What's In It For Me?
CEOs Whose Firms Are Acquired[†]

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Abstract

We study benefits received by target CEOs in completed mergers and acquisitions. Certain target CEOs negotiate large cash payments in the form of special bonuses or increases in golden parachutes. These negotiated cash payments are positively associated with the CEO's prior excess compensation and negatively associated with the likelihood that the CEO becomes an executive of the acquiring company. Regression estimates suggest that target shareholders receive lower acquisition premia in transactions that involve extraordinary personal treatment of the CEO. Target CEOs experience very high rates of turnover both at the time of acquisitions and, for those who remain employed, for several years thereafter.

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Mergers and acquisitions often hinge upon a transaction's financial, employment and other benefits for top managers. Self-interested executives bargain not only over the price to be paid to target shareholders, but also over such items as who will occupy the CEO position in the merged company, who will sit on the board of directors, the location of headquarters, whether the company name will change, and especially, executive compensation. The news media has reported the collapse of numerous high-profile merger discussions because of managers' inability to reach compromises over these personal benefits, indicating that severe agency problems can prevent economically beneficial transactions from occurring.[1] Further stories have reported elaborate, lucrative packages of personal benefits negotiated by target CEOs as conditions for agreeing to their firms' acquisition.[2] In fact, these conditions can be some of the first items up for negotiation. Sorkin (2002) quotes an anonymous prominent lawyer as saying that many acquiring firms have "been stopped at the door until a compensation arrangement (for target management) was signed, sealed and delivered."

While many of these agreements have been portrayed as evidence of rent extraction by target management, they potentially serve an important economic role in providing a necessary lubricant for the market for corporate control. By selling the firm, target CEOs may be giving up substantial expected utility from both future wages (if they are not retained) and the lost ability to

[1] Salpukas (1999) describes how the proposed acquisition of Texaco Inc. by Chevron Corp. initially fell through because Chevron's CEO "was not willing to share power with" his Texaco counterpart. Burton and Tanouye (1998) discuss the failure of the merger of American Home Products Corp. and Monsanto Co. due to managerial disagreements that "ranged from who should be assigned to corporate headquarters to compensation for top executives." The announcement of this deal's collapse caused a one-day $14 billion decline in the companies' joint market capitalization. Sorkin (2002) and Lipin (1996) provide additional examples.

[2] For example, Hechinger (1999) reports that as part of his company's merger agreement with Fleet Financial Group, the CEO of BankBoston Corp. received a promise that he would become CEO of the buyer at the end of 2001 unless 80 percent of the board objected at that time to his appointment. If so, the company would be required to pay $15 million to the CEO's charitable foundation.

extract personal benefits from the firm. The existence of such personal benefits of control is a common assumption in the corporate finance literature; for two recent examples, see Fluck (1999) and Berkovitch and Israel (1996). Aside from being a source of agency costs in the day-to-day operations of the firm, such private benefits could lead target management to resist profitable merger proposals.

Given CEOs' relative safety from the discipline of hostile acquisitions in the late 1990s (less than 3 percent of the transactions in our sample are unsolicited), we expect that target CEOs will have bargaining power to negotiate large personal benefits when they agree to surrender the power, prestige, and compensation associated with their jobs. These benefits could take the form of either increased financial wealth or attractive positions in the management team of the buyer. CEOs might compromise the interests of their own shareholders in pursuit of these benefits, possibly negotiating less favorable acquisition terms in deals in which they personally fare well.[3]

We analyze these issues by studying a sample of several hundred completed U.S. acquisitions in the late 1990s, examining the set of personal benefits received by target CEOs in these transactions. In doing so, we attempt to answer three questions. First, in this environment of negotiated mergers (rather than hostile tender offers), what package of capital gains, cash, and subsequent employment do CEOs accept in exchange for relinquishing control of the target firm? Second, to what extent do target CEOs appear to trade off negotiated cash payments, stock and option gains, and future employment? Third, to what extent do target CEOs appear to sacrifice premiums paid to their own outside shareholders in return for such gains? In answering these questions, we are also able to give some evidence of the value of control for target CEOs.[4]

Our most interesting results are based on two variables not previously studied: (i) increases in golden parachutes and (ii) payments of special cash bonuses, both of which are

[3] For a theoretical analysis of this tradeoff between personal benefits for CEOs and shareholder gains in mergers, see Callahan and Moeller (2002).

[4] Empirically, such private benefits are by nature difficult to estimate, and previous studies have relied on prices of controlling blocks of equity (e.g., Dyck and Zingales, 2001, and Barclay and Holderness, 1989) or prices of classes of stock with differential voting rights (e.g., Lease, McConnell, and Mikkelson, 1983).

sometimes negotiated by target CEOs as part of acquisition agreements. Though obtained by only a minority of target CEOs, these sources of negotiated cash pay can amount to tens of millions of dollars. In regression analysis, we find strong inverse associations between these negotiated payments and the likelihood that the target CEO remains as an officer of the acquirer; our point estimate indicates that CEOs obtain approximately $5 million in additional cash pay when they do not become officers. These results imply that acquirers overtly pay certain CEOs to surrender managerial control over their firms' assets, or, equivalently, that some CEOs "purchase" executive jobs in the buyer by foregoing cash payments that they might otherwise have obtained.

Similarly, we find strong positive associations between negotiated cash payments to target CEOs and the prior excess compensation they received, as measured by the residual from a basic compensation regression model. Along with our results on cash payments and job losses, these findings imply that last-minute cash payments to the CEO act as a form of "ex post settling up" (Fama (1980)) whereby target CEOs are made whole for the benefits they lose when firms are sold.

Like earlier papers, we collect information on CEOs' stock and option holdings and golden parachutes. Though average payments from these sources are large, they are not associated with CEOs' subsequent positions or losses of excess compensation. When CEOs' capital gains are combined with negotiated cash payments and pre-merger golden parachutes, we estimate the average total gain for target CEOs to be in the range of $8 to $12 million (depending on the method used), with a median gain of $4 to $5 million. These gains imply an average multiple of 10 to 16 times the CEO's pre-merger annual cash compensation (the median multiple ranges from 6 to 9 times).

We present further regression estimates suggesting that target CEOs negotiate lower acquisition premia for their own shareholders in transactions that involve extraordinary personal treatment of the CEO, such as the payment of special cash bonuses, the provision of a managerial posts in the buyer, and membership on the buyer's board of directors.

Previous research has highlighted the personal costs and benefits for target CEOs in mergers and acquisitions.[5] Much of this literature focuses on the takeover market of the 1980s (especially tender offers), and the role of this market in ex post settling up for target managers. Our study extends this literature by studying more recent transactions, occurring in a different corporate control environment than prevailed in the 1980s.

The 1990s represented a very active merger market. Andrade, Mitchell and Stafford (2001) find the value of transactions in the 1990s to be comparable to that of the 1980s, with an even larger fraction of firms involved. However, the frequency of hostile takeovers was dramatically lower than before. Andrade, Mitchell and Stafford (2001) find that only 4 percent of mergers in the 1990s were hostile at any point, compared to 14 percent and 8 percent in the 1980s and 1970s, respectively. The drop in hostile takeovers had two important implications. First, if one views hostile takeovers as disciplinary and friendly ones as synergistic (Mørck, Shleifer, and Vishny, 1988), then 1990s acquisitions took place for different reasons than those in the 1980s. Additionally, a reduced frequency of hostile takeovers implied changes in the acquisition negotiation process. The combination of a large number of mergers and a friendlier negotiating environment leads us to ask what target CEOs receive in order for them to agree so frequently to such transactions.

This question drives our sample construction and the selection of only completed transactions. Much of the prior literature documents target management's ability to take actions in their own interests rather than those of the shareholders in the earlier stages of the acquisition process.[6] By using completed transactions, we concentrate on the final stages of negotiations and the agreed-upon terms of the deal, rather than firms' attractiveness as a takeover candidate or

[5] See Datta, Iskandar-Datta and Raman (2001) for a discussion of incentives for managers of the bidding firm. They find a link between incentive compensation and the results of firms' acquisitions.

[6] For example, a firm's attractiveness as a takeover candidate may be decreasing in managerial ownership, due to management's reluctance to give up their positions or control of the firm (e.g., Mikkelson and Partch, 1989, and Hadlock, Houston and Ryngaert, 1999). Conditional on receiving an offer, managers may resist the proposed combination in order to protect their personal benefits at the expense of shareholders' wealth (e.g., Cotter and Zenner, 1994, and Walkling and Long, 1984).

observed managerial resistance.

Our documented side payments and short-term gains on stocks and options may facilitate transactions by shifting management's orientation more toward the short run. Shleifer and Vishny (2001) argue that target managers who are more focused on the short run should be more likely to sell in a stock merger and are more likely to depart from the firm shortly after the merger. Our evidence is consistent with some target managers taking more cash up front in lieu of long-run continued employment with the bidding firm.

Managers' willingness to trade cash for future employment is likely to depend on their beliefs about the post-deal labor market. To further assess the long-run career paths of target managers, we collect more extensive data than used in earlier papers on target CEOs' subsequent careers, including the CEO's position (if any) in the acquiring firm, his role on its board of directors, the survival rates of those CEOs who remain with the merged firm, and, for those CEOs who leave, their subsequent employment histories. In summary, we find a very large incidence of job losses for target CEOs. Few target CEOs become top executives at the acquiring firm, and survival rates for target CEOs who remain with the acquirer in any capacity are quite low, with annual turnover roughly three times the normal (non-merger-related) rate observed in the literature. Finally, the vast majority of target CEOs who exit the firm do not obtain further employment.

The remaining sections of the paper are organized as follows. Section 1 describes our sample selection and data gathering. Section 2 describes the gains received by target CEOs as a result of the acquisitions and presents regression analysis of the tradeoffs among different types of gains. Section 3 concludes.

1. Sample selection and data description

We analyze a sample of 311 transactions identified from the mergers and acquisitions database of Securities Data Company (SDC). We begin with all completed U.S. mergers with announcement dates between January 1, 1995, and December 31, 1997. Given the time frame

studied, the large majority of deals are friendly acquisitions as discussed below. We require that (i) both firms be publicly traded and listed on the Center for Research in Securities Prices database; (ii) both have market capitalizations exceeding $100 million four weeks prior to the announcement date; (iii) the buyer purchase at least 90 percent ownership of the target; and (iv) the ratio of the two firms' market capitalizations lies within the range of 0.10 to 10.00, to rule out transactions with extreme size disparities in which the target CEO would have little bargaining power. These screens yield a candidate sample of 320 deals. We drop eight observations in which the acquirer already held a dominant ownership position in the target, and one transaction involving a Canadian firm that was not required to meet the Securities and Exchange Commission's filing requirements.

We focus our data gathering efforts on the remaining 311 target companies and their CEOs. For each of these, we attempt to obtain information from three SEC filings: (i) the Proxy Statement, Form 10-K or similar document containing ownership and compensation data in advance of the last annual meeting before the acquisition announcement; (ii) the Proxy Statement, Form S-4, or other document (if any) filed in connection with the transaction; and (iii) the first Proxy Statement of the acquiring company filed after the merger becomes effective. Our final sample for regression analysis includes information about 239 target CEOs, meaning that we have missing values for at least one variable for 72 out of 311 companies, or 23 percent. The main sources of missing values are variables related to golden parachutes and related merger payments (missing for 39 CEOs), stock and option ownership data (missing for 26 CEOs), and cash compensation data (missing for 22 CEOs).

Table 1 presents descriptive statistics about the CEOs in our sample companies. The typical CEO is about 54 years old, with median stock and option ownership of 0.8 percent and 1.1 percent of the company's shares outstanding, respectively (mean values are slightly higher). The median salary + bonus cash compensation for CEOs in the year prior to the acquisition is about $521,000 (mean $798,000). Many CEOs share power with at least one other executive: in 30.5 percent of the firms someone else holds the title of chairman of the board, while in 28.5 of

the sample some other executive serves as president. We are unable to calculate statistics about the tenure in office of many CEOs, since a significant proportion of the sample companies disclose only that their CEOs have served for more than five years. Our sample is almost equally split between CEOs who have served less than five years and five or more years.

Information about our sample of transactions appears in Table 2. The median target firm has market capitalization of $386 million (mean $1.28 billion) measured one month prior to the date of the first offer by the buyer. The ratio of the target's market cap divided by the buyer's has a median of 0.317 (mean of 0.442), indicating that some size disparity exists between the two companies in most of our transactions, but not to a severe extent. Just 2.6 percent of our transactions begin with unsolicited bids, according to SDC.

We measure the takeover premium to target shareholders using information from both SDC and CRSP. SDC reports a median premium of 30.4 percent (mean of 34.8 percent) over the four weeks prior to the transaction announcement. This statistic assumes that the deal ultimately closes according to the terms announced in the merger agreement. If the consideration paid to target shareholders is stock in the buyer, the SDC premium uses a pre-announcement value of the buyer's stock price. We calculate an alternative measure of the takeover premium from the CRSP database, measuring the stock's run-up over the 20 days up to and including the announcement day, and we find lower premia with a median of 21.1 percent (mean of 22.7 percent). These smaller gains in target equity value might capture a variety of effects, including post-announcement declines in the buyers' stock prices, skepticism deals will be completed according to their announced terms, or the time value of money if the approval process is expected to be lengthy.

2. Analysis of target CEOs' benefits

In this section we review and analyze the personal benefits obtained by target firm CEOs in connection with acquisitions of their firms. Section 2.1 presents an overview of the sources of financial gains. Section 2.2 describes CEOs' subsequent career paths. Section 2.3 presents

regression analysis of the tradeoffs among variables. Section 2.4 studies whether the benefits obtained by the target CEO are associated with the takeover premiums paid to target shareholders.

Table 3 presents summary statistics about the wealth increases experienced by target CEOs as well as their post-merger role in the governance of the buyer company. We estimate that CEOs earn a median of approximately $4 to $5 million in increased wealth (mean of $8 to $11 million) as a result of the acquisition, depending on whether we use the 20-day CRSP or four-week SDC premium as the basis for our calculations. Maximum values run into the hundreds of millions of dollars. Data in Table 3 indicate that for the median CEO, total wealth gains equal roughly six to nine times annual cash compensation (10 to 16 times for the mean CEO). In the context of the high rates of CEO departure described below, these wealth gains appear to represent a rough substitute for the present value of compensation the CEOs might have expected to receive if they had remained in their jobs until retirement.

2.1 Sources of financial gains

The largest source of wealth increase comes from appreciation of the CEO's direct stockholdings, which we calculate by multiplying the percentage acquisition premium by the CEO's pre-announcement equity ownership value. These calculations indicate a median CEO stock appreciation of slightly more than $1.3 million, with a much higher mean of about $4.2 million.

For appreciation of the CEO's options, data limitations force us to calculate an upper bound; we assume that all options are at- or in-the-money prior to the transaction,[7] and we multiply the raw dollar value premium per share by the number of options held. This calculation

[7] Proxy statements report only the aggregate in-the-money value of all stock options held by CEOs. We closely analyzed a sub-sample of 50 CEOs to confirm the reasonableness of our assumption that all options are in-the-money. Only three of these 50 firms reported that CEOs' option were holdings completely out-of-the-money in the last proxy statement filed before the acquisition. The average "moneyness," or ratio between in-the-money value and exercise cost, was 2.63 for the remaining 47 CEOs, indicating most CEOs' option holdings very deep in-the-money with deltas near 1.0. The large majority of these data were reported by firms before acquisition proposals had caused their stock prices to run up.

assumes that all options are "cashed out" via forced exercise at the time of the transaction, which is very common practice according to our readings of SEC filings. Our analysis shows median and mean option gains of about $230,000 and $656,000, respectively, only about one-sixth as large as the corresponding statistics for direct stock appreciation.

Together, the mean CEO's gains from stock and option appreciation are just under $5 million, while the median CEO's gains are a little over $1.5 million. These sources of wealth represent the largest component of the overall gains obtained by sample CEOs, and CEOs obtain them only because shareholders as a group receive a premium price from the buyer. Therefore, to the extent that a conflict of interest exists between CEOs and shareholders in connection with merger negotiations, the conflict must arise from one of the remaining sources of CEO wealth discussed below.

Golden parachutes and similar payments provide the largest share of direct cash compensation to CEOs in connection with acquisitions.[8] Sixty-nine percent of the CEOs in our sample have golden parachute arrangements in place, according to the proxy statements filed in the year prior to the acquisition. The typical structure of these incentive plans calls for a lump-sum payment equal to a multiple of the CEO's salary and bonus prior to the deal (for tax reasons, this multiple equals three in a large number of cases).[9] We calculate the parachute payout to CEOs by applying the formula from each company's golden parachute plan to the CEO's cash salary and bonus in the year prior to the deal.[10] Including the 31 percent of observations with

[8] For a theoretical discussion of the role of golden parachutes and antitakeover devices in determining the split of merger synergies, see Harris (1990). Almazan and Suarez (2001) discuss the interactions between severance pay, entrenchment, and incentive compensation.

[9] Section 280G of the Internal Revenue Code limits corporate income tax deductions for golden parachute payments to this amount.

[10] This calculation simplifies the data in two respects. First, some parachute payouts are based on cash compensation not in the year prior to the transaction, but instead according to a more elaborate formula such as the maximum for the three years prior to the transaction. The diversity of these approaches would make our calculations prohibitively complex, so we use the final year's compensation to keep the analysis manageable. Second, we make an assumption that all parachutes are actually triggered by the mergers and acquisitions in our sample. This may not be strictly true if certain deals do not qualify as "changes in control" necessary to activate the parachutes. However, we do not have enough information to make this determination conclusively for many transactions, and we observe that in a large number of SEC merger filings that companies go out of their way to resolve any ambiguity by stipulating that a change in control has occurred for purposes of golden parachute payments. Our treatment of parachute payments in this way means that our estimates

zero parachute payments, CEOs receive a median of $900,000 (mean of $1.465 million) from this source.

For a non-trivial fraction of the CEOs in our sample, 12 percent, parachute payments are augmented by the target's board of directors at the time that it approves the merger. In these cases, boards vote to increase the CEO's parachute value and shareholders learn of the change after the fact from an SEC filing; a little over half of this subgroup did not have any parachute in place prior to the augmentation. The mean value of the CEO wealth increase from this source is about $394,000; dividing this figure by the frequency of .121 indicates that when boards do vote to augment the CEO's parachute, the average value increase is about $3.25 million. Closer analysis of this subgroup indicates that these CEOs had smaller expected merger gains than their counterparts, with lower expected parachute payments (mean of $1.15 million for those with non-zero parachutes, vs. $2.26 million) and also less equity ownership (mean of 2.35% vs. 3.05%).

Separately from golden parachute payments, some firms make special cash payments to their CEOs as part of the terms of the merger. We find these additional payments in 74 of 272 cases, or about 27 percent of the sample. The mean CEO wealth increase from this source is about $1.2 million; dividing by the frequency of .272 indicates that the average special merger bonus equals $4.42 million when paid. We collect information about firms' stated rationales for these additional payments to CEOs. Twenty-eight cases purportedly represent consulting agreements, and 26 more payments are characterized as non-competition agreements between the CEO and the buyer. An additional 11 cases represent payments made in consideration of the cancellation of the CEO's employment agreement or other contract rights. Other payouts are described as a "stay bonus" (5 observations), "retention bonus" (3), "special service recognition bonus," "signing bonus," and "bonus" (2 each), and "transition bonus," "closing bonus," and constructive change-in-control bonus (1 each).

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probably represent an upper bound on the amount that CEOs actually obtain.

2.2 Target CEOs' subsequent careers

More than half of the target CEOs in our sample initially remain with the buyer in some capacity. Panel B of Table 3 indicates that just over 50 percent of target CEOs accept jobs as officers of the merged firm (including non-executive chairman and vice chairman of the board). This is broadly consistent with earlier findings on managerial turnover and corporate control activity. Agrawal and Walkling (1994) find that only 45 percent of CEOs for a set of firms receiving takeover bids are retained one year after the bid. Martin and McConnell (1991) find a turnover rate of 41.9 percent for the target's top manager in the year following a successful tender offer, and 19 percent during the second post-turnover year. In a more recent sample of banking mergers, Hadlock, Houston, and Ryngaert (1999) find that 53.6 percent of top executives leave the organizations within two years of the date the merger agreement is finalized.

Additionally, 57 percent of our target CEOs join the board of directors of the buyer. This is notably higher than the survival of CEOs as directors documented by Harford (2001), who finds that 27 percent of CEOs get board seats; the disparity may be due to the greater frequency of hostile acquisitions in Harford's sample. A small number of the target CEOs play top leadership roles in the merged firm: nine take over the buyer's CEO position, 15 serve as president and/or chief operating officer, and ten become non-executive chairman of the board. Further data in Panel B indicate that target firms obtain additional governance-related considerations. Targets place a median of two directors (mean of 2.3) on the board of the buyer, one of whom is usually but not always the target's CEO. The buyer's board is controlled about one-sixth by directors from the target subsequent to the median transaction. In about one-seventh of all transactions, the buyer agrees to change the company name, generally to incorporate part of the target's name.

Some target CEOs negotiate explicit succession agreements to secure their positions in the new firm, but these agreements are generally not honored.[11] In four cases, the target CEO

[11] Wulf (2001) studies "CEO succession agreements" in a sample of "mergers of equal" between firms with roughly

becomes the CEO of the buyer while agreeing to surrender the job within a specified period; in three additional cases, the target CEO becomes chairman and chief operating officer of the buyer, with the stipulation that he will ascend to the CEO position within a certain period. In only one instance of these seven (the merger of Nynex and Bell Atlantic) did the CEO position ultimately change hands as called for.[12]

Table 4 presents information about the fate of CEOs who remain with the buyer. Survival rates for this group are strikingly low. We read the first proxy statement filed by the buyer in the aftermath of the merger to determine whether target CEOs who had taken a position in the merged firm are still in place; for unclear cases, we also consult 10-K filings, news reports, and related sources. Between the closing of the deal and the first proxy statement, the fraction of target CEOs serving as executives of the buyer drops from .503 to .344, meaning that only about two-thirds of ex-CEOs who are designated as officers of the buyer remain for more than a nominal period of time. Similarly, the fraction of target CEOs serving as directors of the buyer drops from .571 initially to .428 by the time of the first post-merger proxy statement. For those CEOs who do survive at least until the first proxy statement after the merger, compensation becomes higher, as their salaries rise by a median of 8.6 percent (mean of 17.6 percent) and their bonuses increase by a median of 19.4 percent (mean of 34.3 percent). If these CEOs are retained because they are above-average performers or their skills match well with the needs of the buyer, then these large increases in compensation should not be surprising.

Panel B of Table 4 presents more detailed data about the survival rates of target CEOs

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similar size, and finds that target shareholders' stocks exhibit lower abnormal returns at the time of merger announcements if such an agreement is negotiated as part of the transaction. However, her definition of "succession agreement" is much broader than what we are considering here, as it covers any arrangement in which either the CEO or chairman position is reserved for the target's CEO; such agreements could, for example, call for the retirement of the target CEO after a nominal amount of time in office, or confine him to ceremonial responsibilities as a non-executive chairman.

[12] In two further cases the agreement arguably became moot, as one controversial CEO was prevented by government utility regulators from taking office, and another negotiated the sale of the firm (and a continuing role for himself) before the date at which he was due to step down. News reports have indicated that an eighth succession "handshake" agreement was negotiated for one of the mergers in our sample (Morgan Stanley - Dean Witter) but not disclosed at the time of the deal. This agreement also was not implemented.

who become executives of the parent. We separate these officers into four gradations: (a) CEO, president, or chairman; (b) other executive officers; (c) executives in subsidiaries of the buyer (such as CEOs who remain as the top manager of the target once it becomes a wholly-owned subsidiary); and (d) vice chairman of the board, a title that usually carries little or no operating responsibility. We extend our analysis by reading proxy statements filed for the three years after the acquisition.[13] All categories of executives have extremely high departure rates. First-year departure rates range from 23.1 percent for officers in the top-three category to 59.3 percent for vice chairmen. After three years, more than two-thirds percent of top officers and three-fourths of subsidiary executives are gone, and departure rates are similarly high for vice chairmen and executives in other positions.

These turnover rates far exceed those found in most studies of CEOs and corporate directors. For comparison purposes, Parrino (1997) reports unconditional turnover rates for CEOs of 12.2 percent annually, while data in Shivdasani and Yermack (1999) indicate an unconditional turnover rate for directors of about 9 percent annually. Our results are more in line with Gilson's (1990) presentation of very low survival rates for officers and directors in financially distressed firms.

Some of the ex-CEOs who do not survive as executives of the buyer collect substantial severance packages (these do not enter into our calculation of merger-related wealth changes discussed above). Of the 146 ex-CEOs who we identify as becoming executives of the buyer, 48 are no longer listed as executives in the first proxy statement filed after the transaction. Of these 48, 37 collect severance payments with a median value of $1.5 million, mean of $3.77 million, and maximum of $30 million.

One reason for the high turnover rates of target CEOs after they join the buyer is that some of their appointments are made with pre-specified limited time horizons. We find 18 such cases out of the 146 CEOs who become executives of the buyer, a rate of about 12 percent. The

[13] Some companies disappear from our analysis because the buyer is acquired by a third firm.

life of these agreements range from a few months (until the next annual meeting) to five years.

For those CEOs who leave, their exit from the firm very often represents the end of their careers. We tracked the future employment of all exiting CEOs in our sample by using on-line keyword searches of SEC filings and the Dow Jones News Service. Figure 1, a schematic of the career paths of the target CEOs in our sample, combines the results of these searches with the earlier evidence on negotiated post-merger jobs, and survival at those positions.

The figure indicates an overwhelming incidence of job losses for target CEOs: about two-thirds of this group leave their firms at the time of the merger, and of the one-third who remain employed, 36 percent do not survive for the first two post-deal years. Those CEOs who exit appear to earn higher financial returns from the merger, however, as shown in the summary statistics to the right of the terminal nodes. This suggests a clear tradeoff between financial rewards from the transaction and job offers in the buyer, a conjecture supported by our more detailed regression analysis. Only a small number of target CEOs become top executives of the acquirer. Job security is quite low for all former CEOs who remain with the merged firm, with post-merger turnover rates in the neighborhood of 20 percent to 30 percent annually (unconditional turnover rates for top managers are close to 10 percent ordinarily). The overwhelming majority of target CEOs who exit the firm do not obtain further employment; a large number probably retire voluntarily due to their multi-million dollar gains from the merger. These results extend the findings of Agrawal and Walkling (1994), who document high unemployment rates for target CEOs immediately following successful takeover bids.

As also shown in Figure 1, we find that the large majority of CEOs who leave – whether at the time of the merger or within the two-year period thereafter – end up either retired, working in a non-profit or government job, or simply vanished from our large array of data sources. A smaller group become investors or start-up entrepreneurs. About one-sixth of the total sample eventually end up in executive posts in other firms, the large majority as CEOs.

2.3 Regression analysis of CEO benefits

When CEOs bargain with the acquirer over acquisition terms that affect them personally, we conjecture that they engage in tradeoffs between cash payments, their position in the merged company, board seats, and other personal benefits. We expect that these tradeoffs are influenced by personal characteristics of CEOs, the size and past performance of the target company, and the structure of corporate governance and ownership of the target. A second set of more nefarious tradeoffs may also exist. Target CEOs might sell the firm at an attractive price if their personal benefits from the transaction are large. Since a low takeover premium for target shareholders would also depress the CEO's own stock and option appreciation, we might expect CEOs to accept lower takeover premia only if they receive prominent jobs in the management of the buyer or special compensation arrangements not directly related to equity value. We analyze gains obtained by CEOs in regressions shown in Tables 5 and 6, while Table 7 presents analysis of takeover premiums paid to target shareholders.

In Tables 5 and 6, we study three different dependent variables measuring CEO benefits. In the first column we examine the broadest measure of all financial gains obtained by the CEO, including stock and option appreciation, golden parachute payments, parachute augmentations, and special cash bonuses. In the center column we measure cash compensation only, comprised of golden parachute payments, parachute augmentations, and special cash bonuses. These two columns are included mainly for comparison purposes, as we place the greatest emphasis on results in the right column. This dependent variable includes only those cash gains to CEOs negotiated as part of the acquisition agreement: parachute augmentations plus special cash bonuses.

Key explanatory variables for these regressions include dummy variables for whether the CEO becomes an officer or a director of the target. We also include the CEO's expected years to retirement (measured as the greater of zero or 65 minus age), on the assumption that CEOs near the end of their careers will demand lower personal benefits to agree to the sale of their firms. The market capitalization of the target, measured both in raw dollars and as a ratio to the buyer's

market cap, is included as a measure of the target's bargaining power. We also include the target's abnormal stock performance over the year prior to the merger proposal as a further measure of bargaining power, expecting CEOs of well-performing firms to obtain both better acquisition terms for their shareholders and compensation terms for themselves. The target CEO's percentage ownership of the firm appears as a measure of his dominance over the firm's governance; we included other governance variables, such as the presence of large blockholders or non-CEO chairmen of the board, but obtained no significant results and dropped them from the model to simplify the presentation.

We also include a measure of excess or above-market CEO compensation, measuring the stream of economic rents that the CEO might lose if the firm is sold. The excess compensation variable is constructed as the residual from a basic compensation regression model using a large universe of firms as a benchmark. We tabulate cash salary and bonus data for the CEOs in our sample and combine our CEO observations with those in the comprehensive Standard & Poor's ExecuComp database, which tracks compensation in a panel of 1,500 firms of all sizes since 1993 (many but not all of our CEOs are also covered by ExecuComp, and we delete overlapping observations). We regress salary and bonus against two-digit SIC industry indicator variables, the log of market capitalization, year indicators, and the prior three-year stock return. We save the residuals from this regression, and, for each CEO in our sample, we average the annual residuals to measure mean excess compensation.[14] We use a Tobit model to estimate the regressions in the second and third columns of Tables 5 and 6, due to the substantial number of zero-valued observations for the dependent variables.

Coefficient estimates in Table 5 indicate that when the CEO obtains a position as an officer of the buying company, he receives about $4.7 million less in negotiated cash pay from golden parachute augmentations and special merger bonuses. The coefficient for the CEO as

[14] Our results are essentially unchanged if we restrict the analysis to a one-year measure of excess compensation; many of our CEOs have only one or two observed residuals since ExecuComp's coverage begins in 1993 and our acquisitions begin in 1995.

officer indicator variable, in the right column, is very close to the estimate for gains from all sources reported in the first column, indicating that gains from stock ownership, option holdings, and golden parachute payouts have essentially a zero net relation with the subsequent career of the CEO.[15] We find a positive but insignificant effect of cash payments to the CEO when he obtains a seat on the buyer's board of directors.

Table 6 presents a regression similar to that in Table 5, except that the indicator variable for the CEO becoming an officer of the buyer is decomposed into four dummy variables indicating titles of descending importance: (i) the CEO takes a "top three" post of CEO, president, or chairman; (ii) the CEO takes another executive position in top management, such as executive or senior vice president; (iii) the CEO becomes vice chairman of the board with no direct management responsibility; and (iv) the CEO becomes an officer of a division of the buyer (usually his old firm, which becomes a wholly-owned subsidiary). We find strong evidence that top jobs are valued more strongly by exiting CEOs, with negative and significant point estimates of $5.0 and $8.0 million for the first two categories and insignificant, smaller estimates for the third and fourth categories.

The regressions implicitly assume that managers' skills and fit with the acquirer are equal across observations. In reality, lower quality CEOs are more likely to be cut loose by the buyer and would have less bargaining power to extract high payments as part of the transaction. Therefore, the coefficient estimates in Table 5 and 6 may under-state the true magnitude of the tradeoff between receiving cash payments and remaining employed with the buyer, since we do not have a clear way to control for the CEO's desirability to the buyer.

Our estimate of excess compensation has an estimated coefficient between 3.0 and 4.0 in all of the regressions, with strong statistical significance and results that are clearly dependent on the negotiated cash payments, since the right-column estimate differs little from the others. If

[15] We test the sensitivity of this estimate to outliers by running the same model in a probit format, setting the dependent variable to one for all CEOs who receive negotiated cash payments. The estimate on the officer indicator variable is significant at the 2 percent level, strongly suggesting that CEOs who do not receive officer positions in the acquirer can be expected to receive lump-sum cash payments.

the amount by which a CEO is overpaid relative to the market represents an economic rent, the estimate implies that he receives a "settling up" payment of three to four times this annual rent once it is extinguished by the merger agreement.

How reasonable are the magnitudes of these coefficient estimates? The median target CEO in our sample is 54 years old and earns a little over $520,000 a year in salary and bonus. A payment close to $5 million for those target CEOs who do not remain with the acquirer would seem close to the NPV of foregone salary and bonus if this CEO expected never to work again and otherwise would have remained in office until his mid-60s; data in the schematic diagram of Figure 1 indeed suggest that few CEOs who exit the firm find work elsewhere. The coefficient estimates between 3 and 4 for the excess compensation variable, however, are about half the size one would expect if the CEO rationally believed he could continue collecting this stream of economic rents until retirement. It is possible that CEOs expect future compensation to exhibit some degree of mean reversion. We study this possibility by looking at the future compensation for CEOs who remain employed by their firms and continue to be included in the compensation tables of the acquirer's proxy statements. While these CEOs collectively enjoy a mean (median) salary + bonus increase of 25.9 percent (10.7 percent) in the year following the acquisition, these pay increases exhibit a negative correlation of -0.286 with the excess compensation variable. The mean (median) compensation change for "overpaid" CEOs with positive prior excess compensation is 3.2 percent (5.1 percent), while the mean (median) changes for their "underpaid" counterparts are much larger at 42.6 percent (21.5 percent). A t-test for indicates that the mean percentage changes are significantly different at the 1 percent level.

These results are an interesting complement to Agrawal and Walkling's (1994) results on ex post settling up.[16] In their sample of target CEOs between 1980 and 1986, they find that post-bid changes in compensation are negatively related to pre-bid abnormal compensation. They interpret this as consistent with the view that the labor market uses information produced by the takeover process to discipline managers. We find less evidence of discipline for managers

[16] For evidence of ex post settling up in the market for directors, see Harford (2001).

receiving positive excess compensation. Our sample exhibits a similar negative correlation between excess compensation and compensation changes after the merger, but the larger revisions in pay do not represent overpaid executives receiving pay cuts, but underpaid executives receiving large raises (where over- and underpaid are again defined relative to our model of normal compensation). Also, we document that these overpaid executives receive more personal gains from the transaction in both total cash pay and negotiated cash pay.

Further analysis indicates that the coefficient estimates for neither the officer indicator variable nor the excess compensation variable are significantly affected by a more complex specification that includes an interaction term with the CEO's expected years to retirement. This is somewhat surprising, as we would expect younger target CEOs to be sacrificing more personal benefits in a merger than older CEOs. As shown in the right column of Table 5, the years to retirement variable itself has an estimate near zero with a t-statistic of 0.09, indicating that age has little or no effect on the raw size of negotiated cash payments. Years to retirement is negatively related with the wealth increases measured in the first two columns, but that likely occurs because both equity accumulation and the size of contractual golden parachute payments increase with the passage of time. Additionally, we find no significant results with an indicator for "turnaround" CEOs, who we define as CEOs not previously employed by their firms who had been on the job for three years or less; many members of this subgroup might have been hired with the expectation that they would prepare the firm for sale, and therefore would not expect any personal benefits as part of the acquisition agreement.

We estimate that target CEOs negotiate larger cash payments when their firms are large, either in absolute terms or relative to the buyer, and when they perform well over the year prior to the merger. All of these estimates agree with a theory that these CEOs bring greater bargaining power to the table in merger negotiations. Our variable measuring the percentage ownership of the CEO has no significant difference from zero; the same is true if the model is augmented with other governance-related variables such as the presences of a large non-CEO blockholder or non-CEO chairman of the board (results not tabulated to save space). Other

variables, such as the number of board seats awarded to directors of the target, also have no estimated effect on the target CEO's negotiated gains.

2.4 CEO benefits and takeover premium to target shareholders

Table 7 explores the relation between personal benefits received by target CEOs and the acquisition premia paid to their shareholders. We focus on benefits indicating extraordinary treatment of the CEO, and omit appreciation of the CEO's stock and option holdings, since these gains will exhibit a lock-step positive association with the premium paid to all shareholders. Our main independent variables, used in the model in the first column of Table 7, are dummy variables for (i) whether the CEO's golden parachute is augmented at the time of the transaction; (ii) whether the CEO received additional merger-related payments such as consulting contracts or special bonuses; (iii) - (vi) four dummies indicating the level of executive position, if any, obtained by the CEO in the buyer; and (vii) whether the CEO joins the board of directors of the buyer. We also include a dummy variable that equals 1 if the target CEO leaves the firm and within two years becomes CEO of another firm.

As shown in the first column of Table 7, all seven of the dummy variables for CEO personal benefits have negative coefficient estimates, though all of these estimates are insignificant. The pattern also applies to the dummy variable for CEOs who obtain new CEO jobs in other firms. The negative coefficients are consistent with a conjecture that CEOs negotiate less favorable acquisition terms for their own shareholders when the transaction includes special treatment of the CEO or in some way presents them with new career opportunities. This result on negotiated benefits is consistent with the results of Lefanowicz, Robinson, and Smith (2000), who analyze golden parachutes that were in place prior to merger negotiations. They find that golden parachutes tend to offset the tendency of target managers who expect to lose large salaries to negotiate larger gains for target shareholders.

In the center column of Table 7, we estimate the same model but add together the seven key dummy variables. The coefficient on the sum of these dummies – equivalent to an F-based

hypothesis test of whether their sum is significantly different from zero – has a negative estimate, significant at the 8 percent level.

Finally, in the right column of Table 7, we repeat this analysis but restrict ourselves to the subsample of CEOs who own less than the median amount of equity ($12.15 million) in their firms. We expect this group to be more predisposed in merger negotiations to trade off equity appreciation for personal benefits, since they stand to lose less financially than CEOs with greater ownership. With the regression limited to this subsample, the coefficient estimate for the sum of the seven dummy variables grows in magnitude by about 50 percent and becomes significant below the 5 percent level.

As with earlier parts of the analysis, we estimated other versions of the model in Table 7 that included officer and director stock ownership, a dummy variable for whether an exiting CEO obtains a CEO post in another firm, and various measures of block ownership. None of these variables had significant estimates or led to any noticeable change in our reported results.

3. Conclusions

We study the personal benefits obtained by target company CEOs in completed merger and acquisition transactions. Our research is motivated by frequent news reports of large agency conflicts in M&A bargaining situations.

We find that target CEOs obtain wealth increases with a median of $4 to $5 million and a mean of $8 to $11 million. These financial benefits arise mostly from stock and option appreciation, though a majority of CEOs also receive substantial golden parachute payments. Some CEOs receive last-minute financial benefits when their boards of directors vote to approve mergers, as 12 percent have their golden parachutes increased and 28 percent receive a variety of additional cash bonuses. The extra payments, when made, typically add millions of dollars to the CEO's merger gains.

These last-minute cash payments appear to play a key role in merger negotiations. We find a positive relation between these payments and the prior excess compensation of target

CEOs, measured as the residual from a basic compensation regression model. This pattern implies that a type of ex post settling up takes place at the time of the merger to compensate the CEO for lost economic rents or for his past investments in firm-specific human capital. Similarly, a negative relation emerges between special cash payments and the likelihood that the target CEO obtains an important executive post in the acquiring company.

About half of the target CEOs in our sample become officers of the buyer, with a handful ascending into top management positions. While these executives receive higher compensation than before, we find that their new positions are hazardous, with extremely high departure rates in the three years following completion of the transaction. A large majority of those executives who do lose their new jobs are compensated through large severance payments. Those CEOs who leave the firm usually end up retired or working outside the private sector; only a small minority of our sample obtain new CEO posts elsewhere.

We explore whether CEOs compromise the interests of their shareholders in those transactions in which they receive extraordinary personal benefits. Regression results provide some evidence of an inverse association between selling shareholder premia and such CEO benefits as positions in the buyer and unusual financial bonuses awarded at the time of the transaction.

Our results indicate that CEOs receive special benefits when their firms are sold, but we cannot conclusively evaluate whether these arrangements on balance come at the expense of target shareholders. Our sample includes only successfully completed transactions, so we do not know what packages of potential benefits other target CEOs turned away in attempted mergers that were not completed, to the detriment of those firms' shareholders. However, we note that the magnitudes of certain regression coefficients in Table 7 imply a large degree of economic significance for target shareholders. If special bonuses, job offers, or board seats for the target CEO cost shareholders several percentage points of a potential acquisition premium, and the mean market capitalization of our target firms exceeds $1.2 billion, then the financial cost to target shareholders of these arrangements would seem to exceed substantially the benefits

received by their CEOs. This imbalance, arising from a conflict of interest between target CEOs and their shareholders, would seem to represent a wealth transfer from shareholders of the target to shareholders of the buyer.

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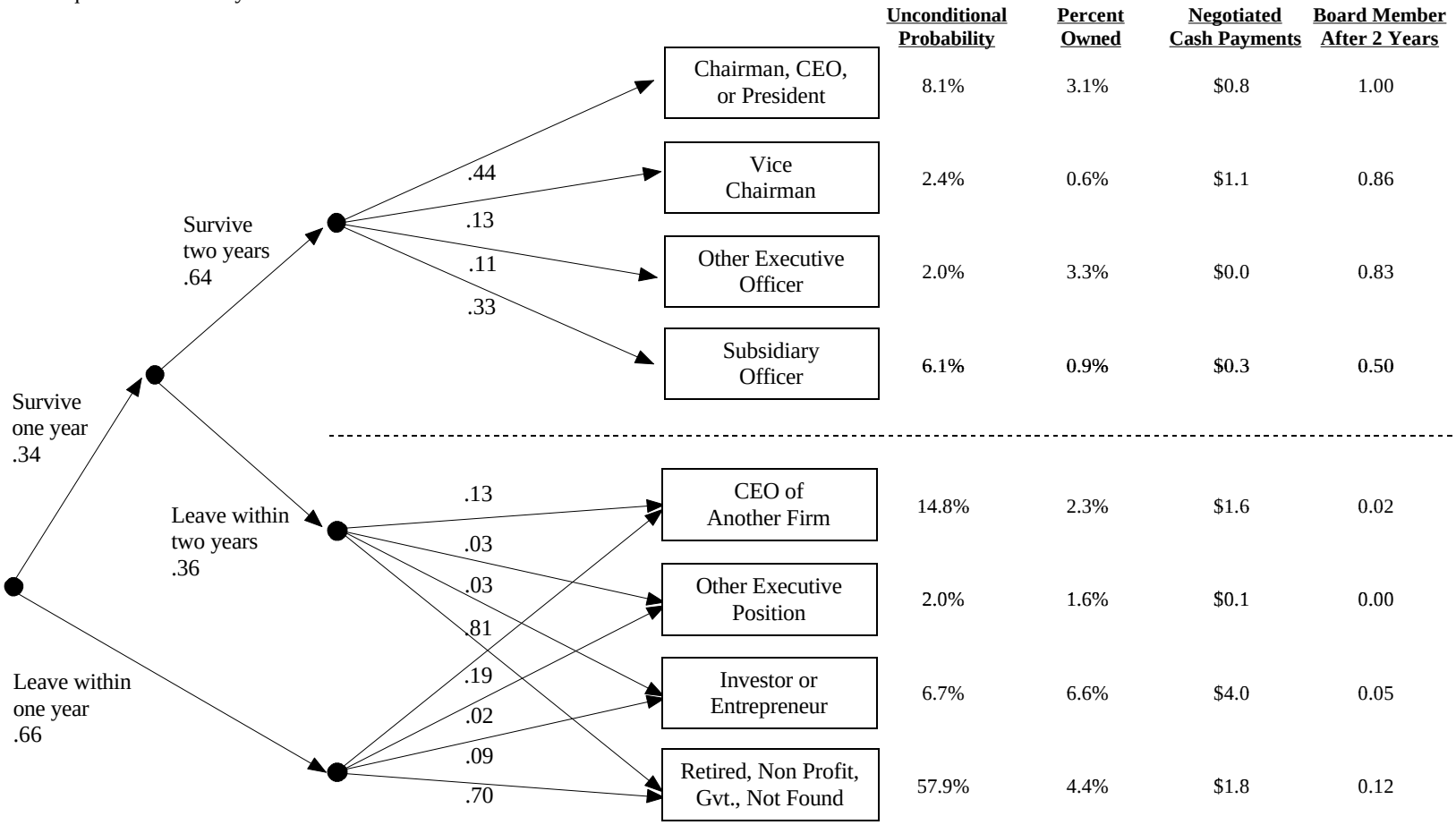
Figure 1

Post-acquisition career paths of CEOs whose firms are acquired

Career paths of CEOs of 311 large firms that are acquired between 1995 and 1997. The first node shows the probability of the target CEO remaining employed by the buyer for the first year following the merger, according to the first proxy statement filed after the acquisition. The second node shows, for those CEOs who survive the first year, the probability of reamaining employed after an additional year. Boxes show target CEOs' positions after two years, followed by mean values of certain summary statistics. Negotiated Cash Payments represent increases in golden parachutes and awards of cash bonuses as part of acquisition agreements. The sample is identified from the Securities Data Corp. database, and information about CEOs is obtained from proxy statements and other SEC filings. Approximately 8 percent of the sample of target CEOs are excluded from the chart because their new firms are also acquired within two years of the first transaction.



	Unconditional Probability	Percent Owned	Negotiated Cash Payments	Board Member After 2 Years
Chairman, CEO, or President	8.1%	3.1%	$0.8	1.00
Vice Chairman	2.4%	0.6%	$1.1	0.86
Other Executive Officer	2.0%	3.3%	$0.0	0.83
Subsidiary Officer	6.1%	0.9%	$0.3	0.50
CEO of Another Firm	14.8%	2.3%	$1.6	0.02
Other Executive Position	2.0%	1.6%	$0.1	0.00
Investor or Entrepreneur	6.7%	6.6%	$4.0	0.05
Retired, Non Profit, Gvt., Not Found	57.9%	4.4%	$1.8	0.12

Table 1
Characteristics of CEOs of acquired companies

Descriptive statistics about the ownership, compensation, and other characteristics of CEOs of acquired companies. The sample includes 311 large firms acquired between 1995 and 1997. The sample is identified from databases maintained by Securities Data Corporation. Information about CEOs and their firms is obtained from proxy statements filed during the last year prior to the transaction. The dummy variables for separate chairman and separate president equal one if a person other than the CEO serves in these positions.

Variable	Mean	Median	Max.	Obs.
CEO shares/shares outstanding	0.036	0.008	0.506	285
CEO total options/shares outstanding	0.016	0.011	0.211	285
CEO salary prior to acquisition ($000)	423	351	2,494	289
CEO bonus prior to acquisition ($000)	375	170	5,965	289
CEO age	54	54	74	290
CEO tenure less than five years dummy	0.496	0	1	290
Separate president dummy	0.285	0	1	298
Separate chairman dummy	0.305	0	1	298

Table 2
Transaction characteristics

Descriptive statistics about the acquisitions of 311 large firms between 1995 and 1997. Information is obtained from databases maintained by Securities Data Corporation and the Center for Research in Securities Prices. The value of target and buyer firms is measured one month prior to the date of the first offer. The premium received by target shareholders is calculated relative to the transaction announcement date. SDC premium calculations assume that the transaction is completed according to terms announced in the merger agreement. CRSP premium calculations are based on actual market prices of the target's stock.

Variable	Mean	Median	Max.	Obs.
Target value prior to the offer ($MM)	1,267	386	21,446	309
Buyer value prior to the offer ($MM)	3,345	1,279	51,196	309
Target value/buyer value	0.442	0.317	3.020	309
Unsolicited dummy	0.026	0	1	309
Total premium, four weeks, SDC data	0.348	0.304	1.259	308
Stock return, two days, CRSP data	0.155	0.137	0.854	309
Stock return, 20 days, CRSP data	0.227	0.211	1.412	309

Table 3
Gains received by target CEOs

Wealth increases and governance considerations obtained by the CEOs of target firms in completed acquisitions. The sample includes 311 large firms acquired between 1995 and 1997. Information is obtained from forms S-4 or similar documents filed with the SEC at the time of the acquisition. Gains in the value of CEO stock holdings are computed using four-week premiums as measured by both the SDC and CRSP databases. Option gains are calculated similarly using an assumption that all options are at- or in-the-money prior to the transaction. Golden parachute payments are calculated based on information from the target company's last proxy statement filed prior to the transaction. Augmented parachutes and additional bonuses represent special merger-related payments awarded to CEOs at the time of the acquisition. Total gains equals the sum of the five components of stock gains and cash gains.

Panel A: Monetary gains

Variable	Mean	Median	Max.	Obs.
Stock gains				
Share gains (use 20 day CRSP return) ($000)	4,248	1,338	129,100	290
Option gains (use 20 day CRSP return) ($000)	656	230	8,267	283
Cash gains				
Parachute (69% nonzero) ($000)	1,465	900	24,977	277
Augmentation of parachute (12% nonzero) ($000)	394	0	36,945	272
Additional bonus (27% nonzero) ($000)	1,201	0	60,000	272
Total gains				
Total gains (20 day CRSP return) ($000)	8,117	3,830	132,360	243
Total gains (four week SDC premium) ($000)	11,768	5,321	217,750	242
Total gains/Salary+bonus (20 day CRSP return)	10.2	6.4	118.2	242
Total gains/Salary+bonus (four week premium)	16.0	8.8	200.4	241

Panel B: Other gains

Variable	Mean	Median	Max.	Obs.
CEO remains as officer	0.503	1	1	290
CEO remains as director	0.571	1	1	289
Number of target members on new board	2.314	2	15	287
Target board members/new buyer board size	0.176	0.167	0.545	285
Buyer changes name	0.147	0	1	279

Table 4
Status of target CEOs who become officers and directors of the buyer

Compensation and subsequent employment status of CEOs of target firms in completed acquisitions who accept positions with the acquirer. The sample includes 311 large firms acquired between 1995 and 1997. Information is obtained from proxy statements filed with the SEC for the three years following the acquisition.

Panel A: CEO status

Variable	Mean	Median	Max.	Obs.
CEO remains as officer after one year	0.344	0	1	311
CEO remains as director after one year	0.428	0	1	311
Ratio of new CEO salary to old salary	1.176	1.086	6.752	98
Ratio of new CEO bonus to old bonus	1.343	1.194	4.982	83
CEO receiving severance in year 1 dummy	0.132	0	1	281
Severance paid in year 1 ($000)	3,771	1,500	30,000	37

Panel B: Departure rate by CEO new position at new firm

	Cumulative departure rate of target CEO			
New position after the merger	One year	Two years	Three year	Obs.
CEO, president, chairman	0.231	0.495	0.673	52
Other executive officer	0.333	0.500	0.750	21
Executive in a subsidiary	0.255	0.627	0.761	51
Vice chairman	0.593	0.715	0.857	27

Table 5
CEO monetary gains and offer characteristics

Ordinary least squares and Tobit estimates of monetary gains obtained by CEOs in a sample of 311 large firms acquired between 1995 and 1997. The dependent variable in the left column includes gains from equity appreciation, option appreciation, golden parachutes, augmented parachutes, and additional merger-related bonuses. Coefficients are estimated using OLS. The dependent variable in the middle column includes payments from golden parachutes, augmented parachutes and merger-related bonuses. The dependent variable in the right column includes special merger-related bonuses and augmented parachutes only. Coefficients for the middle and right columns are estimated using Tobit. The market capitalization of target and buyer firms is measured one month prior to the first offer made by the buyer. Excess return of the target for the prior year is measured over the one year period ending 20 days prior to announcement of the merger, relative to the CRSP value weighted index. Expected years to retirement equals the greater of zero or 65-age. Excess compensation is the residual from a regression model described more fully in the text. Data is obtained from proxy statements, forms S-4, and similar SEC filings.

Dependent variable:	All cash and stock gains	Total cash gains	Negotiated cash gains
Intercept	6,003,767[b]	1,067,500	-6,003,640[a]
	(2.36)	(0.79)	(2.58)
Target CEO remains as an officer	-4,461,749[b]	-1,593,160	-4,707,730[b]
	(2.10)	(1.44)	(2.52)
Target CEO remains as a director	2,283,937	1,403,040	2,394,190
	(1.05)	(1.25)	(1.26)
Expected years to retirement	-400,374[a]	-122,961[c]	-11,156
	(2.93)	(1.70)	(0.09)
Target value/buyer value	4,090,653	2,582,580[c]	3,055,560
	(1.41)	(1.72)	(1.22)
Target value prior to acquisition ($000)	1.9[a]	1.0[a]	0.8[a]
	(5.54)	(5.92)	(2.80)
CEO shares/shares outstanding	75,528,567[a]	-9,144,300	-3,553,860
	(5.96)	(1.31)	(0.32)
Excess return of target (prior year)	5,501,925[b]	1,483,970	1,145,680
	(2.11)	(1.09)	(0.49)
Excess CEO compensation	3.7[a]	4.1[a]	3.2[a]
	(3.21)	(6.65)	(3.23)
Observations	231	231	245

a,b,c denotes significantly different from zero at the 1, 5, and 10 percent levels.

Table 6
CEO monetary gains and offer characteristics

Ordinary least squares and Tobit estimates of monetary gains obtained by CEOs in a sample of 311 large firms acquired between 1995 and 1997. Variable definitions and regression types are the same as in Table 5. Data is obtained from proxy statements, forms S-4, and similar SEC filings.

Dependent variable:	All cash and stock gains	Total cash gains	Negotiated cash gains
Intercept	6,398,327[b]	1,232,560	-5,695,480[b]
	(2.55)	(0.94)	(2.52)
Target CEO remains in a top 3 position	-4,679,918[c]	-2,237,790	-5,016,390[b]
	(1.77)	(1.63)	(2.09)
Target CEO remains as an executive officer	-4,566,687	-1,409,060	-7,965,860[b]
	(1.34)	(0.79)	(2.13)
Target CEO remains as vice chairman	-2,393,338	873,524	211,766
	(0.71)	(0.51)	(0.08)
Target CEO remains as an officer of subsidiary	-2,151,989	-383,766	-2,925,490
	(0.86)	(0.29)	(1.30)
Expected years to retirement	-406,675[a]	-126,066[c]	8,873
	(2.88)	(1.71)	(0.07)
Target value/buyer value	4,990,794[c]	3,315,490[b]	3,925,110
	(1.67)	(2.17)	(1.55)
Target value prior to acquisition ($000)	1.9[a]	1.1[a]	0.8[a]
	(5.56)	(6.00)	(2.73)
CEO shares/shares outstanding	74,439,448[a]	-9,524,230	-4,375,870
	(5.83)	(1.36)	(0.39)
Excess return of target (prior year)	5,332,963[b]	1,362,870	916,976
	(2.03)	(1.00)	(0.39)
Excess CEO compensation	3.5[a]	3.9[a]	3.0[a]
	(3.01)	(6.42)	(3.00)
Observations	231	231	245

a,b,c denotes significantly different from zero at the 1, 5, and 10 percent levels.

Table 7
Tradeoff between CEO gains and shareholder premiums

Ordinary least squares estimates of target shareholders' stock premiums in a sample of 311 large firms acquired between 1995 and 1997. The dependent variable equals the return to target shareholders over the 20-day period up to and including the acquisition announcement date. Regressions in the left and middle columns include the entire sample. The regression in the right column includes the subsample where the total value of shares and options held by the CEO is below the sample median of $12.15 million.

Dependent variable:	Target return, 20 days		
Sample:	Full sample	Full sample	Low CEO holdings
Intercept	0.346[a]	0.346[a]	0.417[a]
	(8.69)	(8.84)	(7.64)
Sum of all CEO benefit dummies		-0.025[c]	-0.039[b]
		(1.77)	(2.17)
Augmentation of parachute dummy	-0.031		
	(0.76)		
Additional bonus dummy	-0.026		
	(0.84)		
Target CEO remains in a top 3 position	-0.012		
	(0.27)		
Target CEO remains as an executive officer	-0.068		
	(1.23)		
Target CEO remains as vice chairman	-0.004		
	(0.07)		
Target CEO remains as an officer of subsidiary	-0.024		
	(0.63)		
Target CEO remains as a director	-0.031		
	(0.89)		
Expected years to retirement	-0.005[b]	-0.006[a]	-0.006[b]
	(2.44)	(2.80)	(2.31)
Target value/buyer value	-0.070[c]	-0.067[c]	-0.080
	(1.81)	(1.82)	(1.46)
CEO shares/shares outstanding	0.152	0.164	-1.132
	(0.77)	(0.85)	(0.99)
CEO (shares+options)*price, ($MM)	-0.0003[c]	-0.0003[c]	-0.0005
	(1.79)	(1.81)	(0.08)
Unsolicited offer dummy	0.128	0.135	0.117
	(1.43)	(1.54)	(1.18)
Target CEO becomes CEO of another firm	-0.035	-0.032	-0.045
	(0.88)	(0.83)	(0.82)
Excess return of target (prior year)	0.062[c]	0.063[c]	0.010
	(1.80)	(1.86)	(0.25)
Observations	254	254	128
Adjusted R^2	0.051	0.070	0.073

a,b,c denotes significantly different from zero at the 1, 5, and 10 percent levels.