing Date:

	EINDEX	HOLDOUT DUMMY	FINANCING DUMMY	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	253:1	115:139	135:119	107:147	117:137	112:142
Significant (p<=0.1000)	237	21	80	21	63	91
Significant & Positive	237	7	40	8	31	34
Significant & Negative	0	14	40	13	32	57
Insignificant	17	233	174	233	191	163
Total	254	254	254	254	254	254
Average Total AR		-3.11%	0.169%	-6.96%	-0.296%	-0.3109
Variance of AR		0.0531	0.0015	0.1908	0.0038	3.3719
Standard Error of AR		0.012	0.003	0.0285	0.0047	0.115
Computed t-Statistic		-2.58	0.57	-2.44	-0.63	-2.693
p-Value		**0.0103**	0.5713	**0.0153**	0.5300	**0.0074**

Two Financing Dates:

	EINDEX	HOLDOUT DUMMY	FIN. DUM1	FIN. DUM2	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	135:2	70:67	62:75	64:73	58:79	69:68	60:77
Significant (p<=0.1000)	132	11	47	19	15	43	62
Significant & Positive	132	9	31	9	6	22	22
Significant & Negative	0	2	16	10	9	21	40
Insignificant	5	126	90	118	122	94	75
Total	137	137	137	137	137	137	137
Average Total AR		-0.06%	-0.53%	1.96%	-3.20%	0.20%	0.2975
Variance of AR		0.031	0.005	0.091	0.062	0.001	5.263
Standard Error of AR		0.0163	0.0043	0.0294	0.0179	0.0039	0.197
Computed t-Statistic		-0.03	-1.46	0.31	-1.48	0.100	-1.513
p-Value		0.9732	0.1465	0.7583	0.1434	0.9197	0.1122

TABLE XX – Descriptive Statistics and Results for Stock Proceeds Sample

The HOLDOUT dummy represents the 46-day window occurring before the day prior to the financing issue date and the FINANCING dummy represents the three-day period surrounding the issue date. The RUNUP dummy refers to the period occurring two days after the financing issue date until two days before the acquisition announcement date (firm-specific). The M&A dummy represents the (-1, 1) window surrounding the acquisition announcement. EINDEX refers to the equally-weighted market index, VINDEX to the value-weighted index, and SAR is the standardized abnormal return.

Using Equally-Weighted Index:

STOCK PROCEEDS	EINDEX	HOLDOUT DUMMY	FINANCING DUMMY	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	112:1	46:67	61:52	39:74	51:62	37:76
Significant (p<=0.1000)	105	12	27	8	28	40
Significant & Positive	105	3	15	3	12	9
Significant & Negative	0	9	12	5	16	31
Insignificant	7	101	86	105	85	73
Total	113	113	113	113	113	113
Average Total AR		-2.70%	0.34%	-11.07%	-1.52%	-0.570
Variance of AR		0.074	0.002	0.244	0.006	2.873
Standard Error of AR		0.02	0.005	0.049	0.009	0.159
Computed t-Statistic		-1.35	0.71	-2.26	-1.77	-3.575
p-Value		0.1791	0.4763	**0.0257**	**0.079**	**0.0005**

Using Value-Weighted Index:

STOCK PROCEEDS	VINDEX	HOLDOUT DUMMY	FINANCING DUMMY	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	109:4	48:65	62:51	42:71	51:62	44:69
Significant (p<=0.1000)	105	6	28	5	21	42
Significant & Positive	105	1	14	2	9	10
Significant & Negative	0	5	14	3	12	32
Insignificant	9	107	85	108	92	71
Total	113	113	113	113	113	113
Average Total AR		-0.75%	0.35%	-10.30%	-1.37%	-0.518
Variance of AR		0.076	0.002	0.243	0.006	2.746
Standard Error of AR		0.024	0.005	0.053	0.009	0.156
Computed t-Statistic		-0.31	0.71	-1.94	-1.56	-3.323
p-Value		0.758	0.4817	**0.0544**	0.1206	**0.0012**

TABLE XXI – Descriptive Statistics and Results for Borrowing Sample

The HOLDOUT dummy represents the 46-day window occurring before the day prior to the financing issue date and the FINANCING dummy represents the three-day period surrounding the issue date. The RUNUP dummy refers to the period occurring two days after the financing issue date until two days before the acquisition announcement date (firm-specific). The M&A dummy represents the (-1, 1) window surrounding the acquisition announcement. EINDEX refers to the equally-weighted market index, VINDEX to the value-weighted index, and SAR is the standardized abnormal return.

Using Equally-Weighted Index:

BORROWING	EINDEX	HOLDOUT DUMMY	FINANCING DUMMY	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	108:0	58:57	58:57	55:60	55:60	111:4
Significant (p<=0.1000)	108	9	42	11	29	43
Significant & Positive	108	5	17	7	17	42
Significant & Negative	0	4	25	4	12	1
Insignificant	7	106	73	104	86	72
Total	115	115	115	115	115	115
Average Total AR		-1.76%	-0.37%	-2.98%	0.66%	-0.062
Variance of AR		0.032	0.001	0.143	0.002	3.793
Standard Error of AR		0.014	0.004	0.032	0.005	0.182
Computed t-Statistic		-1.24	-0.85	-0.94	1.25	-0.34
p-Value		0.2175	0.3952	0.3516	0.2128	0.7347

Using Value-Weighted Index:

BORROWING	VINDEX	HOLDOUT DUMMY	FINANCING DUMMY	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	113:2	57:58	61:54	56:59	60:55	54:61
Significant (p<=0.1000)	109	6	40	9	31	41
Significant & Positive	109	4	17	4	16	19
Significant & Negative	0	2	23	5	15	22
Insignificant	6	109	75	106	84	74
Total	115	115	115	115	115	115
Average Total AR		-0.76%	-0.32%	-3.37%	0.54%	-0.059
Average Variance of AR		0.031	0.001	0.139	0.002	3.011
Standard Error of AR		0.015	0.004	0.030	0.005	0.162
Computed t-Statistic		-0.51	-0.79	-1.13	1.02	-0.363
p-Value		0.6117	0.4322	0.2622	0.3078	0.7169

TABLE XXII – Descriptive Statistics and Results for Mixed Financing Sample

The HOLDOUT dummy represents the 46-day window occurring before the day prior to the financing issue date and the FINANCING dummy represents the three-day period surrounding the issue date. The RUNUP dummy refers to the period occurring two days after the financing issue date until two days before the acquisition announcement date (firm-specific). The M&A dummy represents the (-1, 1) window surrounding the acquisition announcement. EINDEX refers to the equally-weighted market index, VINDEX to the value-weighted index, and SAR is the standardized abnormal return.

Using Equally-Weighted Index:

MIXED FINANCING	EINDEX	HOLDOUT DUMMY	FINANCING DUMMY	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	20:0	8:12	14:6	11:9	11:9	11:9
Significant (p<=0.1000)	18	2	7	2	5	5
Significant & Positive	18	1	4	0	2	3
Significant & Negative	0	1	3	2	3	2
Insignificant	2	18	13	18	15	15
Total	20	20	20	20	20	20
Average Total AR		-4.88%	1.82%	-4.38%	0.33%	-0.094
Variance of AR		5.21%	0.10%	11.73%	0.19%	4.418
Standard Error of SAR		0.040	0.010	0.091	0.096	0.482
Computed t-Statistic		-1.24	1.78	-0.48	0.35	-0.195
p-Value		0.2313	**0.0914**	0.634	0.7301	0.8437

Using Value-Weighted Index:

MIXED FINANCING	VINDEX	HOLDOUT DUMMY	FINANCING DUMMY	RUNUP DUMMY	M&A DUMMY	SAR
Pos:Neg t-Stats	20:0	7:13	12:8	11:9	11:9	11:9
Significant (p<=0.1000)	19	0	7	1	5	4
Significant & Positive	0	0	4	0	2	2
Significant & Negative	1	0	3	1	3	2
Insignificant	1	20	13	19	15	16
Total	20	20	20	20	20	20
Average Total AR		-4.47%	1.65%	-4.43%	0.220%	-0.119
Variance of AR		0.0507	0.0011	0.1149	0.0022	2.832
Standard Error of AR		0.036	0.010	0.073	0.091	0.3861
Computed t-Statistic		-1.23	1.68	-0.61	0.24	-0.309
p-Value		0.2337	0.1098	0.5498	0.8114	0.7549

TABLE XXIII – Testing for Significant Differences Between Abnormal Returns

Panel A presents the results of a test for significant differences in abnormal returns for the stock proceeds and borrowing samples, Panel B presents the results of a test for significant differences in abnormal returns for the stock proceeds and mixed samples, and Panel C presents the results of a test for significant differences in abnormal returns for the borrowing and mixed financing samples. STK indicates the stock proceeds sample, BORR indicates the borrowing sample, and MIXED indicates the mixed financing sample. HOLD represents the holdout window, FIN is the financing window, RUN is the run-up window, M&A is the acquisition announcement window, and SAR is the standardized abnormal return.

t-Test: Two-Sample Assuming Unequal Variances - Stock Proceeds and Borrowing Abnormal Returns

	STKHLD	*BORRHLD*	*STKFIN*	*BORRFIN*	*STKRUN*	*BORRRUN*	*STKM&A*	*BORRM&A*	*STKSAR*	*BORRSAR*
Mean	-0.02699	-0.01758	0.00339	-0.00367	-0.11068	-0.02976	-0.01522	0.00663	-0.57011	-0.06170
Observations	113	115	113	115	113	115	113	115	113	115
t Stat	-0.38439		1.10319		**-1.38573***		**-2.16667****		**-2.10361****	

t-Test: Two-Sample Assuming Unequal Variances - Stock Proceeds and Mixed Financing Abnormal Returns

	STKHLD	*MIXEDHLD*	*STKFIN*	*MIXEDFIN*	*STKRUN*	*MIXEDRUN*	*STKM&A*	*MIXEDM&A*	*STKSAR*	*MIXEDSAR*
Mean	-0.02699	-0.04884	0.00339	0.01821	-0.11068	-0.04380	-0.01522	0.00334	-0.57011	-0.09394
Observations	113	20	113	20	113	20	113	20	113	20
t Stat	0.49363		-1.31220		-0.64982		**-1.44582***		-0.95944	

t-Test: Two-Sample Assuming Unequal Variances - Borrowing and Mixed Financing Abnormal Returns

	BORRHLD	*MIXEDHLD*	*BORRFIN*	*MIXEDFIN*	*BORRRUN*	*MIXEDRUN*	*BORRM&A*	*MIXEDM&A*	*BORRSAR*	*MIXEDSAR*
Mean	-0.01758	-0.04884	-0.00367	0.01821	-0.02976	-0.04380	0.00663	0.00334	-0.06170	-0.09394
Observations	115	20	115	20	115	20	115	20	115	20
t Stat	0.74487		**-1.97012****		0.14635		0.30072		0.06400	