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INFORMATION ASYMMETRIES, RULE 13e-3, AND PREMIUMS IN GOING-PRIVATE TRANSACTIONS

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I. INTRODUCTION

The source of stockholder gains in going-private transactions has intrigued scholars and public-policy makers since the advent of these transactions in the early 1970s.[1] The social and economic desirability of these transactions has been debated. Some argue that they promote efficiency by strengthening managerial incentives to maximize firm value.[2] Others argue that, instead of creating value, these transactions largely redistribute wealth from other corporate claimants, including bondholders, employees, and taxpayers, to stockholders.[3]

Critics of management-led going-private transactions argue that they are especially pernicious because they involve a conflict of interest that enables managers to redistribute wealth from their principals, the stockholders, to themselves.[4] According to this argument, these transactions are inspired by managers' superior information concerning the future prospects of their respective firms. Although stockholders receive premiums in these transactions, it is argued that they receive less than what their respective managers believe their companies' stock to be worth.

* U.S. Securities and Exchange Commission and University of Pittsburgh, respectively. The Securities and Exchange Commission, as a matter of policy, disclaims any responsibility for any private publication or statements by any of its employees. The views expressed herein are those of the authors and do not necessarily reflect the views of the Commission or of Jeffry Davis' colleagues on the staff of the Commission.

1. In this Article, going-private transactions are defined as corporate-control transactions that convert free-standing, publicly traded companies into private entities. Frequently, the acquiring entity in these transactions is a shell company that is owned largely by members of the incumbent management team; we refer to these transactions as "management-led" going-private transactions. Alternatively, the acquiring company may be an unaffiliated privately held operating company or investment firm (e.g., Kohlberg Kravis Roberts). We refer to these transactions as "third-party" going-private transactions.

2. *See, e.g.*, Michael C. Jensen, *Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers*, AMER. ECON. REV., May 1986, at 323.

3. *See, e.g.*, Morey McDaniel, *Bondholders and Stockholders*, 13 J. CORP. L. 205 (1988); Andrei Shleifer & Lawrence H. Summers, *Breach of Trust in Hostile Takeovers*, *in* CORPORATE TAKEOVERS: CAUSES AND CONSEQUENCES 33-67 (Alan J. Auerbach ed., 1988).

4. See *infra* note 7 for examples of articles that express this concern.

According to these critics, managers who expect to earn positive returns in going-private transactions inherently violate their fiduciary duty to maximize shareholder value.

This criticism of management-led going-private transactions has persisted since their evolution. In a frequently cited speech to the Law Advisory Council at Notre Dame Law School in 1974, A.A. Sommer, Jr., then Commissioner of the Securities and Exchange Commission (SEC), deplored the proliferation of going-private transactions as "a perversion of the whole process of public financing, and a course that inevitably is going to make the individual shareholder even more hostile to American corporate mores and the securities markets than he already is."[5] More recently, Professors F. Hodge O'Neal, whom we honor at this conference, and Robert Thompson described the potential conflict of interest in these transactions:

> Management can pick the time for the transaction and set the price with no input from the public shareholders. The price may include a substantial premium over the current market price but the offer may come at a time when the market for that particular company or its industry is depressed and outsiders do not yet see the favorable signs of an upturn that are known to the insiders.[6]

Articles echoing similar concerns about conflicts of interest in management-led going-private transactions have appeared regularly in scholarly journals and the business press since the mid-1970s.[7]

5. *Full Text of Commissioner Sommer's Remarks on "Going Private,"* Sec. Reg. & L. Rep. (BNA) No. 278, at D-1 (Nov. 20, 1974).

6. 1 F. HODGE O'NEAL & ROBERT B. THOMPSON, O'NEAL'S OPPRESSION OF MINORITY SHAREHOLDERS § 5:27, at 163-64 (2d ed. 1985).

7. Scholarly articles that have acknowledged the potential conflicts of interest in management-led going-private transactions include Victor Brudney, *A Note on Going Private*, 61 VA. L. REV. 1019 (1975); Lewis D. Solomon, *Going Private: Business Practices, Legal Mechanics, Judicial Standards and Proposals for Reform*, 25 BUFFALO L. REV. 141 (1975); Edward F. Greene, *Corporate Freezeout Mergers: A Proposed Analysis*, 28 STAN. L. REV. 487 (1976); Victor Brudney & Marvin A. Chirelstein, *A Restatement of Corporate Freezeouts*, 87 YALE L.J. 1354 (1978).

In the 1980s, a series of articles in *Barron's* expressed concern over conflicts of interest in management-led going-private transactions. *See* Lauren R. Rublin, *Buyout or Sell-Out? Are Shareholders Getting a Raw Deal?*, BARRON'S, Nov. 18, 1985, at 15; Benjamin J. Stein, *Where are the Shareholders' Yachts?: But John Kluge Pockets Billions from Metromedia's LBO*, BARRON'S, Aug. 18, 1986, at 6-7; William M. Alpert, *Pie with Crust: Are Pizza Inn's Shareholders Being Served a Raw Deal?*, BARRON'S, Sept. 15, 1986, at 15; Benjamin J. Stein, *Buyout or Sellout? A Critic Reviews Viacom's LBO Offer*, BARRON'S, Oct. 6, 1986, at 6-7, 31-32; Benjamin J. Stein, *Shooting Fish in a Barrel: Why Management Always Makes a Bundle in an LBO*, BARRON'S, Jan. 12, 1987, at 6-7, 20-24; Benjamin J. Stein, *Loss of Values: Did the Amsted LBO Shortchange Shareholders?*, BARRON'S, Feb. 16, 1987, at 8; Benjamin J. Stein, *A Saga of Shareholder Neglect: Whose Interest was this Management Protect-*

Despite proposals for stricter regulation of management-led going-private transactions,[8] the only federal regulation designed to mitigate conflicts of interest in these transactions is SEC Rule 13e-3, which the SEC adopted in 1979.[9] This regulation attempts to eliminate the supposed informational advantage insiders possess in management-led going-private transactions by requiring acquirers to disclose more information than their counterparts in other corporate-control transactions. Following the leveraged buyout of RJR Nabisco in 1988, SEC Chairman David Ruder revealed that the SEC was considering expanding the scope of Rule 13e-3 in two ways: (1) by increasing the amount of information that must be disclosed in 13e-3 transactions; and (2) by extending Rule 13e-3 to third-party going-private transactions in which incumbent managers are likely to be equity participants, such as Kohlberg Kravis Roberts' acquisition of RJR Nabisco.[10] Advocates of extending the scope of Rule 13e-3 to a broader set of corporate-control transactions argue that these suspect deals are plagued by conflicts of interest similar to those existing in management-led going-private transactions.

There are numerous scholarly articles discussing both the efficacy of Rule 13e-3 and the SEC's authority to promulgate it.[11] Little evidence

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ing?, BARRON'S, May 4, 1987, at 8-9, 70-75; Benjamin J. Stein, *Dear Mr. Ruder: Your View of Management LBOs is Simply Dead Wrong*, BARRON'S, Jan. 23, 1989, at 44.

8. Brudney, for example, has argued that the inherent conflict of interest in going-private transactions is so severe that they should be prohibited. *See* Brudney, *supra* note 3. Others, including the Securities and Exchange Commission (SEC), have proposed that the SEC be allowed to determine whether prices offered in going-private transactions are "fair." *See* Proposed Rule 13e-3, 42 FED. REG. 60,100 (1977).

9. Going Private Transactions by Public Companies or Their Affiliates, Securities Act Release No. 6100 [1979 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 82,166 (Aug. 2, 1979) [hereinafter Going Private Transactions]. This rule did not include the provision that would have allowed the SEC to regulate the substantive fairness of these transactions, as described *supra* note 8.

10. For descriptions of these proposals to expand the scope of Rule 13e-3, see Thomas E. Ricks, *SEC Staff Weighs Stronger Requirements for Disclosure by Buy-Out Participants*, WALL ST. J., Dec. 22, 1988, at A4; Thomas E. Ricks, *SEC to Vote on Possible Plan to Expand Disclosure Requirements for Buy-Outs*, WALL ST. J., Dec. 23, 1988, at A3; *SEC May Propose Expanding Scope of Going-Private Disclosure Rules*, Sec. Reg. & L. Rep. (BNA) No. 1, at 7-9 (Jan. 6. 1989); *Tax Legislation Won't Slow Down LBOs; New Curbs are not Needed, Ruder Says*, Sec. Reg. & L. Rep. (BNA) No.4, at 153-54 (Jan 27, 1989); *SEC Must Report by May 1 on LBO-Related Regulatory Action*, Sec. Reg. & L. Rep. (BNA) No. 14, at 512-14 (Apr. 7, 1989).

11. *See* John A. James, Jr., Note, *Going Private: An Analysis of Federal and State Remedies*, 44 FORDHAM L. REVIEW 796 (1976) (evaluating SEC rule proposals); Anne Jentry, Note, *The Developing Law of Corporate Freeze-outs and Going Private*, 7 LOY. U. CHI. L.J. 431 (1976) (same); Larry R. Schreiter, Note, *SEC Rulemaking Authority and the Protection of Investors: A Comment on the Proposed 'Going Private' Rules*, 51 IND. L.J. 433 (1976) (same); Christopher J. Brogan, Note, *Fairness in 'Going Private' Transactions: Federal Authorization of Substantive Regulation*, 58 B.U. L. REV. 792

exists, however, as to whether management's informational advantage actually works to the detriment of other shareholders in going-private transactions.[12] Furthermore, no evidence exists on the effect that Rule 13e-3 actually has had on premiums in going-private transactions. This Article attempts to shed some empirical light on these issues by examining premiums paid in a large sample of going-private transactions between 1980 to 1988. Among the questions we examine are the following:

- Are premiums lower in going-private transactions initiated by managers than in going-private transactions initiated by third parties?
- Did premiums in management-led going-private transactions increase following the adoption of Rule 13e-3?
- Are premiums in third-party going-private transactions in which management is likely to be an equity participant (i.e., going-private transactions that presently are exempt from Rule 13e-3) lower than premiums in Rule 13e-3 transactions?

We find that premiums are not systematically lower in transactions initiated by management, suggesting that management's possession of superior information does not work to the detriment of shareholders in these transactions.

Theoretically, it could be argued that this result obtains because Rule 13e-3 is effective in eliminating the informational advantage management possesses in these transactions. If so, premiums in management-led go-

(1978) (same); Bruce Stumpf, Note, *SEC Proposed 'Going Private' Rule*, 4 DEL. J. CORP. L. 184 (1978) (same); Randal J. Brotherhood, Note, *Rule 13e-3 and the Going Private Dilemma: The SEC's Quest for a Substantive Fairness Doctrine*, 58 WASH. U. L.Q. 883 (1980); James Roberts Lyons, Jr., Note, *Fairness in Freezeout Transactions: Observations on Coping with Going Private Problems*, 69 KY. L.J. 77 (1980-81); Christopher R. Gannon, *An Evaluation of the SEC's New Going Private Rule*, 7 J. CORP. L. 55 (1981); Stuart Robin Kaplan, Note, *Corporate Morality and Management Buyouts*, 41 WASH. & LEE L. REV. 1015 (1984); Patrick S. Dunleavy, Note, *Leveraged Buyout, Management Buyout, and Going Private Corporate Control Transactions: Insider Trading or Efficient Market Economics?*, 14 FORDHAM URB. L.J. 685 (1986); Gregory J. Schwartz, Comment, *Regulation of Leveraged Buyouts to Protect the Public Shareholder and Enhance the Corporate Image*, 35 CATH. U. L. REV. 489 (1986); Dale Arthur Oesterle & Jon R. Norberg, *Management Buyouts: Creating or Appropriating Shareholder Wealth?*, 41 VAND. L. REV. 207 (1988); James R. Repetti, *Management Buyouts, Efficient Markets, Fair Value, and Soft Information*, 67 N.C. L. REV. 121 (1988); Bill Shaw, *Resolving the Conflict of Interest in Management Buyouts*, 19 HOFSTRA L. REV. 143 (1990); Ndiva Kofele-Kale, *The SEC's Going Private Rules—Analysis and Developments*, 19 SEC. REG. L.J. 139 (1991).

12. One exception is Harry DeAngelo et al., *Going Private: Minority Freezeouts and Stockholder Wealth*, 27 J. L. & ECON. 367 (1984). The authors compare premiums paid to minority shareholders in going-private transactions and premiums paid to target shareholders in interfirm tender offers. They conclude "that the similarity of stockholder gains observed in going-private and arms-length acquisitions suggests that, for our sample firms, going-private transactions did not result in the systematic exploitation of minority stockholders." *Id.* at 401.

ing-private transactions should have increased following the adoption of Rule 13e-3. We find, however, that premiums actually decreased, though not significantly, after the adoption of Rule 13e-3. Finally, our results indicate that premiums actually are higher in the suspect transactions that presently are exempt from Rule 13e-3 (i.e., third-party going-private transactions in which management is likely an equity participant) than they are in Rule 13e-3 going-private transactions. This last result suggests that, as an empirical matter, the purported information asymmetries in the suspect transactions do not work to the detriment of shareholders.

II. Description and Discussion of Rule 13e-3

In its 1979 release announcing the adoption of Rule 13e-3, the SEC stated that the action was "necessary and appropriate in the public interest and for the protection of investors because of . . . the possible deleterious effects to investors and their confidence in securities markets absent full and adequate disclosure."[13] The adoption release went on to state that "the Commission believes that the protection of investors will be enhanced substantially by the more meaningful disclosure, particularly with respect to the fairness of going-private transactions, and the other protections afforded by Rule 13e-3."[14]

From the above remarks and from the very nature of Rule 13e-3, it is obvious that the SEC viewed going-private transactions in which the acquiring entity is affiliated with the issuer as potentially more hazardous to investors than proposed acquisitions by unaffiliated third parties. When the party seeking to acquire the corporation was unaffiliated with the issuer or its management, stockholders could, presumably, rely on the counsel of management as to the fairness of the proposed transaction. Such counsel, however, became suspect when management was on the side of the transaction opposite the stockholders. Rule 13e-3 seeks to remedy this situation by forcing management to treat an affiliated bid in the same fashion as a third-party bid, at least in terms of performing the same kind of bid analysis as would be carried out for a third-party bid and disclosing the findings of the analysis to shareholders. In other words, Rule 13e-3 is designed to force management, by means of disclo-

13. Going Private Transactions, *supra* note 9, at 82,123.

14. *Id*. at 82, 124-125.

sure requirements, to provide the same counsel to shareholders as it would if the bid came from a third-party.

Given this objective, it is not surprising that the key elements of Rule 13e-3 are required disclosures of the pros and cons of the proposed transaction and its fairness to shareholders. The rule, in fact, highlights the importance of these key elements by requiring that the information called for by Items 7, 8, and 9 of Schedule 13e-3 (relating to the purpose for and fairness of the transaction and certain reports, opinions, appraisals, and negotiations) be prominently set forth in a "special factors" section near the front of the disclosure document.[15] Most of the other information required on Schedule 13e-3 overlaps with the requirements of the tender offer or proxy rules, but Items 7, 8, and 9 set Rule 13e-3 apart.

Item 7 calls for a statement of (1) the purpose for the transaction; (2) the alternative means considered to accomplish the purpose and why such alternatives, if any, were rejected; (3) the reasons for the structure of the transaction and for undertaking it at the time; and (4) the effects of the transaction on the issuer, its affiliates, and unaffiliated security holders.[16] An instruction in Schedule 13e-3 makes it clear that the statement as to the effects of the transaction must include a detailed discussion of the benefits and detriments of the transaction.[17]

Item 8 requires extensive disclosure relating to the fairness of the transaction. First, it requires a statement as to whether the issuer or affiliate reasonably believes that the transaction is fair to security holders. Any director's dissent or abstention from voting on the transaction must be disclosed, along with the identity of any such director and his or her reasons for dissenting or abstaining.[18] Second, this Item requires a discussion of the material factors upon which the belief as to fairness is based. An instruction suggests that the required discussion normally will include whether the consideration offered is fair in relation to (1) current market prices; (2) historical market prices; (3) net book value; (4) going-concern value; (5) liquidation value; (6) the price paid in previous purchases by the issuer or affiliates; (7) any report, opinion, or appraisal; and (8) firm offers made by unaffiliated parties.[19] Third, Item 8 requires disclosure as to whether the approval of a majority of the unaffiliated

15. 17 C.F.R. § 240.13e-3(e)(3)(i) (1991).

16. 17 C.F.R. § 240.13e-100, Item 7 (1991).

17. *Id.*

18. 17 C.F.R. § 240.13e-100, Item 8 (1991).

19. *Id.*

security holders is required, whether the independent directors have retained an unaffiliated representative to negotiate the terms of the transaction or to prepare a report concerning its fairness, and whether the transaction was approved by a majority of the independent directors.[20] Finally, the item requires a description of any firm offer made by unaffiliated parties and the reason for its rejection.[21]

Item 9 requires a description of any report, opinion, appraisal, and certain negotiations, including the identity of the preparer, the qualifications of the preparer, how the preparer was selected, and any material relationships between the preparer and the issuer. A copy of each report, opinion, or appraisal must also be filed as an exhibit.[22]

The additional information disclosed in Items 7, 8, and 9 of Schedule 13e-3 is supposed to benefit shareholders in management-led going-private transactions in at least three ways: (1) by strengthening the shareholders' bargaining position; (2) by increasing the likelihood of competing bids; and (3) by enhancing the threat of shareholder litigation in the event of a "low" offer price. However, countervailing arguments question whether the disclosures required in Items 7, 8, and 9 actually redound to the benefit of shareholders in these transactions.

First, the empirical importance of the purported informational advantage managers possess in management-led going-private transactions is unclear. There is obvious logic in the argument that managers face an inherent conflict of interest when they simultaneously serve as a fiduciary for shareholders and a bidder for the firm. However, in the absence of Rule 13e-3, managers are not unconstrained in their ability to buy their respective companies at cheap prices. Market forces, in the form of competing bids or the threat of competing bids, mitigate managers' ability to redistribute wealth from the company's stockholders to themselves. In addition, managers in management-led going-private transactions are constrained, at least in part, by state law, which provides shareholders with appraisal remedies and private rights of action to challenge violations of managers' fiduciary duties. Rule 13e-3 is predicated on the assumption that these market and legal forces only inadequately deter management-led going-private transactions at artificially low prices. The effectiveness of these forces, however, and hence the severity of the infor-

20. *Id.*

21. *Id.*

22. 17 C.F.R. § 240.13e-100, Item 9 (1991).

mation asymmetry problem in management-led going-private transactions, ultimately are empirical issues.

Even if information asymmetries are empirically significant in management-led going-private transactions, the effectiveness of Rule 13e-3 in mitigating these asymmetries is subject to debate. One can argue that the additional information disclosed in Items 7, 8, and 9 is not particularly valuable to investors, either because it involves boilerplate language or is already impounded in stock prices. If these additional disclosures are not material in an economic sense, then they will not confer benefits on target-company shareholders. Furthermore, it can be argued that Rule 13e-3 actually may work contrary to the interests of target-company shareholders. If Rule 13e-3 imposes costs on management-led going-private transactions (e.g., direct compliance costs, increased litigation costs) and confers no benefits on target-company shareholders, shareholders themselves may bear part of the cost of this Rule in the form of lower premiums (i.e., potential acquirers would require some compensation for bearing the costs of Rule 13e-3).[23]

Hence, the importance of information asymmetries in management-led going-private transactions and the effectiveness of Rule 13e-3 in counterbalancing these information asymmetries are ultimately empirical issues.

III. Sample and Evidence

A. Sample

A sample of 336 going-private transactions between 1980 and1988 was collected from annual editions of the *Wall Street Journal Index* from this period. Each corporate entry in these indices was read, and successful going-private transactions were noted. Going-private transactions, as defined here, convert free-standing, publicly traded corporations into privately held firms. Hence, buyouts of corporate divisions and private companies and acquisitions of public firms by other public firms are excluded from this sample.

Although this sample includes a large number of buyouts in which

23. A cursory search on the LEXIS retrieval system revealed 8 federal appeals court decisions and 22 federal district court decisions that mentioned Rule 13e-3 during the 1980s. We did not examine whether the claims made in these cases under Rule 13e-3 were redundant with other claims (e.g., Rule 10b-5). Similar searches revealed two litigation releases concerning cases brought by the SEC in federal district courts, three SEC administrative proceedings and 160 SEC no-action letters citing Rule 13e-3. Although these data are "soft," they do suggest that this Rule results in some additional litigation costs.

incumbent management was the bidder, it also includes many transactions in which public companies were acquired by nonmanagement groups, including investment firms that specialize in leveraged buyouts (e.g., Kohlberg Kravis Roberts, Forstmann Little, Clayton & Dubilier, Thomas H. Lee Co.) and private companies.[24] Appendix A lists the 336 going-private transactions in the sample.

B. Evidence

1. Are Premiums Lower in Transactions Initiated by Management or in Which Management is an Equity Participant?

The hypothesis that information asymmetries harm shareholders in management-led going-private transactions suggests a simple test. If stockholders are disadvantaged in management buyouts, then the premiums they receive in these transactions should be lower than the corresponding premiums received by shareholders in buyouts led by third parties. We thus compare premiums paid in two sets of going-private transactions: management-initiated transactions versus those that are initiated by third parties, and transactions in which management is an equity participant versus those in which management is not an equity participant. Transactions are management initiated if the appropriate edition of *The Wall Street Journal Index* indicates that incumbent managers made the initial offers to acquire their respective companies. Further, transactions involved management participation if a Schedule 13e-3 was filed in connection with the transaction or it was otherwise disclosed that some members of incumbent management were expected to purchase equity in the company after the completion of the transaction. Finally, for each transaction, the premium is defined as the price of the stock on the last day it traded less its price twenty trading days prior to the first announcement of the going-private transaction, divided by the latter price.

The data in Table 1 reveal that shareholders receive average and median premiums in going-private transactions initiated by management (39.51%, 35.23%, respectively) that are slightly lower than the corresponding premiums in going-private transactions initiated by third par-

24. Data presented later in the study reveal that in 190 buyouts, or 56.5% of the sample, incumbent management was the initial bidder. For the 172 buyouts with a value of $100 million or more, we computed the percentage of equity owned by incumbent management after the transactions. In 117 cases, or 68% of the sample, incumbent management was an equity participant in the transaction.

ties (40.01%, 38.82%, respectively). Similarly, the average premium is slightly smaller in transactions in which incumbent management is an equity participant (39.65%) than in other transactions (40.31%), but the median premium is larger (36.92% versus 31.62%). None of the differences in average premiums are statistically significant, suggesting that, on average, shareholders are not mistreated, at least with respect to the premiums they receive, in management buyouts vis-á-vis other going-private transactions.

2. *Did Premiums Increase After the Adoption of Rule 13e-3?*

The results in Table 1 suggest that relative to other going-private transactions, management-led going-private transactions do not seem to deprive shareholders of value. This result may obtain either because information asymmetries are not nearly as severe as some have argued, or because Rule 13e-3 has been effective in mitigating this problem. If the latter is true, we would expect that premiums in management-led going-private transactions increased significantly following the adoption of Rule 13e-3 in 1979.

To test this, we computed premiums for all management buyouts listed in *The Wall Street Journal Index* between 1976 and 1978 (i.e., the three years immediately preceding the year that the SEC adopted Rule 13e-3) and between 1980 and 1982 (i.e., the three years following its adoption). Our search revealed fourteen management buyouts during the 1976-1978 period and fifty-two management buyouts during the 1980-1982 period. Premium is defined as above.

The average and median premiums for both periods are listed in Table 2. We find that the average premium for the fourteen pre-Rule transactions is 54.55% (median = 45.02%) and the average premium for the fifty-two post-Rule transactions involving the filing of a Schedule 13e-3 is 42.29%. Although the decline in the average premium is not statistically significant, it is noteworthy that premiums did not increase significantly following the adoption of Rule 13e-3.

To standardize for any trends in general takeover premiums during this time, we computed the average premium for successful cash tender offers for both the 1976-1978 and 1980-1982 periods. Our source for this computation is the data presented by Kevin Nathan and Terrence O'Keefe, who report average premiums by year for 681 successful takeovers between 1963 and 1985.[25] Using their data, we found that premiums in 138 takeovers betweem 1976 and 1978 averaged 69.17%, while the premiums in 76 takeovers between 1980 and 1982 averaged 76.86%. Hence, the ratio of the average premium in management-led going-private transactions to the average premium in all takeovers generally declined from 0.79 before Rule 13e-3 was adopted to 0.55 after it was adopted. Although these data are limited by the relatively small sample size in the pre-Rule period, this evidence nonetheless suggests that Rule 13e-3 did not noticeably increase premiums paid to shareholders in management-led going-private transactions.

3. *Are Premiums Lower in "Suspect Transactions" than in 13e-3 Transactions?*

There have been a number of transactions in recent years that may have involved the same purported asymmetric information problem that gave rise to Rule 13e-3 but that currently are beyond the reach of the rule. In these transactions, members of existing management, though not participating in the going-private transaction, are offered the opportunity to invest in the equity of the company after the transaction and may be offered lucrative employment contracts as well. The interests of these members of management may be more closely aligned with the purchasers than with the shareholders they continue to represent.

If, in fact, this conflict is present in these transactions and shareholders have been treated unfairly as a result, we would expect to find that the premiums paid to shareholders are smaller than they would have been in the absence of the conflicts. Furthermore, if Rule 13e-3 is effective in eliminating or reducing the effects of the conflicts, we would expect to find that the premiums are smaller in these transactions than they would have been if Rule 13e-3 had applied to them.

To examine the relation between Rule 13e-3 and premiums, we first must classify each of the 336 transactions in our sample into one of three nonoverlapping groups: (1) transactions subject to Rule 13e-3 (that is, those involving the filing of a Schedule 13e-3); (2) the suspect transactions (that is, third-party transactions in which it was disclosed that members of existing management were expected to invest in the equity of the company after the transaction); and (3) strictly third-party transac-

25. Kevin S. Nathan & Terrence O'Keefe, *The Rise in Takeover Premiums: An Exploratory Study*, 23 J. FIN. ECON. 101, 106 Table 2 (1989).

tions (that is, third-party transactions in which it was not anticipated that existing management would invest). We were able to classify 316 of the 336 going-private transactions: 227 involved the filing of a Schedule 13e-3; twenty-six fall into the suspect class; and sixty-three are strictly third-party transactions. Missing data reduce these numbers slightly in the analyses described below.

Table 3 presents the average percent premiums for each of the three classes of transactions. These data reveal that the average premium is highest for the suspect transactions (55.5%) and smallest for the Rule 13e-3 transactions (37.9%). The third-party transactions have an average premium of 41.2%, somewhat greater than for the Rule 13e-3 transactions and smaller than for the suspect transactions. The difference between the average values for the Rule 13e-3 transactions and third-party transactions is not significant, but the average premium for the suspect transactions is significantly larger than the average premium for both the third-party transactions (at the 0.10 level) and the Rule 13e-3 transactions (at the 0.05 level). Thus, a simple comparison of average percent premiums offers no indication that shareholders in these suspect transactions are treated unfairly. In fact, premiums appear to be greater in these suspect transactions. The list in Table 4 of the twenty-six suspect transactions, along with their corresponding premiums, reveals that almost seventy-five percent of the suspect transactions (i.e., nineteen of the twenty-six) had premiums that exceeded the average premium paid in Rule 13e-3 transactions.

An obvious shortcoming of simple comparisons of average premiums is that they fail to take into account other important differences that may affect premiums. In an ideal test of these propositions, we simply would compare the premiums in the suspect transactions to (1) premiums in otherwise identical transactions in which the conflicts did not exist (that is, strictly third-party transactions) and (2) the premiums in otherwise identical transactions that were subject to Rule 13e-3. Of course, it is impossible to find either "otherwise identical" third-party buyouts or "otherwise identical" management buyouts for comparison, but multiple regression analysis allows us to hold constant other factors that may have a significant influence on premiums. To the extent that we are able to identify and measure these other factors, we can isolate the independent correlation between Rule 13e-3 and premiums.

* * *

To test the relation between Rule 13e-3 and premiums, the following regression is estimated:

$$\begin{aligned} \text{PCTPREM} = a &+ b\,(\text{CONTEST}) + c\,(\text{MBOHLDG}) + d\,(\text{MHLDG3}) \\ &+ f\,(\text{DELAWARE}) + g\,(\text{Y80}) + h\,(\text{Y81}) \\ &+ i\,(\text{Y82}) + j\,(\text{Y83}) + k\,(\text{Y85}) + l\,(\text{Y86}) \\ &+ m\,(\text{Y87}) + n\,(\text{Y88}) + o\,(\text{R13E3}) \\ &+ p\,(\text{SUSPECT}) + e, \end{aligned}$$

where a = a constant term;

PCTPREM = the premium paid to shareholders, calculated as the difference between the market value of equity on the last day the company's shares traded publicly and the market value of the company's equity twenty trading days before the first announcement of the proposed transaction, divided by the latter (expressed in percentage terms).

CONTEST = a dummy variable indicating whether there was a competing bid; it equals 1 if there was a competing bid and 0 otherwise.

MBOHLDG = the percent of the company's equity held by members of management prior to the transaction for those transactions in which a Schedule 13e-3 was filed or in which members of management were expected to invest after the transaction (set equal to 0 for third-party transactions).

MHLDG3 = the percent of the company's equity held by members of the management prior to the transaction for those transactions in which a Schedule 13e-3 was not filed and members of management were not expected to invest after the transaction (set equal to 0 for transactions in which a Schedule 13e-3 was filed or in which members of management were expected to invest after the transaction).

DELAWARE = a dummy variable indicating whether the company was incorporated in Delaware; it equals 1 if the company is incorporated in Delaware and 0 otherwise.

Y80-Y83 and Y85-Y88 = dummy variables indicating the year of the first announcement of the proposed transactions; e.g., Y80=1 if the first announcement was in 1980 and 0 otherwise; Y81=1 if the first announcement was in 1981 and 0 otherwise; and so on. For transactions announced in 1984, Y80-Y83=0 and Y85-Y88=0.

R13E3 = a dummy variable indicating whether a Schedule 13e-3 was filed in connection with the transaction; it equals 1 if a Schedule 13e-3 was filed and 0 otherwise.

SUSPECT = a dummy variable identifying the suspect transactions; it equals 1 if it was disclosed that members of incumbent management were expected to invest in the company's equity after the transaction, but no Schedule 13e-3 was filed, and zero otherwise.

b-d, f-p = parameters to be estimated;

e = an error term.

* * *

Previous research has found that competing bids are correlated with higher premiums, since bidding contests inflate premiums.[26] Hence, we expect a positive correlation associated with CONTEST. We anticipate that the percent of equity held by members of incumbent management prior to the transaction is positively related to the percent premium for strictly third-party transactions (MHLDG3), since in such cases the interests of management shareholders would be aligned with those of other shareholders in proportion to the extent of management equity holdings. In cases in which a conflict of interest may exist on the part of management (that is, the Rule 13e-3 transactions and the suspect transactions), we might expect a negative estimated coefficient for the management holdings variable (MBOHLDG), indicating that management is able to use its holdings to hold down the price it pays to other shareholders (perhaps, for example, by blocking competing bids).

DELAWARE and indicator variables for the year of the going-private announcements are included to take into account possible effects of state law and time trends on premiums.

If management conflicts of interest exist in the suspect transactions, and if these conflicts result in harm to shareholders, we would expect a significant negative estimated coefficient for the SUSPECT variable. Furthermore, an estimated coefficient insignificantly different from zero for the RULE13E3 variable would be a necessary, but not sufficient, condition for finding that Rule 13e-3 has completely countered the conflicts presumed to exist in transactions subject to the rule. It would not be a sufficient condition unless we knew that otherwise identical transactions

26. *See, e.g.*, Michael Bradley et al., *Synergistic Gains from Corporate Acquisitions and Their Division Between the Stockholders of Target and Acquiring Firms*, 21 J. FIN. ECON. 3 (1988). We are not entirely convinced that this variable is properly included in our model. If the competing bid is induced by an initial offer at what is deemed to be an insufficient price (a "low-ball" bid), the effect of the competing bid may be simply to raise the offered price to a level that, if offered initially, would not have attracted the competing bid. However, we include it to take into account the possible effect of a bidding war on the premium.

not subject to the Rule had significantly smaller premiums.[27] If Rule 13e-3 has reduced, but not eliminated, the effects of the conflicts, the estimated coefficient could be significantly negative. Thus, this particular regression analysis cannot draw any firm conclusion with respect to the effectiveness of Rule 13e-3 as it is now applied.

The results of the first regression estimate appear in Table 5. This regression uses data from the full sample, which is composed of 222 Rule 13e-3 transactions, fifty-two third-party transactions, and twenty-six suspect transactions.

As expected, the estimated coefficient associated with the CONTEST variable is positive and significant. It indicates that transactions involving a competing bid, holding other factors constant, have premiums that are 13.85% larger than other transactions.

The DELAWARE variable, for which we had no strong expectations, has a negative estimated coefficient that is not significant. Among the year variables, only Y82, Y87, and Y88 had estimated coefficients that are significant at the 0.10 level.

There is no evidence from our regression that the management holdings prior to the transaction have any direct influence on the size of the premium; that is, the estimated coefficient on MBOHLDG is indistinguishable from zero. However, it may have some indirect influence through its effect on the CONTEST variable.[28] Though still insignificant, the estimated coefficient on MHLDG3 is much larger and far closer to significance than the estimated coefficient on MBOHLDG. This represents weak evidence that management holdings in third-party transactions are more likely to affect premiums than are management holdings in management buyouts.

27. Some evidence on this issue is presented below.

28. Logit analysis indicates that the single most influential factor affecting the likelihood of a competing bid is the holdings of management prior to the transaction. Thus, to some extent, the influence of management holdings on the size of the premium is captured by the CONTEST variable in our regression equation. We find, however, that the management-holding variables change very little when the CONTEST variable is excluded from the regression model. The estimated coefficient for the MBOHLDG variable changes from being insignificantly positive (as shown in Table 5) to being insignificantly negative. The estimated coefficient for the MHLDG3 variable is even less affected, changing from 0.27 to 0.26 with a slightly smaller t-statistic (1.30 versus 1.38).

It is important to note that, based on our logit analysis, the SUSPECT variable has a significant positive correlation with the likelihood of a competing bid, while the correlation between the R13E3 variable and the likelihood of a competing bid is not significant. Thus, evidence from our logit analysis suggests that the suspect transactions would not attract more competing bids if they were subject to Rule 13e-3.

The estimated coefficient for R13E3 meets the necessary (but not sufficient) condition for a finding that Rule 13e-3 has effectively countered the conflicts of interest presumed to be present in transactions subject to the Rule; that is, it is insignificantly different from zero. This result tells us that premiums in Rule 13e-3 transactions are the same as in comparable third-party transactions.

The estimated coefficient for the SUSPECT variable is positive, but not significantly different from zero. The failure to find a significant negative estimated coefficient for this variable is inconsistent with the view that these transactions involve conflicts of interest that work to the detriment of shareholders.

As noted above, the current regression analysis cannot lead to unambiguous conclusions regarding the effectiveness of Rule 13e-3 in countering the presumed conflicts of interest. If we assume for the moment, however, that the conflicts would in fact have caused the premiums in Rule 13e-3 transactions to be smaller absent the Rule, we can use regression analysis to test for the existence of the same conflicts in the suspect transactions. If those same conflicts exist, we expect to find that the premiums in the suspect transactions are smaller than in otherwise identical Rule 13e-3 transactions. To test this proposition, we re-estimate the regression model for the sample consisting of only the 222 Rule 13e-3 transactions and the twenty-six suspect transactions.[29]

The results of the re-estimation are shown in Table 6. The variable of interest, of course, is SUSPECT. We find that the estimated coefficient for this variable is significantly positive at the 0.10 level, which is inconsistent with the argument that shareholders are disadvantaged in the suspect transactions. We cannot conclude from this that the suspect transactions pose the same potential conflicts of interest presumed to exist in the Rule 13e-3 transactions. Rather, it appears that the same conflicts either do not exist or Rule 13e-3 somehow exacerbates them.

We do not have a good explanation for the result that the suspect transactions have significantly larger premiums than comparable Rule 13e-3 transactions. As with any regression analysis, it is possible that some unidentified factors that should have been included in the model have been left out. With this in mind, we added several financial variables

29. Two changes in the model are necessitated by the exclusion of the third-party transactions: (1) we exclude the MHLDG3 variable, since it only applies to third-party transactions; and (2) we exclude the R13E3 variable, since we now have only two mutually exclusive groups and the SUSPECT variable is sufficient to distinguish between them.

(both together and separately) to the model and re-estimated the equation.[30] Although the estimated coefficient associated with SUSPECT declined in significance, its sign never changed.[31]

The above analysis suggests that the suspect transactions do not deprive shareholders of potentially higher premiums. The premiums in these transactions are not smaller than those in comparable third-party transactions. Furthermore, the premiums in these transactions are significantly larger than those in comparable Rule 13e-3 transactions.

IV. Conclusion

Critics of management-led going-private transactions logically argue that an inherent conflict of interest exists since management simultaneously acts as agent for the shareholders and principal of the acquiring entity. However, because managers are constrained by both market and legal forces in these transactions, it is unclear whether this conflict of interest actually results in harm to shareholders.

We find no evidence that premiums are systematically lower in transactions in which this conflict is likely to be the greatest, namely, transactions initiated by management and transactions in which management is an equity participant. Although this result may suggest that Rule 13e-3 is effective in mitigating these conflicts, we are doubtful because (1) premiums in going-private transactions did not increase after this Rule was adopted, and (2) premiums in transactions that are exempt from Rule 13e-3 and in which management is an equity participant are actually higher than premiums in 13e-3 transactions. However logical the critics' argument may be, as an empirical matter, shareholders seem to be protected effectively by market and legal forces in management-led going-private transactions.

30. The variables added include sales, sales growth, debt-to-asset ratio, the ratio of cash flow to sales, the ratio of undistributed cash flow to sales, the ratio of undistributed cash flow to the market value of equity, the ratio of research and development expenditures to sales, the ratio of capital expenditures to sales, the ratio of tax expense to cash flow, and the standard deviation of the ratio of cash flow to sales. Except for the last of these, the variables were measured over the year preceding the year of the first announcement of the transaction. The last variable was measured over the five years preceding the year of the announcement.

31. The t-statistic ranged from 1.26 to 1.88 in these regressions.

TABLE 1

Average and Median Premiums for Four Categories of Going-Private Transactions (GPs): GPs Initiated by Management, GPs Initiated by Third Parties, GPs with Management Participation, and GPs without Management Participation.

Sample	N	Average Premium	Median Premium
Management Initiated Transactions	187	39.51	35.23
Third-Party Initiated Transactions	142	40.01	38.82
Transactions with Management Participation	253	39.65	36.92
Transactions without Management Participation	54	40.31	31.62

Source: 13e, 14A and 14D filings with the Securities and Exchange Commission, the *Wall Street Journal* and *Standard and Poor's Daily Stock Price Record*.

TABLE 2

Average and Median Premiums in Management-Led Going-Private Transactions, Before and After Adoption of Rule 13e-3, Relative to Average Premiums in Successful Cash Tender Offers

Period	(1) Average Premium in Management-Led Going Private Transactions	(2) Average Premium in Cash Tender Offers	Ratio of (1) to (2)
Before Rule 13e-3 1976-1978	54.55 (N=14)	69.17 (N=138)	0.79
After Rule 13e-3 1980-1982	42.29 (N=52)	76.86 (N=76)	0.55

Period	(1) Median Premium in Management-Led Going Private Transactions	(2) Average Premium in Cash Tender Offers	Ratio of (1) to (2)
Before Rule 13e-3 1976-1978	45.02 (N=14)	69.17 (N=138)	0.65
After Rule 13e-3 1980-1982	40.32 (N=52)	76.86 (N=76)	0.52

Source for average premiums in cash tender offers is Kevin S. Nathan & Terrence O'Keefe, *The Rise in Takeover Premiums: An Exploratory Study*, 23 J. FIN. ECON. 101 (1989). Average premiums for the two periods were computed from Table 2 of that article. *See id.* at 106.

TABLE 3

Comparison of Mean Percent Premiums
for Rule 13e-3, Third-Party, and Suspect Transactions
(1980-1988)

Transactions	Number	Percent Premium Mean	Percent Premium Std. Deviation
Rule 13e-3	227	37.88	29.01
Third-Party	54	41.25	34.42
Suspect	26	55.53	32.32

T=statistics Corresponding to Differences of Means

	Rule 13e-3	Suspect
Third-Party	0.67	1.81 **
Suspect	2.66 *	

* Corresponds to significance level of 0.05.
** Corresponds to significance level of 0.10.

TABLE 4

Premiums Paid in 26 Third-Party Going-Private
Transactions in Which Incumbent Managers
Were Likely to Be Equity Participants

Company	Year	Premium
American Appraisal Associates	1984	39.17
Arkansas Best	1988	90.74
Avondale Mills	1986	63.04
Beatrice	1985	50.38
Bickford	1982	41.67
Dillingham	1982	57.14
Grantree	1987	62.75
Joy Mfg.	1986	50.56
Knudsen	1982	120.77
Midland Glass	1983	30.67
Midland Ross	1986	45.45
Mohasco	1988	113.33
Norris Industries	1981	44.92
Owens Illinois	1986	39.48
Pacific Realty Trust	1982	30.77
RJR Nabisco	1988	56.11
Spectradyne	1987	60.81
Stanadyne	1988	139.13
Stop & Shop	1988	97.19
Storer Communications	1985	61.56
Systems Engineering	1987	20.51
II Morrow	1986	23.33
Triangle Pacific	1986	27.93
Walter Jim	1987	9.84
Wometco Enterprises	1983	27.93
Woodward & Lothrop	1984	38.51

TABLE 5

Regression Results for Model of Premiums
(Dependent Variable = Percent Premium)

Full Sample

Variable	Coefficient	t-Statistic
INTERCEPT	32.53	4.68 *
CONTEST	13.85	3.36 *
MBOHLDG	0.01	0.08
MHLDG3	0.27	1.38
DELAWARE	−2.28	−0.65
Y80	13.97	1.48
Y81	−0.53	−0.07
Y82	12.29	1.75 ***
683	−2.12	−0.31
Y85	−6.48	−1.00
Y86	5.80	0.89
Y87	−10.35	−1.76 ***
Y88	17.41	2.92 *
R13E3	0.08	0.01
SUSPECT	11.84	1.45

Adjusted R-squared = 0.117
Number of observations = 300

* Corresponds to significance level of 0.01.
** Corresponds to significance level of 0.05.
*** Corresponds to significance level of 0.010.

TABLE 6

Regression Results for Model of Premiums
(Dependent Variable = Percent Premium)

R13e-3 and Suspect Transactions Only

Variable	Coefficient	t-Statistic
INTERCEPT	40.71	5.28 *
CONTEST	20.00	4.48 *
MBOHLDG	0.04	0.44
DELAWARE	−2.19	−0.62
Y80	16.12	1.75 ***
Y81	2.96	0.37
Y82	13.32	1.80 ***
Y83	1.59	0.22
Y85	−2.47	−0.35
Y86	4.17	0.62
Y87	−11.20	−1.73 ***
Y88	17.27	2.75 *
SUSPECT	11.10	1.87 ***

Adjusted R-squared = 0.148
Number of observations = 248

* Corresponds to significance level of 0.01.
*** Corresponds to significance level of 0.10.

APPENDIX A

Company	Announcement Date	Company	Announcement Date
ACF	09-20-83	Calton	04-11-85
Aeronca	05-20-86	Cannon Mills	01-05-82
AFG Indus.	02-25-88	Capitol Food Indus.	08-27-82
After Six	05-15-84	Caressa Group	10-15-84
Alamito	11-04-85	Carrols	09-24-86
Albany Int'l	04-13-83	Catalyst Energy	12-27-87
Alleco	07-11-88	CCI	09-24-82
Allied Van Lines	09-19-81	Ceco Indus.	04-15-86
Aloha	02-03-86	Cedar Point	03-21-83
Altamil	06-27-83	Cellu-Craft	09-08-83
Amalgamated Sugar	09-02-82	Central Soya	03-14-85
Amdisco	09-01-82	Chadwick-Miller	05-25-84
Amerace	05-15-84	Charter Medical	09-27-87
American Appraisal Assoc.	06-29-84	CHB Foods	01-17-85
American Bakeries	10-22-86	Clevepak	06-30-85
American Equity Inv.	02-22-84	Clow	03-28-85
American Fin. Corp.	11-26-80	Coca Cola Bottling (Miami)	01-31-83
American Health Cos.	07-26-88	Coca Cola Bottling (NY)	11-24-80
American Standard	01-27-88	Cole Nat'l	06-04-84
American Sterilizer	09-19-84	Color Tile	08-15-86
Amstar	09-29-83	Colt Indus.	03-10-88
Amsted	11-04-85	Columbus Mills	11-04-86
Anderson Indus.	03-17-86	Comtel	03-26-81
APL Corp.	09-26-86	Conair	12-12-84
ARA Servs.	07-12-84	Condec	11-02-83
Arcata	08-17-81	Cone Mills	11-29-83
Arkansas Best	05-02-88	Continental Group	06-05-84
Arley Merchandise	06-26-86	Cook Int'l	11-09-84
Atlas Van Lines	05-29-84	Copeland	02-17-81
Avondale Mills	01-15-86	Cowles Broadcasting	04-09-84
Axia	02-17-84	Cox Communications	04-08-85
Barton Brands	05-24-82	Craddock-Terry Shoe	11-15-85
Bayless (A.J.) Markets	01-13-84	Criton	08-24-82
Bayswater Realty & Capital	06-23-86	Cullum Cos.	06-27-88
Beatrice Cos.	10-16-85	Cunningham Drug Stores	10-27-80
Beeline	06-21-84	Dan River	10-04-82
Belknap	01-25-84	Data Sys. Analysts	03-22-80
Bell & Howell	11-06-87	Decision Indus.	09-30-87
Belscot Retailers	01-14-80	Dellwood Foods	07-29-82
Berkeley Bio-Medical	03-16-82	Denny's	05-30-84
Best Prods.	08-11-88	Dentsply Int'l	05-14-82
Beverage Management	10-15-82	Devon Group	07-15-82
Bibb	06-25-85	Devry	05-18-87
Bickford	02-22-82	Diamond Crystal	04-25-88
Big V Supermarkets	06-15-87	Dickey-John	07-14-87
Biltrite	12-20-84	Dicomed Corp.	10-13-87
Blue Bell	07-24-84	Dillingham	11-16-82
Bluewater Oil & Gas Ltd.	09-26-84	Dinner Bell Foods	08-25-87
Bomaine	05-15-84	Dixico	05-06-85
Bond Indus.	10-27-80	Dr. Pepper	11-17-83
Borg-Warner	10-30-86	Duckwall Alco Stores	01-08-85
Brockway	09-17-87	Duralith	04-26-85
Brooks Fashion Stores	08-06-84	Duro-Test	08-24-87
Bro-Dart	04-13-83	Dyncorp	09-01-87
Budget Rent-A-Car	10-31-88	Easco	12-31-84
Burlington Indus.	04-24-87	Eckerd (Jack)	10-10-85
Burnham Serv. Corp.	01-25-88	Edgcomb Steel N.E.	10-04-85
Cadence Indus.	04-15-83	Edgewater Corp.	11-06-81
California Life Corp.	03-18-81	Elder-Beerman Stores	03-13-87

Company	Announcement Date
Elixir Indus.	10-27-81
Empire	10-21-82
Energy Fact	11-05-87
Ero	03-11-88
Executive Indus.	02-04-81
Fair Lanes	11-28-86
Farm Fresh	03-10-88
Fay (Leslie)	10-30-81
Financial Gen. Banks	03-02-82
Flexi-Van	02-16-88
Flickinger (S.M.)	03-19-84
Florida Steel	07-08-88
Foodmaker	08-29-88
Fort Howard Paper	06-22-88
Friona Indus.	02-08-85
Funtime	09-14-87
GAF	12-15-87
Gateway Indus.	08-06-81
GIT Industries	12-01-80
Glosser Bros.	01-28-85
Gold Medallion	06-04-81
Golden State Foods	04-14-80
Golden West Homes	11-13-85
Grantree	07-01-87
Great Am. Indus.	10-24-84
Guardian Indus.	07-09-84
Gulfstream Land & Dev.	05-20-85
Harte-Hanks Communications	03-27-84
Harvard Indus.	08-02-88
High Voltage	01-06-88
Horizons Research	07-17-87
Hospital Corp. of Am.	09-15-88
House of Ronnie	03-12-81
Hyatt Int'l	03-23-81
II Morrow	10-07-86
Infinity Broadcasting	06-09-88
Intercole	12-10-84
Interstate Bakeries	08-11-87
International Controls	04-23-87
Jetero	04-26-82
Jewelcor	10-23-87
Jim Walter	07-16-87
Jones & Vining	01-23-87
Josephson Int'l	01-08-88
Joy Mfg.	12-01-86
Kaiser Steel	05-09-83
Kampgrounds of Am.	11-26-80
Kane Furniture	06-29-82
Kane-Miller	10-31-83
KDI	06-08-88
Kearney Nat'l	03-21-88
Keller Indus.	04-17-83
Knudsen	10-18-82
Kroy	07-14-86
Lamston (M.H.)	03-25-83
Lear Siegler	10-30-86
Leasco	07-14-81
Leaseway Transp.	04-23-86
Lehigh Press	10-20-86
Levi Strauss	07-11-85
Levitz Furniture	06-01-84
Liberty Fabrics of N.Y.	10-06-83
Little (Arthur D.)	03-16-88
Loehmann's	09-25-80
Lynden	08-06-87
Lyon Metal Prods.	01-18-84
MacAndrews & Forbes	05-16-83
Macy (R.H.)	10-21-85
Malone & Hyde	06-08-84
Marley	12-01-80
Mary Kay Cosmetics	05-30-85
Massmutual Mtg. & Rlty.	03-04-85
Masters	10-16-80
Mayflower Group	09-29-86
Medford	07-09-84
Meenan Oil	08-24-83
Metromedia	12-06-83
Meyer (Fred)	04-02-81
Micom Sys.	04-26-88
Midland Glass	10-18-83
Midland-Ross	07-01-86
Minstar	03-31-88
Mississippi Valley Gas	03-26-84
Mohasco	02-16-88
Mohawk Rubber	11-02-83
Morse Shoe	02-18-87
Mount Vernon Mills	01-27-82
Munford	05-23-88
Musicland	02-02-88
Nathan's Famous	11-04-86
National Gypsum	11-25-85
National Medical Care	08-06-84
National Shoes	12-10-84
National Spinning	08-21-80
NFA	08-07-84
Niagara Frontier Servs.	01-27-83
Noel Indus.	06-15-87
Norris Indus.	07-23-81
North Am. Communications	09-30-87
North Am. Royalties	04-27-83
Northwest Indus.	09-20-84
Northwestern Steel & Wire	02-05-88
Nutri/System	02-05-86
Owens-Illinois	12-11-86
Oxford First	04-04-88
Pacific Realty Trust	11-16-82
Palomar Fin.	06-03-83
Pamida	06-20-80
Pandick	11-12-86
Papercraft	04-09-85
Paramount Packaging	01-21-85
Pargas	01-10-83
Parisian	07-28-87
Parsons	09-13-84
Pat Fashions	11-06-81
Pawnee Indus.	09-30-86
Pay N Pak	04-02-87
Pay N Save	08-31-84
Payless Cashways	05-19-88
Perfect Fit	05-13-85

Company	Announcement Date
Pizza Inn	07-10-86
Plantronics	08-04-88
Ponderosa	11-24-86
Post Corp.	09-08-83
PRF	06-06-80
Professional Care Servs.	12-28-83
PT Components	02-20-86
Pueblo Int'l	12-24-87
Purex Indus.	01-28-82
Puritan Fashions	11-14-83
Questor	03-22-82
Rapid-American	04-11-80
Raymond Int'l	05-05-83
Redken Lab.	05-26-88
Reeves Bros.	02-04-82
Reliance Group	07-14-81
Republic Health	01-03-86
Research-Cottrell	06-08-87
Resorts Int'l.	02-01-88
Restaurant Assocs. Indus.	08-25-87
Revco D.S.	03-11-86
Revere Copper & Brass	03-20-86
Revlon	03-06-87
Rhodes	04-26-88
Riblet Prods.	06-12-86
Riegel Textile	06-20-85
Rio Grande Indus.	10-01-84
Rival Mfg.	09-24-85
RJR Nabisco	10-21-88
Royal Crown Cos.	01-11-84
Russell Stover Candies	09-22-81
Rusty Pelican Restaurants	06-24-87
Safeway Stores	07-08-86
Sage-Allen	07-31-87
Schaefer (FM)	12-02-80
Scholastic	10-22-86
SCOA Indus.	07-01-85
Scott Cable Communications	02-03-87
Seaman's Furniture	11-09-87
Seligman & Latz	04-10-85
Seton	03-16-87
SFN Cos.	08-23-84
Sheller-Globe	02-14-86
Shoe-Town	12-15-87
Signode	03-01-82
Singer	10-29-87
Soundesign	11-23-81
Southland	06-17-87
Speciality Equip.	07-23-88
Spectradyne	05-07-87

Company	Announcement Date
Splentex	08-28-80
Stanadyne	01-10-88
Standard Coosa Thatcher	03-23-82
Standun	05-29-85
Stater Bros.	05-13-87
Stop & Shop Cos.	01-14-88
Storer Communications	03-19-85
Supermarkets Gen.	03-09-87
Susquehanna	09-16-87
Sybron	01-13-86
Systems Engineering	08-11-88
Taft Broadcasting	03-06-87
Tannetics	02-03-86
Techamerica Group	07-21-87
Ti-Caro	12-02-83
Topps Chewing Gum	11-16-83
Towermarc	04-19-84
Tracor	09-14-87
Trans World Airlines	04-25-88
Triangle Pac.	03-04-86
Twentieth Century Fox	02-20-81
UI Group	12-29-83
Union Special	01-28-88
Uniroyal	04-09-85
Unitog	11-01-83
Universal Cigar	06-21-83
Up-Right	09-16-87
U.S. Truck Lines	08-19-87
U.S. Sugar	10-09-87
Valle's Steak House	11-20-81
Van Dusen Air	07-31-85
Vaughan-Jacklin	01-31-83
Vendo	02-01-88
Video Corp. of Am.	03-01-84
Volume Merchandise	06-11-84
Vortec	02-08-88
Warnaco	10-31-85
Washington Homes	09-18-87
Wehr	10-27-82
Welbilt	07-05-88
Wherehouse Entertainment	10-13-87
Wickes Cos.	08-22-88
Williamhouse Regency	07-08-82
Wilton Enter.	07-07-88
Wometco Enters.	08-19-83
Woodward & Lothrop	02-22-84
Work Wear	10-29-85
York Int'l	06-27-88