How Does Financial Reporting Affect the Market for Corporate Control?

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Abstract

US listed firms with reduced financial reporting ("non-accelerated filers" and "smaller reporting companies") are 20% less likely to become takeover targets, compared with other firms. This result holds across several empirical specifications, including regression discontinuity analyses (around the public float cutoff to qualify for reduced reporting) and difference-in-differences tests (using the 2007 regulatory change that introduced the "smaller reporting companies" classification). If they are acquired, reduced-reporting firms are less likely to be paid in cash but receive higher premia than other targets. We find no evidence (using both stock market and accounting performance metrics) that their acquirers are worse off than other acquirers. Consistent with the rationale that financial reporting alleviates asymmetric information, reduced-reporting firms are targeted later in merger waves relative to their industry peers and are subject to a permanent stock price revaluation when M&A deals fail.

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1. Introduction

The relation between the quality of public information about an asset and the probability (and speed) of trading the asset – i.e., its liquidity – is theoretically ambiguous.[1] On the one hand, models of asymmetric information à la Akerlof suggest that an increase in public information about an asset reduces the adverse selection faced by its potential buyers and thus increases the chances that the asset is sold. On the other hand, the correlation between the quality of public information and liquidity may be negative if having private information is critical for the potential buyer and public information discourages the acquisition of private information (as in Grossman and Stiglitz, 1980): in that case, an increase in public information might reduce the probability of a sale.

In this paper, we want to shed light on the effect of financial reporting on trade by focusing on the market for corporate control. In the US, smaller public firms can take advantage of less onerous financial reporting than larger firms. We find that reduced financial reporting is associated with a lower probability of being a target in an M&A transaction, controlling for the other determinants of M&A activity identified in the literature.

To motivate our analysis, we present a simple asymmetric information model in which the quality of the financial reporting of the target decreases the acquirer's incentives to acquire private information. The model delivers three key predictions: (i) the probability that a firm becomes an M&A target is increasing in the quality of the financial reporting of the target; conditional on a deal, (ii) the premium paid by the acquirer is inversely related with the quality of financial reporting, and (iii) cash is a less common (and stock a more common) means of payment if the

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[1] See the discussion in Goldstein and Yang (2017).

quality of financial reporting is poorer. We empirically test these predictions using M&A data for listed US firms over the 2002-2019 period.

To build our dataset, we start from Audit Analytics, which identifies whether firms file as "non-accelerated filers" (NAFs) [from 2002 onwards] or as "smaller reporting companies" (SRCs) [from 2007 onwards]. We merge the data from Audit Analytics to Compustat/CRSP (financials and stock returns) and to SDC Platinum (M&A data).

The first step in our analysis is to confirm that NAFs and SRCs report less financial information than other firms. To measure the quality of disclosure we follow Chen, Miao, and Shevlin (2015). Using their methodology reveals that on average, NAFs have 4.6% lower disclosure quality than other firms and that the disclosure quality for SRCs is 5.1% worse than for non-SRCs. NAFs (SRCs) are also 41.8% (37%) less likely to have any analyst following than non-NAFs (non-SRCs). The combination of these results indicates that firms which file as either NAFs or SRCs trade with less informative public information.

Having established that the indicator for NAF or SRC is a good proxy for the quality of public information about a firm, we study whether this variable has any effect on the probability that a firm is a target in an M&A deal. For this purpose, we estimate the probability of becoming an M&A target by augmenting the specification in Fich, Starks and Tran (2022) with (target firm) state-by-year fixed effects to control for time-varying state-level regulation changes.

In line with our model's first prediction, our key finding is that NAFs and SRCs are about 20% less likely to be targets in an M&A transaction than other firms. Conditional on a deal, NAFs and SRCs receive higher takeover premia relative to their pre-announcement stock price. Our interpretation for this finding, which supports the second prediction of our theoretical model, is that only bidders that gather private information to reduce the asymmetry of information are

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willing to bid for NAFs and SRCs. Moreover, consistent with our model's third prediction, the means of payment analyses show that bidders use less cash (and more stock) to acquire a target associated with less financial disclosure, arguably to protect themselves against adverse selection.

A concern with our empirical analyses is the endogeneity of NAFs (or SRCs). In fact, filing as NAFs (or SRCs) is a mixture of voluntary and mandatory disclosure. Specifically, only firms with a public float below $75M can file as NAFs (after 2002) or as SRCs (after 2007). Hence, disclosure is mandatory for firms with a public float above $75M, while it is voluntary for firms below $75M in public float. To complicate things, as Ewens, Xiao, and Xu (2024) show, firms manage their public float and sometime choose to bunch below the $75M cutoff to qualify for reduced disclosure.

To alleviate these concerns, we show that controlling for public float does not change our key findings. The results also hold when we adopt a regression discontinuity design and restrict our attention to firms close to the disclosure cutoff. Furthermore, we exploit the 2007 reform introducing the designation of "Smaller Reporting Company" in difference-in-differences (DiD) tests: the SEC allowed a subset of NAFs (i.e., those with less than $50 million in annual revenues) to report less detailed information. Our DiD analyses indicate that the probability of becoming an M&A target declines by between 2.0 and 3.1 percentage points for treated firms (i.e., SRCs) relative to other firms. This is an economically large effect since the unconditional probability of becoming an M&A target in our sample is 3.9 percentage points.

We also provide further evidence in support of the information channel. First, we follow Song and Walkling (2000) and Cai, Song, and Walkling (2011) and use the "dormant period" prior to a merger announcement to study information transfers in financial markets. These authors define a dormant period as the calendar time preceding acquirer bids within an industry. Our interest is in

reduced disclosure targets, and whether these low information firms receive takeover bids after other comparable firms do. If low disclosure firms are less attractive ex ante or more difficult to value, they should exhibit shorter dormant periods, indicating that these firms are "picked" later in a merger wave. That is what we find: NAFs (and SRCs) have a 20%-shorter dormant period than other filers. Likewise, NAFs (SRCs) targeted by acquirers in the same industry have significantly shorter dormant periods than AFs (non-SRCs) targeted within an industry.

Second, our paper argues that NAFs and SRCs trade at a discount due to adverse selection, that is, they are relatively undervalued because of the greater asymmetry of information they face. The undervaluation disappears once a bidder appears, as the market learns that there is interest in buying the firm. To corroborate this valuation effect, we follow Malmendier, Opp, and Saidi (2016) and examine target revaluations after withdrawn M&A deals. For this test, we collect information on failed merger deals and tender offers during our sample period and combine that data with information from Compustat/CRSP, and Audit Analytics. According to the results, after their takeovers fail, NAFs (SRCs) exhibit revaluations that are 24.8 to 41.4 percentage points higher than other filers.

Our interpretation of the results is that potential acquirers are less likely to target NAF and SRC filers because these limited reporting firms are associated with greater asymmetric information. An alternative interpretation of the results is that NAFs and SRCs are worse targets than other firms, and bidders rightly stay away from them. To evaluate this hypothesis, we examine the Cumulative Abnormal Returns (CARs) for the acquirer around the M&A announcement and compare CARs depending on whether the target is a NAF or an SRC. We find no statistically significant difference in the bidder announcement CARs involving NAFs or SRCs and the CARs accruing to other bidders. Using the same taxonomy, we find no difference in goodwill impairment

and no changes in accounting performance in the years following the acquisitions. This evidence provides no support for the view that NAFs and SRCs are systematically worse than other targets.

This paper complements the work by Ortiz et al. (2023), who show that mandatory disclosure increases M&A activity among private firms in a sample of European countries. Their approach is to assess the probability of an M&A deal in an industry, before and after the introduction of stricter mandatory disclosure requirements at the country level. By contrast, our work considers the US setting, where private firms face no disclosure requirements and smaller public firms can opt for lower disclosure than larger ones.

Our work is related to studies on the determinants of M&A activity in the US. Recent articles in this area include Jenter and Lewellen (2015), who show that that the retirement preferences of CEOs affect their decision to sell a public firm; Fich et al. (2022), who find that firms that advertise are more likely to initiate their own takeovers; and Guo, Liu, and Tu (2023), who indicate that firms selected by investment banks as comparable peers of an M&A target are themselves more likely to become targets. Our results on the impact of NAF and SRC filing status on the likelihood of becoming an M&A target provides novel evidence to this literature.

Our paper also contributes to the literature on financial disclosure and its effects on the wealth of target and acquirer shareholders. Research on this matter shows that acquirers strategically disclose news that will depress the target's stock price during all-cash acquisitions (Kim, Verdi, and Yost, 2020) or that will increase their own stock price in stock-financed deals (Ahern and Sosyura, 2013). More recently, Stewart (2023) finds that changes in appraisal rights at the state level affects the willingness of targets managers to disclose information about their firms. We add to this literature by showing that limited disclosure affects the target gains during M&A deals, as NAFs and SRCs earn higher M&A premiums, on average. Importantly, however, those gains do

not come at the expense of the acquirer shareholders. In this vein, our work also advances the literature showing that while the disclosure exemptions afforded to NAFs and SRCs seem innocuous, they are associated with economically important wealth effects. For example, Beneish, Billings, and Hodder (2008) find that upon the filing Section 302 disclosures on material weaknesses, required by the Sarbanes-Oxley Act, NAFs earn significantly lower CARs (-4.22%) than accelerated filers (-1.10 %). More recently, Yin et al. (2024) find that SRCs exhibit higher default risk and Wang (2023) shows that although SRCs save on audit fees, they are associated with reduced R&D.

The structure of the paper is as follows. To motivate the analysis, in section 2, we present a stylized model to illustrate the impact of financial reporting on M&A activity. In section 3, we introduce the data and empirical methodology. In section 4, we present the main findings. Further analyses are discussed in section 5; the conclusion is in section 6. The appendix presents definitions for all the variables we use.

2. Motivation and Empirical Predictions

The purpose of this section is to present a stylized model that describes the trade-off involved in the choice of the amount of disclosure (provided by financial reporting) as it relates to mergers and acquisitions. The model's results will inform the empirical analysis that constitutes the key contribution of the paper.

2.1 Timeline

The true value of the firm A (the target) as a standalone is $\tilde{V}$, which is *ex-ante* distributed as follows:

$$\tilde{V} = \begin{cases} 1 + \Delta & w/p & 1/4 \\ 1 & w/p & 1/2 \\ 1 - \Delta & w/p & 1/4 \end{cases} \tag{1}$$

A potential acquirer (B) can generate synergies $\tilde{S}$ from the acquisition of A that are also unknown and distributed as follows:

$$\tilde{S} = \begin{cases} 2\sigma & w/p & 1/4 \\ \sigma & w/p & 1/2 \\ 0 & w/p & 1/4 \end{cases} \tag{2}$$

The timeline of the model is as follows:

- t=0: within the limits afforded by the regulatory regime, the CEO of firm A chooses between high and low financial reporting. High financial reporting costs $c_R > 0$ to the firm, as compared to low financial reporting.

- t=1: a public signal $\theta \in \{\emptyset, H, L\}$ is produced where $\theta = \emptyset$ indicates low financial reporting; and $\theta = \{H, L\}$ indicates whether the signal from the high financial reporting is good (H) or bad (L).

- t=2: firm A's market price $\hat{V}$ is set based on the public information θ available.

- t=3: nature chooses $\tilde{V}$ and $\tilde{S}$; A's shareholders learn $\tilde{V}$; and the potential acquirer B chooses whether to acquire private information at cost $\gamma > 0$ to learn $\tilde{S}$.

- t=4: B makes a take-it-or-leave-it offer P (in cash) to A's shareholders. If the offer is accepted, B obtains $\tilde{V} + \tilde{S} - P$; A's shareholders get P. If the offer is rejected, firm B gets nothing, A's shareholders get $\tilde{V}$; and A's CEO gets a private benefit of control $b > 0$.

2.2 Assumptions

Computing the conditional expectations shows that financial reporting affects the quality of the public information (and thus the market price of firm A) available about firm A at t=2:

$$\hat{V} = \begin{cases} 1 + \frac{\Delta}{2} \equiv V_H & if \quad \theta = H \\ 1 - \frac{\Delta}{2} \equiv V_L & if \quad \theta = L \\ \quad 1 & if \quad \theta = \emptyset \end{cases} \tag{3}$$

where we assumed that $\Pr(\theta = H | \tilde{V} = 1 + \Delta) = \Pr(\theta = L | \tilde{V} = 1 - \Delta) = 1$ and $\Pr(\theta = H | \tilde{V} = 1) = \Pr(\theta = L | \tilde{V} = 1) = 1/2$. These assumptions also imply that in case of high financial reporting, the distribution of $\hat{V}$ as of t=0 becomes:

$$\hat{V} = \begin{cases} V_H & w/p \quad 1/2 \\ V_L & w/p \quad 1/2 \end{cases} \tag{4}$$

and there is learning: $\Pr(\tilde{V} = 1 + \Delta | \hat{V} = V_H) = \Pr(\tilde{V} = 1 | \hat{V} = V_H) = 1/2$ and

$\Pr(\tilde{V} = 1 - \Delta | \hat{V} = V_L) = \Pr(\tilde{V} = 1 | \hat{V} = V_L) = 1/2$. In case of low financial reporting, $\hat{V} = 1$

and there is no informational update from what stated in equation (1).

We also assume that there is a positive correlation between $\tilde{V}$ and $\tilde{S}$: specifically, $Pr(\tilde{S} = 2\sigma | V_H) = Pr(\tilde{S} = \sigma | V_H) = 1/2$ and $Pr(\tilde{S} = \sigma | V_L) = Pr(\tilde{S} = 0 | V_L) = 1/2$. This also implies that learning $\tilde{S}$ (at a cost γ) provides information about $\tilde{V}$. Specifically, $Pr(V_H | \tilde{S} = 2\sigma) = 1, Pr(V_H | \tilde{S} = \sigma) = 1/2$, and $Pr(V_H | \tilde{S} = 0) = 0$ and $Pr(V_L | \tilde{S}) = 1 - Pr(V_H | \tilde{S})$.[2]

We also assume that $\frac{3\sigma}{2} > \Delta > \sigma$: these inequalities imply that the acquirer is relatively less worried about the asymmetry of information when $\theta = H$ as compared with the case when $\theta = L$ or there is no signal ($\theta = \emptyset$). Finally, we assume that the cost of learning is sufficiently low ($\gamma \leq \frac{\Delta - \sigma}{8}$) for private information to be valuable in the absence of public information.

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[2] With these assumptions, we have implicitly assumed that high financial reporting provides a sufficient statistic: $E(\tilde{V} | \hat{V}, \tilde{S}) = E(\tilde{V} | \hat{V})$ and $E(\tilde{S} | \hat{V}, \tilde{V}) = E(\tilde{S} | \hat{V})$ if $\hat{V} = (V_H, V_L)$.

2.3 Subgame with high financial reporting

Consider first the case in which financial reporting is high; also assume for now that the potential acquirer B does not acquire the private information. If $\hat{V} = V_H$, B has to decide whether to bid $P = 1 + \Delta$, in which case the deal will happen with probability 1 but there is a positive chance to overpay; or to bid $P = 1$, in which case the deal will only happen with probability ½ (as the shareholders will not tender if $\tilde{V} = 1 + \Delta$) but there is no risk of overpayment. The expected profit from bidding $P = 1 + \Delta$ is $\pi = E(\tilde{S}|\hat{V} = V_H) - \frac{\Delta}{2} = 3\sigma/2 - \Delta/2$; while the expected profit from bidding $P = 1$ is $\pi = \frac{1}{2}E(\tilde{S}|\hat{V} = V_H) = 3\sigma/4$. As $3\sigma/2 > \Delta$, bidding $P^* = 1 + \Delta$ is optimal.

If $\hat{V} = V_L$, B chooses between $P = 1$, in which case the deal will happen with probability 1 and there is a chance of overpaying; or $P = 1 - \Delta$, in which case the deal will only happen with probability ½ (as the shareholders will not tender if $\tilde{V} = 1$) but there is no risk of overpayment. The expected profit from bidding $P = 1$ is $\pi = E(\tilde{S}|\hat{V} = V_L) - \frac{\Delta}{2} = \frac{\sigma - \Delta}{2} < 0$; while the expected profit from bidding $P = 1 - \Delta$ is $\pi = \frac{1}{2}E(\tilde{S}|\hat{V} = V_L) = \sigma/4$. So, bidding $P^* = 1 - \Delta$ is optimal.

Combining the two cases above, the first result is thus:

Result 1: When there is high financial reporting, the probability of a merger is $p = 3/4$ and the expected premium, conditional on a deal, is $E(P - \hat{V}|Deal) = \Delta/6$.

It is easy to show that acquiring private information is not valuable when there is high financial reporting. As in Grossman and Stiglitz (1980), public information discourages the creation of private information. Choosing a high financial reporting here has the same role as choosing safe debt in Gorton and Pennacchi (1990): it makes the value of the target less sensitive to private information. The advantage of acquiring private information is to bid only when $\tilde{S} = 2\sigma$. If $\hat{V} =$

V_H, the expected profit bidding only when $\tilde{S} = 2\sigma$ is $\pi = \frac{1}{2}(2\sigma - \frac{\Delta}{2})$, which is smaller than the expected profits B obtains by bidding with probability 1 ($\pi = 3\sigma/2 - \Delta/2$): the reason is that conditional on $\hat{V} = V_H$, the expected synergies are high enough to compensate for the overpayment. If $\hat{V} = V_L$, there is equally no value to learn $\tilde{S}$ because B faces no risk (as B is bidding at the lowest price $P = 1 - \Delta$) and bidding $P = 1$ remains unprofitable.

2.4 Subgame with low financial reporting

We now turn to the subgame with low financial reporting. As we did in the previous section, we consider first the case in which the potential acquirer does not acquire the private information. If B bids $P = 1 + \Delta$, the deal will happen with probability 1 but there is a large chance of overpaying: the associated expected profits are $\pi = E(\tilde{S}) - \Delta = \sigma - \Delta < 0$. Bidding $P = 1$ yields $\pi = \frac{1}{2}E(\tilde{S}|\tilde{V} = 1) + \frac{1}{4}[E(\tilde{S}|\tilde{V} = 1 - \Delta) - \Delta] = \frac{5\sigma}{8} - \frac{\Delta}{4} > 0$: the deal happens with probability 3/4 (as the shareholders will not tender if $\tilde{V} = 1 + \Delta$) and the risk of overpayment is reduced. Bidding $P = 1 - \Delta$ eliminates completely the risk of overpayment but reduces the probability of a deal to 1/4 yielding expected profits $\pi = \frac{1}{4}E(\tilde{S}|\tilde{V} = 1 - \Delta) = \sigma/8$. As $2\sigma > \Delta$, bidding $P^* = 1$ is optimal.

With low financial reporting acquiring private information is potentially valuable. There are two reasons: (i) the value of the synergies $\tilde{S}$ may more than compensate the loss due to the adverse selection problem; and (ii) learning $\tilde{S}$ also reduces the adverse selection problem itself, as $\tilde{S}$ and $\tilde{V}$ are positively correlated. With private information, bidding $P = 1$ is no longer optimal: the advantage that private information provide is to bid only when the synergies are large, $\tilde{S} = 2\sigma$. Bidding $P = 1$ yields a deal only with probability 1/8 and expected profits $\pi = \frac{\sigma}{4}$; but bidding $P =$

$1 + \Delta$ yields more: the probability of a deal increases to ¼ and the expected profits become $\pi =$

$\frac{1}{4}\left(2\sigma - \frac{\Delta}{2}\right) = \frac{\sigma}{2} - \frac{\Delta}{8}$. As the cost of learning is sufficiently low $(\gamma \leq \frac{\Delta - \sigma}{8})$, acquiring private

information and bidding $P^* = 1 + \Delta$ is optimal in this case.

The second result is therefore:

Result 2: With low financial reporting, the probability of a merger is $p = 1/4$ and the takeover

premium (conditional on a deal) is $E\left(P - \hat{V}|Deal\right) = \Delta$.

2.5 Choice of financial reporting

We will start by assuming that the CEO has full control over the choice of financial reporting.

Then, we will consider the effect of mandatory reporting regulation.

The CEO chooses financial reporting to maximize an objective function which depends on

both the shareholder value and the private benefits of control. Specifically, the objective function

is:

$$U = \alpha\left[E(\tilde{V}) + pE\left(P - \tilde{V}|Deal\right) - c_R\right] + (1 - p)b, \qquad (5)$$

where α measures the degree of alignment between the CEO objectives and shareholder value.

The presence of the private benefit of control and the imperfect alignment between CEO utility

and shareholder value increase the reservation price of the company for CEO as compared with

the shareholders. This implies that the CEO has a bias in favor of low financial.

Result 3: Without mandatory reporting, the CEO is likely to opt for low financial reporting.

What is the effect of mandatory financial reporting? Given that firms are likely to choose low

financial reporting otherwise, the reform will be binding for most firms. Conversely, a relaxation

of mandatory reporting will be adopted by all firms, causing a reduction in the quality of financial reporting.

2.6 Empirical predictions

The combination of Result 1 and Result 2 yields the following empirical predictions:

Prediction 1: Firms with high financial reporting are relatively more likely to be acquired than firms with low financial reporting. A mandatory increase in financial reporting will be associated with an increase in the probability of a takeover. A relaxation of financial reporting requirements will be associated with a decrease in the probability of a takeover.

Prediction 2: Conditional on an M&A deal, the expected premium is higher if firms disclose less; a mandatory increase in financial reporting will be associated with a decrease in the expected takeover premium; and, conversely, a relaxation of financial reporting requirements will be associated with an increase in the expected takeover premium.

A further implication follows if we consider the choice of the means of payment. The bidder will often find it convenient to use stock rather than cash as a means of payment. Whenever in equilibrium there is pooling of different types, paying stock reduces the overall cost for the bidder. The intuition is that a given equity stake in the merged entity is worth less to shareholders who know that their own firm as a stand-alone is worth less. Although the payment of stock is unlikely to separate the types, it is reducing the cost for the bidder. This story departs from traditional models of asymmetric information in M&A (Hansen, 1987; Fishman, 1989; and Eckbo, Giammarino and Heinkel, 1990) because it emphasizes the target as the source of information asymmetry, rather than the bidder.

With high financial reporting, the use of stock is restricted to the case when $\hat{V} = V_H$ (when $\hat{V} = V_L$ only shareholders with $\tilde{V} = 1 - \Delta$ accept the offer, so there is no pooling). Specifically, B can offer to A's shareholders an aggregate share in the joint company α such that:

$$\alpha(1 + \Delta + 3\sigma/2 + B) = 1 + \Delta, \tag{6}$$

where B is the value of firm B as a standalone. This makes sure that the type $\tilde{V} = 1 + \Delta$ accepts the offer. As $\frac{1+\Delta}{1+\Delta+3\sigma/2+B}(1 + \sigma + B) < 1 + \Delta$, B is saving on the payment to type $\tilde{V} = 1$ compared to using cash. A similar argument applies when there is low financial reporting, or $\hat{V} = \emptyset$. In that case, the use of cash is never optimal and B should offer to A's shareholders an aggregate share in the joint company α such that:

$$\alpha(1 + \Delta + 2\sigma + B) = 1 + \Delta. \tag{7}$$

As $\frac{1+\Delta}{1+\Delta+2\sigma+B}(1 + 2\sigma + B) < 1 + \Delta$, B is saving (compared to using cash) with type $\tilde{V} = 1$ (*a fortiori*, using shares is also a saving with type $\tilde{V} = 1 - \Delta$).

This leads to a third empirical implication that will be tested in the empirical part of the paper:

Prediction 3: Conditional on a deal, acquirers should use more stock (and less cash) when the targets have lower financial reporting; a mandatory increase in financial reporting will be associated with a decrease in the use of stock as a means of payment (and an increase in the use of cash); and, conversely, a relaxation of financial reporting requirements will be associated with an increase in the use of stock as a means of payment (and a decrease in the use of cash).

The model has a fourth prediction to the extent that financial reporting is a choice variable for the firm. Result 3 suggests that firms with weaker corporate governance will be more likely to opt for low financial reporting:

Prediction 4: If firms can choose the level of financial reporting, firms with weaker corporate governance are likely to choose lower financial reporting.

3. Data and Empirical Methodology

In this section, we present the data and provide supporting evidence for the critical identifying assumption underlying our analysis.

3.1 Data

We start with all firms covered by the Audit Analytics' Accelerated Filer database for the fiscal years 2002 to 2019. This database tracks the historical filing status of public firms with the SEC as "accelerated filers," "non-accelerated filers," or "smaller reporting companies" as prescribed by Rule 12b-2 of the Securities Exchange Act. Firms can file as "non-accelerated filers" (NAFs) if they have a "public float" of less than $75 million, where float is the number of shares held by non-affiliates multiplied by the stock price on the last business day of the firm's most recently completed second fiscal quarter. The NAF status affords firms certain privileges, which include among others, less timely reporting dates (e.g., a 15-day (10-day) delay in filing form 10-K (10-Q)) and an optional exemption from the management's assessment of internal controls (required for SEC reporting companies by Section 404(b) of the Sarbanes-Oxley Act of 2002).

"Smaller reporting company" (SRC) is a designation introduced by the SEC in 2007, for firms with less than $75 million in public float and less than $50 million in annual revenues. In September 2018, these SRC thresholds increased to less than $250 million in public float and to less than $100 million revenues. However, the NAF thresholds remained unchanged. The SEC allows SRCs to curtail narrative discussion on various topics (e.g., less extensive disclosure about executive compensation) and to provide only 2 years of financial statements (as opposed to 3). Our

sample period begins in 2002 (when the NAF designation was created) and ends in 2019 because we require post-merger performance measures. Over this time frame, Audit Analytics identifies, through the Central Index Key (CIK), 11,234 individual companies which span 111,349 filer-years.

We merge the Audit Analytics' filing status data with both Compustat and CRSP (via historical CIK, CUSIP, Ticker, and Name) to obtain accounting characteristics and stock market information, respectively. This process reduces the sample to about 10,000 unique firms and 95,000 firm-years. We retain observations with non-missing values for key variables (and constituents) such as total assets, sales, leverage, market-to-book, operating cash flow, and fiscal year annual stock returns. Information on public float comes from the publicly shared data by Ewens et al. (2024). From the IBES database, we collect information on the number of analysts following each sample firm (if any). The appendix provides detailed definitions for all variables. Finally, to assess the influence of state-level regulatory regimes, we require that firms in our sample are incorporated in the US. This last requirement produces a sample of about 62,000 firm-years for 6,600 unique firms. We note that 2,900 firms file as Non-accelerated filers at least once while 13,000 firm-years have NAF filings. Similarly, there are nearly 2400 firms which file as SRCs in our sample and just over 10,000 firm-years (post-2007).

Panel A of Table 1 shows that 3.9 percent of our sample of publicly traded firms become takeover targets during our sample period.[3] For these firms, we collect merger and acquisition (M&A) data from the SDC Platinum database. We retain all completed and withdrawn deals flagged as a merger, majority acquisition, or acquisition. Because the relative information difference between low and high disclosing target firms affects public and private acquirer firms similarly, our M&A sample includes both public and private acquirers. However, as in Harford,

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[3] This unconditional probability is comparable to the 4.7 percentage points reported by Jenter and Lewellen (2015).

Jenter, and Li (2011), we require that acquirer firms hold less than 50% of the target's equity pre-acquisition, seek to acquire more than 50% in the course of the deal, and own more than 90% of the target post-acquisition. Our M&A sample consists of 2,363 completed deals and 211 withdrawn transactions.

To assess the performance of our M&A deals, we use the "Offer Premium 4 Weeks Prior to Announcement" from SDC, and impute missing values using stock price data from CRSP when trading data are available. Following Officer (2003), we winsorize the Offer Premium between 0 and 2. We also draw payment information from SDC to determine the proportions of cash and stock used to pay for the consideration. When the acquirer firm is public, we estimate their M&A announcement cumulative abnormal return (CAR) with data from CRSP, as well as the incidence of goodwill impairment charges and post-merger accounting performance using Compustat data.

Panel B of Table 1 provides summary statistics for our M&A sample. We note that 21.4% (22.2%) of all target firms enjoy the NAF (SRC) designation. This is similar to the overall incidence of NAF filers in our firm-year panel. Our M&A sample is consistent with prior literature across several key dimensions. For example, both our average deal premium of 41 percentage points and the incidence of same-industry mergers comprising nearly two-thirds of the sample compare favorably to the summary statistics for the same variables as reported in other studies (see, for example, Eaton et al. (2022); Masulis and Simsir (2018)).

3.2 Identifying Assumption

Our empirical analyses are based on the identifying assumption that there is less public information on NAFs and SRCs than on other firms. In this section, we provide supportive evidence for this critical assumption.

First, we look at a measure of disclosure quality. To capture the extent of details in firms' financial reports, Chen et al. (2015) propose a measure of disclosure quality that tracks the level of disclosure disaggregation by counting non-missing Compustat line items. Consequently, in Table 2, we follow their work and measure disclosure quality as the ratio of non-missing Compustat items to total items. We regress disclosure quality on the NAF firm identifier (in column 1-4) and on the SRC firm identifier (in columns 5-8) while controlling for a set of firm-level variables and fixed effects. The control variables include leverage, firm size (measured as the natural logarithm of total assets), capital expenditures as a proportion of total assets, sales growth, market-to-book ratio, annual stock return, and the number of analysts following the firm. We also include industry (SIC1) x year fixed effects and state fixed effects. The inclusion of state fixed effects is particularly important given Stewart's (2023) finding that variations in appraisal rights across states impacts the inclination of target managers to release information about their firms.[4]

In columns 1 2, 5, and 6, we use the entire data, whereas in columns 3, 4, 7, and 8, we restrict our attention to firms targeted in M&A deals. In all specifications, the results are robust: on average, NAFs and SRCs have significantly lower disclosure quality than other firms. The estimates in column 1 indicate that NAFs have 4.8% lower disclosure quality, while those in column 3 show that, conditional on an acquisition, NAFs have 5.6% lower disclosure quality. Likewise, column 5 shows that SRCs have 5.1% lower disclosure quality, while the results in column 4 indicate that, conditional on acquisition, SRCs have 5.9% lower disclosure quality.

Next, we consider analyst coverage. As information intermediaries, analysts play a vital function in capital markets. Chang, Dasgupta, and Hilary (2006) argue that analysts refine complex

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[4] All empirical findings hold when we use either (target firm) state of incorporation fixed effects or (target firm) headquarter state fixed effects.

information so that it can be easily understood by less sophisticated investors. They also note that, due to their access to corporate managers and despite the mandates of Regulation Fair Disclosure, analysts further mitigate information asymmetry by providing facts not available to all market participants. In line with these assertions, there is evidence that analyst coverage improves the public information available about the firm. For example, Hong, Lim, and Stein (2000) find that stocks with greater analyst coverage exhibit less mispricing while Bowen, Chen, and Cheng (2004) show that the underpricing related to Seasoned Equity Offerings (SEOs) decreases with more coverage. Despite these benefits, analysts are more likely to cover larger firms (Chang, et al. 2006) and those that take less effort to follow (Barth, Kasznik, and McNichols, 2001).

With the above studies as a backdrop, in Table 3, we examine the relation between analyst coverage and NAF status (Panel A) and SRC status (Panel B). In both panels, the dependent variable in columns 1-4 is a dummy variable (labeled 1(Has Analyst)) set to 1 if a firm has an analyst following it in a given year, and set to 0 otherwise. The dependent variable in columns 5-8 is the number of analysts following a firm in a year while in columns 9-12 is the standard deviation of analyst forecasts, scaled by the stock's price (following Diether, Malloy, and Scherbina (2002), Cheong and Thomas (2011), among others). In both panels of Table 3, the control variables and fixed effects are similar to those in Table 2. In columns 1,2,3,6, 9 and 10 we use the entire data while in the remaining columns we focus on firms which are targets in M&As.

Across all specifications, we find that NAFs and SRCs are less likely to have analyst following and, conditional on having at least an analyst, they have fewer analysts than other firms. Looking at Panel A, column 1 indicates that NAFs are 33.9 percentage points less likely to have any analyst following. As shown in column 3, conditional on an acquisition, NAFs have a 30.5 percentage point lower likelihood of analyst coverage. Column 5 indicates that, conditional on having an

analyst, NAFs have 33.6% fewer analysts, which is approximately 2 fewer than the average firm in our sample.[5] According to column 7, conditional on an acquisition and having an analyst, NAFs have 32.3% fewer analysts, while the tests in column 9 reveal that NAFs have a forecast dispersion approximately two times larger than AFs. In Panel B, SRCs exhibit similar evidence.[6]

Notably, while Lang and Lundholm (1993) show that firms that voluntarily increase their financial reporting enjoy more analyst coverage, we find that those with decreased disclosure exhibit less coverage. Overall, the findings in Tables 2 and 3 support the identifying assumption that there is less public information on NAF and SRC firms than on other firms.

4. M&A Results

We now turn our attention to the market for corporate control. In this section, we study the effect of NAFs and SRCs on the probability of being an M&A target, and, conditional on a deal, the takeover premium paid and the means of payment used in the acquisition. Afterwards, we address endogeneity concerns by (a) looking at the role of public float, and (b) considering the 2007 reform which introduced the SRC designation.

4.1 Probability of being a takeover target

Table 4 reports four linear probability models in which the dependent variable, 1(Target), is a dummy variable equal to 1 if a firm is an M&A target in a year, and equal to 0 otherwise. The key explanatory variables are 1(NAF) (in columns 1 and 2) and 1(SRC) (in columns 3 and 4),

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[5] An average of 7.5 analysts cover our sample firms. This is close to the average the average of 7 analysts reported by He and Tian (2013).

[6] For example, SRCs are 30.3 percentage points less likely to have any analyst following (column 1); conditional on acquisition, SRCs have a 31.1% lower likelihood of analyst coverage (column 3); conditional on having an analyst, SRCs have 31.5% fewer analysts (column 5); and conditional on acquisition and having an analyst, SRCs have 29.4% fewer analysts (column 7).

respectively. In addition to the controls variables, Table 4 includes industry x year fixed effects and state fixed effects (in columns 1 and 3), and state x year fixed effects (in columns 2 and 4).

The impact of the control variables in Table 4 is consistent with previous studies. For example, as in Fich et al. (2022), we find negative and significant estimates for our (target's) firm size and stock return variables. Like Harford (1999), our estimates for the target's market-to-book ratio are negative and statistically significant. Similar to Cremers, Nair and John (2009), the leverage control earns a positive and significant coefficient.

Across all specifications, the probability of becoming a takeover target is statistically significantly lower for limited reporting firms. For an economic interpretation of the regression coefficient, in our sample the unconditional probability of being a target is 3.9 percentage points. Using this benchmark implies that the results in columns 1 and 2 indicate that NAFs have a 17.9% lower likelihood of becoming an M&A target while those in columns 3 and 4 imply that SRCs have a 20.5% lower likelihood of becoming a target in an M&A deal. This evidence supports Prediction 1 from our theoretical model, which states that firms with more (less) detailed financial reporting are relatively more (less) likely to be acquired than firms with less (more) detailed reporting.

We interpret the results in Table 4 as evidence that bidders are less likely to pursue NAFs and SRCs as M&A targets because of asymmetric information. The limited public information available on NAFs and SRCs (as shown in Tables 2 and 3) makes potential acquirers worried about adverse selection and therefore less likely to bid for these firms. This interpretation gives rise to two follow-up questions. First, are NAFs and SRCs traded at a greater discount than other firms? To assess this possibility, in section 4.2, we contrast the takeover premiums paid for NAFs and SRCs with the premiums other targets get. Second, do acquirers of NAFs and SRCs protect

themselves from adverse selection when choosing the means of payment? We study this conjecture in section 4.3 by looking at the use of cash and stock as means of payment in M&As.

4.2 Takeover Premium

The takeover premium captures the difference between the value of the target company, as estimated by the market, and the price a potential acquirer firm offers to buy it. Our evidence on the probability of becoming a takeover target suggests that the difficulty in assessing the value of firms with limited financial reporting makes them unattractive takeover targets. To shed additional light on this issue, we look at firms that receive an M&A offer and examine whether limited reporting status (i.e., NAF or SRC) affects the size of those offers.

The dependent variable in Table 5 (as collected from SDC) is the 30-day takeover premium offered in an M&A deal. The key explanatory variable is 1(NAF) in columns 1, 2, 3, 7, and 8 and 1(SRC) in columns 4, 5, and 6. Table 5 includes the same control variables as in Table 4, and deal-level controls.[7] In line with Prediction 2 from our theoretical model, conditional on an M&A deal, the expected premium is *higher* if firms disclose less. Indeed, the results in Table 5 show that relative to the unconditional 30-day premium (40.1 percentage points), NAFs receive approximately 24% higher M&A premiums (Columns 1-3). In Column 3, we remove industry-pair trends (i.e. Acquiror Industry by Target Industry by Year FE), controlling for factors like an acquiror's time-varying understanding of the target industry, industry-specific demand for diversifying acquisitions, etc. The results in columns 4 and 5, indicate that SRCs receive 14%-16% higher premiums. In Columns 7 and 8, we specifically examine situations where acquirors likely have greater information about a target, namely operating in the same industry or state. As

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[7] As in Jenter and Lewellen (2015), our firm size and stock return control variables are negative and significant.

expected, we see the Offer Premium difference attenuate, though we still detect a positive and significant difference in same industry mergers.

The empirical results in Table 5 suggest that the pre-acquisition value of NAFs and SRCs includes an adverse selection discount. The undervaluation, however, vanishes once a potential acquirer—after getting private information vis-à-vis due diligence—makes a public bid to buy the firm. Our interpretation of this evidence is that, in the market for corporate control, decreased disclosure promotes the procurement of private information. This interpretation is consistent with the work by Goldstein and Yang (2017). They determine that increased disclosure crowds-out the procurement of private information acquisition.

4.3 Means of Payment

Seminal articles in the M&A literature propose that when there is uncertainty or asymmetric information about the value of the target firm, acquirers will offer stock to buy the consideration.[8] A similar situation arises in our setting as the value of NAF and SRC should be less certain because these firms disclose less information. Given this discussion, in Table 6 we study whether the payment method differs according to the target's filing status.

To describe the form of payment used in acquisitions, Table 6 considers four alternative dependent variables: 1(All Cash) is a dummy variable equal to 1 if the deal is entirely paid in cash, and 0 otherwise; 1(All Stock) is a dummy variable equal to 1 if the deal is entirely paid in stock, and 0 otherwise; Percentage Cash and Percentage Stock measure the percentage of the bid price paid in cash and stock, respectively. The key explanatory variables are 1(NAF) in Panel A, 1(SRC) in Panel B, and 1(Limited Disclosure Target) in Panel C. The latter indicator is set to 1 if the target

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[8] Hansen (1987), for example, notes that acquirers optimally set the medium of exchange to lower adverse selection.

is either a NAF or an SRC and set to 0 otherwise. The tests in Table 6 include the same control variables as in Table 5. We add industry x year fixed effects in all regressions, state fixed effects in the odd columns, and state x year fixed effects in the even columns.

We find strong support for our hypothesis that buyers of NAFs and SRCs protect themselves against adverse selection through the payment method. Relative to the 60% unconditional probability of receiving an all-cash offer, NAFs are 11%-12% less likely to receive an all-cash offer (see columns 1 and 2 in Panel A). We do not find any statistically significant difference in columns 3 and 4: NAFs are not statistically more likely to receive an all-stock offer. Nevertheless, in columns 5 and 6 we find that NAFs receive 9%-10% less cash compensation (compared with the average percentage of cash compensation of 71 percentage points in our sample); and columns 7-8 indicate that NAFs receive 19%-22% higher stock compensation (compared with the average percentage of stock compensation of 22.7 percentage points in our sample).

Results are qualitatively similar in Panels B and C, where 1(SRC) and 1(Limited Disclosure Target) are the key explanatory variables, respectively. In general, the evidence in Table 6 supports Eckbo et al. (2018) "rational payment design" hypothesis which posits that, rather than being opportunistic, bidders that use their stock to buy the target are concerned with adverse selection on the target side of the transaction. Moreover, the results offer support for Prediction 3 from our model, which posits that conditional on an M&A deal, acquirers should use more stock (and less cash) when the targets report less financial information.

4.4 Endogeneity Discussion

An important aspect of the analysis is that firms cannot freely choose to be NAFs (or SRCs): non-accelerated filing is only allowed for firms with a "public float" of less than $75 million, where

float is the number of shares held by non-affiliates multiplied by the stock price on the last business day of the firm's most recently completed second fiscal quarter.[9]

At the same time, firms are not randomly assigned to be NAFs (or SRCs). The fact that the classification depends on public float makes it possible that some firms manipulate the system to keep their public float below $75 million to retain NAF status. Ewens et al. (2024) indeed show that some firms bunch below the cutoff to enjoy the benefits of reduced disclosure.

The combination of these two observations makes it very difficult to speak about causality in our setting. We attempt to address these concerns by implementing three different econometric approaches. In our first set of analyses, we control for public float to reduce the scope for omitted variables in our specification. A second test involves a regression discontinuity design around the $75 million float cutoff required to qualify for limited disclosure. In our third econometric approach, we use the 2007 reform (introducing the SRC designation) in various difference-in-differences analyses.

4.4.1 Public float

Public float refers to the fraction of a firm's outstanding shares available for trading because they are held by public investors and not by corporate managers, directors, or stockholders that hold controlling interests. The tests in Panel A of Table 7 show that the results in Table 4—that NAFs and SRCs are less likely to become takeover targets—are robust to controlling for the target's public float. In Panel B, we interact our indicator for NAF (SRC) with an indicator for having public float less than $75m. This interaction term is negative and statistically significant. Interestingly, we can separate the firms which could file as NAFs, but choose to voluntarily file. These firms are significantly more likely to be acquired. In Panel C, we adopt a sharp regression

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[9] Similar rules apply to the SRC qualification as discussed in section 2.1.

discontinuity (RDD) approach for firms within a window close to the $75m cutoff to qualify for limited reporting. The dependent variable in the tests reported in Panel C is 1(Target). All regressions include the control variables we use in Table 4 as well as firm fixed effects, industry x year and state fixed effects. As key independent variable, we use 1(Below Threshold), which is a dummy variable equal to 1 if the firm's public float is below $75 million and equal to 0 otherwise. This dummy variable serves as a proxy that captures the firms we study (i.e., low disclosing firms), by ignoring whether firms choose high or low disclosure when they lie below the threshold. The RDD tests in Panel B of Table 7 consider two different windows around the $75m cutoff for public float: wider [-$15m, +$15m] in columns 1, 2, and 3, and narrower [-$10m, +$10m] in columns 4 and 5. We control for non-linear effects of all control variables in columns 2, 3, and 5.[10]

According to the RDD estimates in Panel C, the likelihood of becoming an M&A target is between 2 and 3.4 percentage points lower for firms below the $75m reporting cutoff as compared with firms above it. In economic terms, this is a large effect given that the unconditional probability of being a target is 3.9 percentage points. We obtain comparable results using 1(NAF) (or 1(SRC)) instead of 1(Below Threshold), as there is a high correlation between these variables.

It is important to note that the econometric setting in Panel C absorbs a large variety of omitted variables. So, it is very reassuring that our results survive in this specification. However, we cannot dismiss the possibility that firms choose to disclose or not disclose by manipulating their public float. If that is the case, our finding cannot be evidence of causality: we cannot show that financial reporting leads to more M&A activity. Nevertheless, our results are fully consistent with a setting

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[10] The reduction in sample size in Table 7 occurs because our public float control (drawn from the Ewens at al. (2024) dataset) is not available for our entire sample. We report results with state by year fixed effects only for the wider window, as the narrower window has severely negative adjusted R-squared with their inclusion (due to the small number of observations and the stringency of our specification).

in which companies that want to become takeover targets disclose more, whereas those that do not disclose less.

4.4.2 The 2007 Reform: Smaller Reporting Companies

To address causality, we exploit the 2007 reform in which the Security Exchange Commission introduced the designation of "Smaller Reporting Company" for firms with less than $75 million in public float and less than $50 million in annual revenues. Notably, the first condition is the same for NAFs and the second depends on revenues (which are arguably less endogenous than public float). In essence, the reform treats a subsample of NAFs and does not affect other firms. To the extent that, absent the treatment, treated and control firms face similar acquisition likelihood (parallel trend assumption), the difference-in-differences (DiD) estimator identifies the treatment effect and thus sheds light on the impact of financial reporting changes on the probability of becoming an M&A target.

In Table 8, the dependent variable is a dummy set to 1 for firms that become M&A targets during the year and set to 0 otherwise. The key explanatory variable is Post x Treat, where Post is a dummy variable equal to 1 for all observations after 2007 and equal to 0 otherwise, and Treat is a dummy variable set to 1 for firms that become SRC and set to 0 otherwise. The tests in Table 8 control for the usual firm-level variables and add firm, state, and industry x year fixed effects. We restrict the sample to the 2004-2010 period. The coefficient on Post x Treat is the DiD estimator, i.e., it measures the differential impact on the acquisition probability of being treated as compared with the control groups. As treated firms are smaller than $50m in revenues, to reduce the heterogeneity, we restrict the control sample in terms of size. Specifically, in columns (1)-(4), we only include firms with revenue smaller than $250m (in column 1), $200m (in column 2), $150m

(in column 3), and $100m (in column 4). In columns (5)-(8), we use the same nominal amounts, but restrict based on the size of the firm's public float.

To remove any pre-trend difference between treated and control firms in the pre-2007 period, we restrict our sample to firms that have observations for the full pre-2007 period (i.e., we do not allow for exit and entry over the pre-2007 period). We find that treatment reduces the probability of becoming a target by 2.0 to 3.1 percentage points. The economic magnitude of the effect is large as the unconditional probability of becoming a target is 3.9 percentage points. The results are robust across subsamples sorted in terms of size (using revenues or public float). The dynamic trends specification represented in Figures 1 and 2 suggest that our setting satisfies the parallel trend assumption and that the effect of the reform survives in the longer run.

Overall, the results in Table 8 support the interpretation that changes in financial reporting affect the market for corporate control: a reduction in financial reporting seems to lead to a significant reduction in the likelihood that a firm becomes a target in an M&A transaction.

5. Further Analysis

In this section, we provide supporting evidence that information asymmetry associated with limited financial reporting is the channel through which financial reporting affects M&A activity. We do so by examining the differential effects of NAFs and SRCs during merger waves and during withdrawn acquisitions. Finally, we discuss and reject alternative explanations for our results.

5.1 Dormant period and merger waves

Song and Walkling (2000) and Cai, Song, and Walkling (2011) use the "dormant period" prior to a merger announcement to study information transfers in financial markets. They define a dormant period as the calendar time preceding acquirer bids within an industry. In our setting, we would expect firms with less public information to benefit more from the informational spillovers from

other deals. If low disclosure firms are less attractive ex ante or more difficult to value, we should expect shorter dormant periods, indicating that these firms are "picked" later in a merger wave.

In Table 9, we define the "dormant period" as the number of days since a firm in the target's SIC2 industry received a bid (whether that bid is successful or unsuccessful). As the key explanatory variable, we use 1(NAF) in Panel A and 1(SRC) in Panel B. As in previous analyses, we include a set of firm-level control variables, industry x year fixed effects, state fixed effects (in the odd columns) and state x year fixed effects (in the even columns).

In Panel A, the coefficient in column 2 indicates that NAFs experience 20%-shorter dormant periods than other firms. This result is concentrated in same-industry acquisitions (as shown in columns 3 and 4) and public-to-public acquisitions (as shown in columns 5 and 6). In Panel B, we find similar results for SRCs. The evidence in Table 9 supports the view that limited reporting firms are targeted later during merger waves.

5.2 Failed M&A bids

In section 5.2, we argue that NAFs and SRCs include an adverse selection discount, i.e., they are relatively undervalued because of the greater asymmetry of information they face. The undervaluation disappears once a bidder appears, as the market learns that there is interest in buying the firm. If information asymmetry is at play, the positive effects on the target firm's value should persist even when the deal does not go through. To evaluate this hypothesis, we follow Malmendier, Opp, and Saidi (2016) and consider withdrawn deals. We collect failed merger bids and tender offers for our sample period, and merge that data with Compustat/CRSP, and Audit Analytics.

In Table 10, the dependent variable is the Cumulative Abnormal Return for the target firm in a 25-day window around the announcement of the deal failure. We augment the specification in

Malmendier, et al. (2016) with our key independent variables: 1(NAF) in columns 1-4 and 1(SRC) in columns 5-8. We begin by noting that, as in the baseline analyses in Malmendier et al. (Table 4, p. 99), our tests confirm that the target's premium is the only other variable that consistently earns positive and significant coefficients. In terms of our key independent variables, the coefficient for the SRC indicator is positive in all tests but only achieves statistical significance in column 5. By contrast, the results are strong and statistically significant for NAFs: across all specification NAFs experience a 36-41 percentage points higher revaluation than accelerated filers.

5.3 Alternative explanations

Our interpretation of the results is that acquirer firms are less likely to bid for NAFs and SRCs because they face greater asymmetric information dealing with these limited reporting companies than they do dealing with other potential targets. An alternative interpretation is that NAFs and SRCs are worse targets than other firms, and bidders rightly stay away from them.

To evaluate the 'worse targets' hypothesis, in Panel A of Table 11 we examine the Cumulative Abnormal Returns (CARs) for the acquirer around the announcement of the deal. We then compare CARs depending on whether the target is a limited reporting target (NAF or SRC).[11] As dependent variables, we consider one, three, and five-day CARs around the M&A announcement. We find no statistically significant difference in CARs for NAFs (or SRCs) compared to other firms. Notably, the absence of significant M&A announcement CARs to bidders of reduced reporting targets— which are often purchased with the acquirer's stock—is also inconsistent with the view that acquirers use their over-valued shares to buy NAFs or SRCs.

Schwert (2003) argues that if a bidder overpays for the target, it may take some time to gradually learn about this mistake. Given this possibility, we also test the worse target hypotheses

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[11] Results are qualitatively similar if we use separate dummy variables to distinguish NAFs and SRCs instead of a single indictor to flag both of them.

using accounting data. In Panel B of Table 11, we look at whether there are differences in goodwill impairment over the 3 and 5 years after the M&A deal is completed. We find no difference in goodwill impairment between NAFs and accelerated filers.

Finally, in Panel C we examine abnormal ROA which we estimate as the residual from a regression of combined (target and acquirer) post-acquisition 2yr (3yr) ROA on the pre-acquisition 2yr (3yr) ROA.[12] The statistically insignificant results related to the +/- 2yr window suggests that limited reporting firms do not make worse targets and that their acquirers did not overpay for them. However, we find significant improvements in abnormal ROA in +/- 3yr window surrounding the M&A. This evidence suggests that some deals involving limited reporting targets are actually accretive for the acquirer shareholders.

6. Conclusion

Existing regulations in the US curb financial reporting requirements for some firms. In this paper, we propose—and test the empirical predictions of—a simple theoretical framework that considers the costs and benefits of the quantity of financial reporting in the market for corporate control. We show that firms with limited financial disclosure are less likely to become takeover targets. In addition, we also show that, conditioning on an M&A deal, limited disclosure targets receive higher premiums as well as M&A offers financed with the bidder's stock. This evidence is consistent with the view that due to asymmetry of information (i) limited reporting firms trade at a discount until they get a public acquisition bid, and (ii) bidders use stock to buy these firms to defend themselves against adverse selection.

A growing strand of corporate finance literature emphasizes the cost of financial reporting (and more generally of regulation). For example, Ewens et al. (2024) show that to limit their financial

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[12] Healy et al. (1992), Chen et al. (2007), and Fu et al. (2013) measure ROA using the same approach.

disclosure, some firms manage their public float to stay below the $75-million cutoff. Ewens et al. use a revealed-preference argument to back up the associated regulatory costs. By contrast, we document a benefit of regulation that mandates more financial disclosure (at least for shareholders): a more active market for corporate control. Whether the benefits outweigh the costs is an open question for future research.

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Description of Variables

Variable	Description
Firm-level variables	
1(Target)	Indicator equal to 1 if SDC reports an acquisition at t+1. Source: SDC Platinum.
1(NAF)	Indicator equal to 1 if Audit Analytics reports a firm filed as a non-accelerated filer in a given firm-year. Source: Audit Analytics.
1(SRC)	Indicator equal to 1 if Audit Analytics reports a firm filed as a smaller reporting company in a given firm-year. Source: Audit Analytics.
1(Limited Reporting Target)	Indicator equal to 1 if Audit Analytics reports a firm filed as a non-accelerated filer or smaller reporting company in a given firm-year. Source: Audit Analytics.
Disclosure Quality	The number of (select) non-missing items in Compustat, as calculated by Chen et al. (2015). Source: CRSP/Compustat.
Public Float	The market value of common stock held by non-affiliate shareholders at the end of a firm's second fiscal quarter. Source: Ewens et al. (2024).
Leverage Ratio	The sum of short-term and long-term debt (dlc + dltt), scaled by prior period total assets (at). Source: CRSP/Compustat.
Total Assets	Total Assets (at) reported by firm. Source: CRSP/Compustat.
Capital Expenditure	Firm capital expenditure (capx) scaled by prior period total assets (at). Source: CRSP/Compustat.
Sales Growth	The difference between sales (sale) and prior period sales, scaled by prior period sales. Source: CRSP/Compustat.
Market-to-book Ratio	Ratio of market value to book value of total assets, where market value of total assets is market value of equity (csho*prcc_f) minus book value of equity (at-lt+txditc) plus book value of total assets (at). Source: CRSP/Compustat.
Annual Return	Fiscal year cumulative return from CRSP stock price data. Source: CRSP/Compustat.
Number of Analysts	The count of unique analysts following a firm in a fiscal year, omitting those with stale, stopped, or excluded earnings forecasts. Source: IBES.
Operating Cash Flow	Net cash flows from operating activities (oancf) scaled by total assets (at). Source: CRSP/Compustat.
Firm Age	The number of years since a firm's entry into Compustat. Source: CRSP/Compustat.

Variable	Description
Analyst Forecast Dispersion	The average standard deviation of analyst quarterly earnings forecasts, omitting stale, stopped, or excluded forecasts, scaled by beginning of quarter stock price. Source: IBES / CRSP.
Deal-level Variables	
Cash Percentage	Percentage of deal consideration reported by SDC as "cash", in integer format. Source: SDC Platinum.
Stock Percentage	Percentage of deal consideration reported by SDC as "stock", in integer format. Source: SDC Platinum.
All Cash	Indicator equal to 1 when SDC-reported cash percentage equals 100. Source: SDC Platinum.
All Stock	Indicator equal to 1 when SDC-reported stock percentage equals 100. Source: SDC Platinum.
Same SIC1	Indicator equal to 1 when SDC-reported SIC 1-digit codes are equal. Source: SDC Platinum.
Public Acquirer	Indicator equal to 1 when SDC-reported acquirer has a match in CRSP/Compustat. Source: SDC Platinum and CRSP/Compustat.
Offer Premium (4 week)	acquirer offer price relative to the target's stock price 4 weeks prior to the acquisition announcement. Source: SDC Platinum and CRSP/Compustat.
acquirer Cumulative Abnormal Return	Fama-French 3-Factor and Momentum Model estimated using CRSP value-weighted index returns and a 200 trading day estimation window ending 30 trading days before the event window. Source: CRSP/Compustat.
Abnormal ROA	The residual from the regression of combined firm post-acquisition ROA on pre-acquisition ROA over +/-2 (3) year windows. Source: CRSP/Compustat.
Goodwill Impairment	Indicator equal to 1 when firms report goodwill impairment (gdwlip) for the 3 (5) years following an acquisition. Source: CRSP/Compustat.
Dormant Period	The number of days since a firm in the target's SIC2 industry received a bid (regardless of completion status). Source: SDC Platinum.

Figure 1: **Dynamics Trends: Difference in Differences - Public Float**

The figures plot coefficients from dynamic difference-in-difference estimations. The dependent variable is an indicator for becoming an M&A Target. The specification includes firm, industry-by-year, and state fixed effects. Standard errors are clustered by firm. The vertical lines represent 95 percent confidence intervals. The samples are restricted by size (measured as public float).
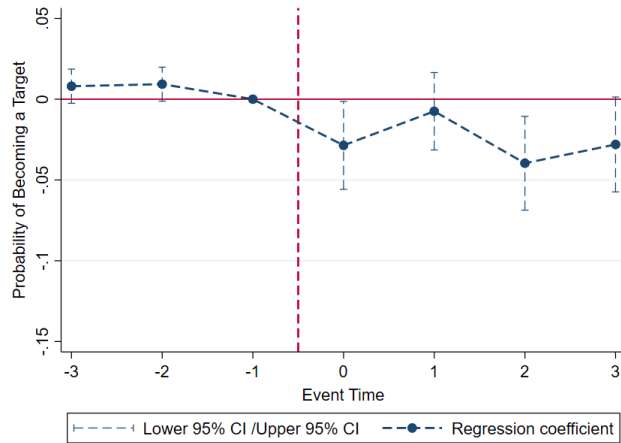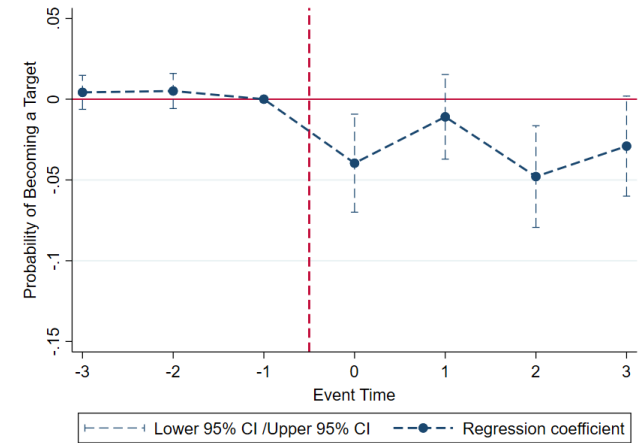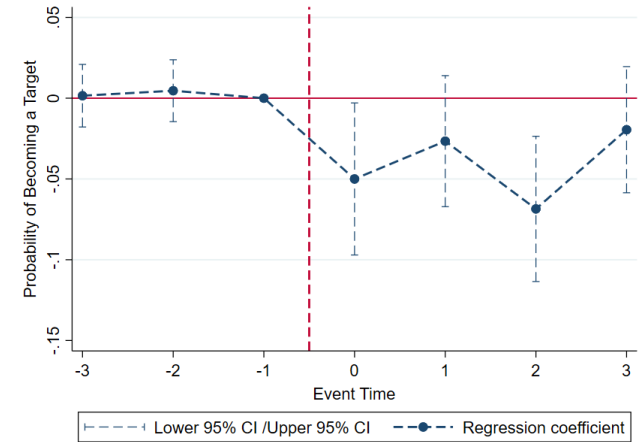
Figure 2: **Dynamics Trends: Difference in Differences - Revenue**

The figures plot coefficients from dynamic difference-in-difference estimations. The dependent variable is an indicator for becoming an M&A Target. The specification includes firm, industry-by-year, and state fixed effects. Standard errors are clustered by firm. The vertical lines represent 95 percent confidence intervals. The samples are restricted by size (measured as revenue).

(A) <$250M Revenue
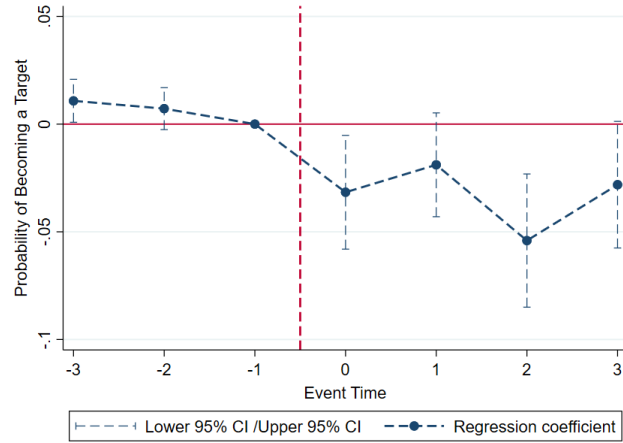
(B) <$200M Revenue
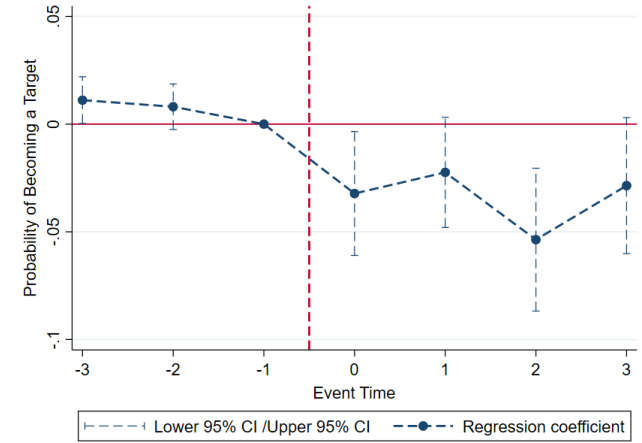
(C) <$150M Revenue
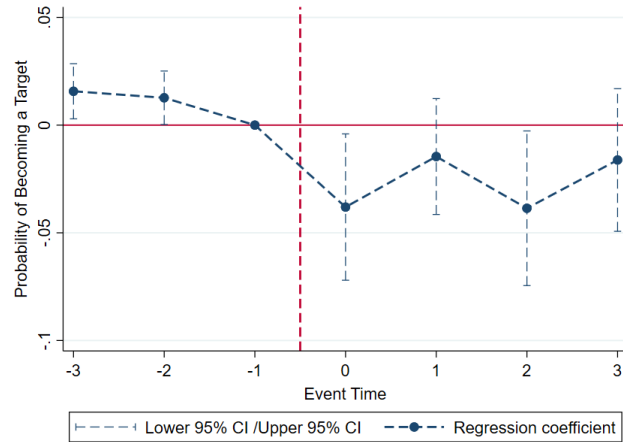
(D) <$100M Revenue
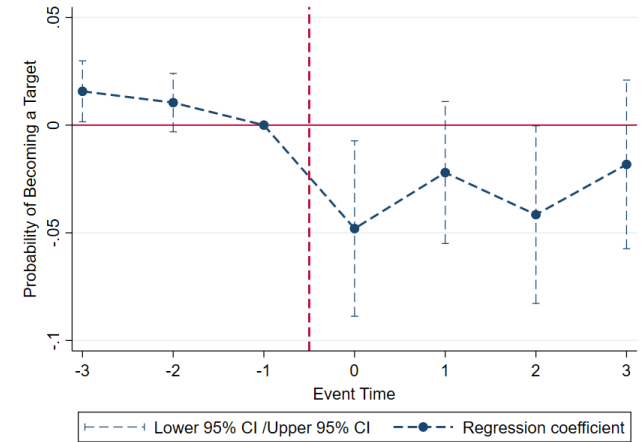
Table 1: Summary Statistics

All variables are winsorized at the 1st and 99th percentile. Panel A presents the variables in the firm-year panel. Panel B reports the summary statistics for the merger sample. All variables are defined in the Appendix.

Panel A: Firm-Year Panel

	Mean	St. Dev.	P5	P10	P25	Median	P75	P90	P95	N
1(Target)	0.039	0.194	0.000	0.000	0.000	0.000	0.000	0.000	0.000	61832
1(NAF)	0.212	0.409	0.000	0.000	0.000	0.000	0.000	1.000	1.000	61832
1(SRC)	0.211	0.408	0.000	0.000	0.000	0.000	0.000	1.000	1.000	48110
Discl. Qual.	0.627	0.126	0.340	0.370	0.591	0.662	0.710	0.748	0.768	61832
1(Has Analyst)	0.828	0.377	0.000	0.000	1.000	1.000	1.000	1.000	1.000	61832
Num. Analysts	7.540	7.607	0.000	0.000	1.000	5.000	11.000	19.000	23.000	61832
Forecast Dispersion	0.016	0.044	0.001	0.001	0.001	0.003	0.010	0.029	0.061	46171
Ln(Public Float)	6.006	2.288	2.581	3.276	4.465	5.949	7.470	8.882	9.736	51268
Leverage	0.243	0.257	0.000	0.000	0.036	0.174	0.361	0.574	0.751	61832
Ln(AT)	6.681	2.108	3.195	3.850	5.194	6.687	8.069	9.441	10.301	61832
CAPX/AT	0.039	0.053	0.001	0.001	0.007	0.022	0.049	0.094	0.141	61832
Ln(Sale Gr.)	0.073	0.311	-0.355	-0.179	-0.031	0.062	0.169	0.340	0.519	61832
Market-to-Book	1.604	2.132	0.092	0.141	0.371	0.910	1.883	3.736	5.717	61832
Annual Return	0.143	0.571	-0.619	-0.458	-0.185	0.074	0.346	0.729	1.138	61832
Ln(Num. Analysts)	1.692	1.034	0.000	0.000	0.693	1.792	2.485	2.996	3.178	61832
Ln(Target Age)	2.889	0.724	1.609	1.946	2.303	2.890	3.434	3.912	4.060	61832
Oper. Cash Flow / AT	0.041	0.184	-0.319	-0.110	0.011	0.065	0.127	0.198	0.253	61832

Panel B: Merger Sample

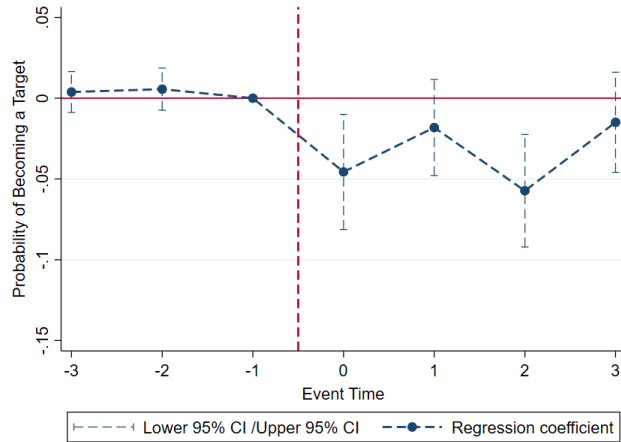|	Mean	St. Dev.	P5	P10	P25	Median	P75	P90	P95	N
1(NAF)	0.213	0.410	0.000	0.000	0.000	0.000	0.000	1.000	1.000	2363
1(SRC)	0.221	0.415	0.000	0.000	0.000	0.000	0.000	1.000	1.000	2090
Cash %	71.288	40.574	0.000	0.000	36.280	100.000	100.000	100.000	100.000	2363
Stock %	22.753	37.920	0.000	0.000	0.000	0.000	44.320	100.000	100.000	2363
Other %	3.463	12.859	0.000	0.000	0.000	0.000	0.000	4.950	28.120	2363
All Cash Deal	0.605	0.489	0.000	0.000	0.000	1.000	1.000	1.000	1.000	2363
All Stock Deal	0.135	0.341	0.000	0.000	0.000	0.000	0.000	1.000	1.000	2363
Same SIC1	0.634	0.482	0.000	0.000	0.000	1.000	1.000	1.000	1.000	2363
1(Public Acquiror)	0.581	0.493	0.000	0.000	0.000	1.000	1.000	1.000	1.000	2363
Offer Premium (4wk)	40.757	37.057	0.000	4.257	17.690	32.390	51.870	83.010	114.120	2363
FF3+M CAR[-1,+1]	-0.007	0.067	-0.117	-0.082	-0.040	-0.006	0.018	0.070	0.110	1277
FF3+M CAR[-3,+3]	-0.009	0.074	-0.136	-0.092	-0.045	-0.008	0.026	0.079	0.122	1277
FF3+M CAR[-5,+5]	-0.010	0.083	-0.149	-0.104	-0.048	-0.009	0.028	0.088	0.123	1277
Abnormal 2yr ROA	0.003	0.064	-0.096	-0.057	-0.007	0.011	0.026	0.053	0.085	1098
Abnormal 3yr ROA	0.002	0.051	-0.090	-0.047	-0.007	0.007	0.023	0.047	0.067	989
1(Goodwill Imp. within 3yr)	0.275	0.446	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1089
1(Goodwill Imp. within 5yr)	0.311	0.463	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1089
Dormant Period	12.891	24.149	1.000	1.000	2.000	5.000	12.000	31.000	56.000	2354
1(Any Term. Fee)	0.824	0.381	0.000	0.000	1.000	1.000	1.000	1.000	1.000	2363
1(Hostile Deal)	0.038	0.191	0.000	0.000	0.000	0.000	0.000	0.000	0.000	2363

Table 2: Disclosure quality, NAF and SRC filers

The dependent variable is disclosure quality as measured by Chen et al. (2015). The variable of interest is an indicator for being a NAF and an SRC. Firm Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Deal Control variables include indicators for public acquirer, termination fees, hostile deal, and same industry. Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level in Columns 1, 2, 5, and 6, and EHW in Columns 3, 4, 7, and 8.

Disclosure Quality

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1(NAF)	-0.030***	-0.030***	-0.035***	-0.036***				
	(-10.20)	(-10.10)	(-5.94)	(-5.23)				
1(SRC)					-0.032***	-0.033***	-0.037***	-0.037***
					(-10.24)	(-10.19)	(-5.99)	(-5.24)
Leverage	0.041***	0.041***	0.043***	0.042***	0.045***	0.045***	0.046***	0.046***
	(9.84)	(9.71)	(5.04)	(4.07)	(9.78)	(9.63)	(5.19)	(4.28)
Ln(AT)	-0.003***	-0.003***	-0.004**	-0.006**	-0.005***	-0.005***	-0.005**	-0.006**
	(-3.13)	(-3.12)	(-1.98)	(-2.45)	(-4.40)	(-4.40)	(-2.27)	(-2.55)
CAPX/AT	-0.054***	-0.056***	-0.139***	-0.127***	-0.065***	-0.066***	-0.134***	-0.101**
	(-2.86)	(-2.96)	(-3.34)	(-2.59)	(-3.19)	(-3.21)	(-3.23)	(-1.98)
Ln(Sale Gr.)	-0.007***	-0.007***	-0.028***	-0.025***	-0.005***	-0.005***	-0.023***	-0.019**
	(-5.52)	(-5.51)	(-3.94)	(-2.93)	(-3.25)	(-3.30)	(-3.04)	(-2.19)
Market-to-Book	0.002***	0.002***	0.001	-0.000	0.002***	0.002***	-0.001	-0.002
	(4.96)	(4.91)	(0.62)	(-0.16)	(4.62)	(4.56)	(-0.47)	(-1.09)
Annual Return	-0.004***	-0.004***	-0.010***	-0.005	-0.004***	-0.004***	-0.009**	-0.004
	(-4.89)	(-4.76)	(-2.65)	(-1.11)	(-4.42)	(-4.28)	(-2.25)	(-0.81)
Ln(Num. Analysts)	0.016***	0.016***	0.024***	0.025***	0.018***	0.018***	0.024***	0.026***
	(10.27)	(10.18)	(7.83)	(7.36)	(10.60)	(10.48)	(7.57)	(7.13)
Ln(Target Age)	0.009***	0.009***	0.008**	0.008**	0.009***	0.009***	0.009***	0.008**
	(5.27)	(5.23)	(2.51)	(2.01)	(4.90)	(4.88)	(2.66)	(2.01)
Oper. Cash Flow / AT	0.080***	0.081***	0.085***	0.085***	0.085***	0.085***	0.089***	0.087***
	(17.08)	(17.01)	(6.15)	(5.36)	(16.41)	(16.30)	(6.03)	(5.20)
1(Public Acquiror)			-0.013***	-0.013**			-0.011**	-0.011**
			(-2.94)	(-2.54)			(-2.36)	(-2.14)
1(All Cash)			0.029***	0.029***			0.029***	0.028***
			(6.28)	(5.43)			(6.04)	(5.02)
1(Any Term. Fee)			-0.002	-0.004			-0.001	-0.003
			(-0.31)	(-0.60)			(-0.09)	(-0.40)
1(Hostile Deal)			0.002	0.004			0.005	0.006
			(0.23)	(0.34)			(0.50)	(0.53)
1(Same Ind.)			-0.005	-0.002			-0.007	-0.004
			(-1.29)	(-0.39)			(-1.56)	(-0.82)
Constant	0.587***	0.587***	0.587***	0.596***	0.602***	0.602***	0.591***	0.600***
	(94.55)	(93.75)	(39.88)	(35.36)	(89.01)	(88.18)	(38.07)	(34.09)
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.53	0.53	0.61	0.61	0.53	0.53	0.62	0.62
Number of Observations	61832	61832	2363	2363	48110	48110	2090	2090

Table 3: Analyst Coverage, NAF and SRC filers

The dependent variables are an indicator for having an analyst, the count of analysts following a firm (conditional on having at least 1 analyst), and forecast dispersion scaled by stock price. Columns (1)-(4) and (9)-(12) are linear probability models. Columns (5)-(8) are Poisson Pseudo Maximum Likelihood estimations. The variable of interest is an indicator for being a NAF (Panel A) or an SRC (Panel B). Firm Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, and annual return. Deal Control variables include indicators for public acquirer, termination fees, hostile deal, and same industry. Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level in Columns 1, 2, 5, 6, 9, and 10, and EHW in Columns 3, 4, 7, 8, 11, and 12.

Panel A: Non-Accelerated Filers

	1(Has Analyst)				Num. Analysts				Analyst Forecast Dispersion			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1(NAF)	-0.339***	-0.340***	-0.305***	-0.316***	-0.410***	-0.409***	-0.390***	-0.326***	0.023***	0.023***	0.027***	0.024***
	(-33.20)	(-32.94)	(-11.89)	(-11.18)	(-21.43)	(-21.38)	(-8.14)	(-6.51)	(12.90)	(12.79)	(4.46)	(3.76)
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	No	No	Yes	Yes	No	No	Yes	Yes	No	No	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.33	0.33	0.27	0.30					0.16	0.17	0.23	0.33
Number of Observations	61832	61832	2363	2363	51205	51205	1999	1999	46171	46171	1812	1812

Panel B: Smaller Reporting Companies

	1(Has Analyst)				Num. Analysts				Analyst Forecast Dispersion			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1(SRC)	-0.303***	-0.306***	-0.311***	-0.322***	-0.379***	-0.375***	-0.348***	-0.264***	0.023***	0.022***	0.023***	0.020***
	(-28.05)	(-27.92)	(-11.59)	(-10.64)	(-18.89)	(-18.56)	(-6.98)	(-4.85)	(11.47)	(11.28)	(3.76)	(3.25)
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	No	No	Yes	Yes	No	No	Yes	Yes	No	No	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.30	0.30	0.26	0.30					0.17	0.18	0.22	0.29
Number of Observations	48110	48110	2090	2090	40431	40431	1769	1769	36761	36761	1601	1601

Table 4: Probability of becoming a target

The dependent variable is an indicator for becoming a takeover target. The variable of interest is an indicator for being a NAF (SRC). Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level.

Acquisition Likelihood

	(1) 1(Target)	(2) 1(Target)	(3) 1(Target)	(4) 1(Target)
1(NAF)	-0.007***	-0.007***		
	(-2.86)	(-2.72)		
1(SRC)			-0.009***	-0.008**
			(-2.64)	(-2.43)
Leverage	0.013***	0.013***	0.014***	0.014***
	(3.69)	(3.63)	(3.39)	(3.41)
Ln(AT)	-0.005***	-0.005***	-0.007***	-0.007***
	(-8.19)	(-8.10)	(-8.53)	(-8.37)
CAPX/AT	-0.046***	-0.044***	-0.056***	-0.055***
	(-2.73)	(-2.58)	(-2.74)	(-2.66)
Ln(Sale Gr.)	-0.002	-0.002	-0.002	-0.002
	(-1.02)	(-0.94)	(-0.85)	(-0.71)
Market-to-Book	-0.004***	-0.004***	-0.005***	-0.005***
	(-11.30)	(-11.01)	(-10.49)	(-10.06)
Annual Return	-0.003**	-0.003**	-0.004*	-0.004*
	(-2.03)	(-2.04)	(-1.78)	(-1.88)
Ln(Num. Analysts)	0.004***	0.004***	0.004***	0.004***
	(2.99)	(3.03)	(2.93)	(2.89)
Ln(Target Age)	-0.007***	-0.007***	-0.007***	-0.008***
	(-5.56)	(-5.71)	(-5.22)	(-5.41)
Oper. Cash Flow / AT	0.023***	0.023***	0.027***	0.028***
	(5.15)	(5.22)	(5.09)	(5.22)
Constant	0.095***	0.095***	0.112***	0.112***
	(20.56)	(20.47)	(19.40)	(19.27)
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.01	0.01	0.01	0.01
Number of Observations	61832	61832	48110	48110

Table 5: Takeover Premiums

The dependent variable is the 4-week Target premium. The variable of interest is an indicator for the target being a NAF and an SRC. Firm Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Deal Control variables include indicators for public acquirer, termination fees, hostile deal, and same industry. Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are EHW.

30-Day Premium

	(1) 4wk Prem.	(2) 4wk Prem.	(3) 4wk Prem.	(4) 4wk Prem.
1(NAF)	9.807***	10.053***		
	(3.68)	(3.15)		
1(SRC)			5.663**	6.517*
			(1.97)	(1.88)
Leverage	6.521*	6.066	7.692*	7.673
	(1.72)	(1.30)	(1.90)	(1.53)
Ln(AT)	-2.987***	-3.173***	-3.312***	-3.479***
	(-4.04)	(-3.52)	(-4.18)	(-3.55)
CAPX/AT	-7.829	-23.821	-5.635	-21.419
	(-0.42)	(-1.03)	(-0.27)	(-0.84)
Ln(Sale Gr.)	2.087	-0.106	1.033	-1.677
	(0.51)	(-0.02)	(0.24)	(-0.33)
Market-to-Book	-0.318	-0.421	-0.550	-0.580
	(-0.44)	(-0.50)	(-0.71)	(-0.64)
Annual Return	-6.422***	-7.210***	-5.335***	-6.335***
	(-3.37)	(-3.26)	(-2.65)	(-2.71)
Ln(Num. Analysts)	2.515**	3.438**	1.956*	3.146**
	(2.29)	(2.50)	(1.67)	(2.12)
Ln(Target Age)	-1.252	-2.546	-1.015	-2.088
	(-0.98)	(-1.62)	(-0.74)	(-1.23)
Oper. Cash Flow / AT	-28.249***	-22.426**	-32.581***	-27.290***
	(-3.59)	(-2.49)	(-3.86)	(-2.83)
1(Public Acquiror)	3.911**	5.244**	4.047**	5.081**
	(2.13)	(2.36)	(2.00)	(2.08)
1(All Cash)	8.894***	10.315***	10.189***	11.492***
	(4.73)	(4.60)	(4.90)	(4.68)
1(Any Term. Fee)	2.653	1.547	2.743	1.196
	(1.21)	(0.56)	(1.19)	(0.41)
1(Hostile Deal)	17.441***	17.841***	18.918***	18.238***
	(3.51)	(3.09)	(3.55)	(3.00)
1(Same Ind.)	3.543**	3.144	3.818**	3.258
	(1.98)	(1.47)	(1.96)	(1.39)
Constant	45.300***	48.739***	48.444***	51.134***
	(7.85)	(6.81)	(7.48)	(6.43)
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.16	0.12	0.16	0.11
Number of Observations	2363	2363	2090	2090

Table 6: Medium of Exchange

The dependent variables are the forms of payment used to purchase the target. The variable of interest is an indicator for the target being a NAF, SRC, or either. Firm Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Deal Control variables include indicators for public acquirer, termination fees, hostile deal, and same industry. Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are EHW.

Panel A: Non-Accelerated Filers

	(1) 1(All Cash)	(2) 1(All Cash)	(3) 1(All Stock)	(4) 1(All Stock)	(5) Perc. Cash	(6) Perc. Cash	(7) Perc. Stock	(8) Perc. Stock
1(NAF)	-0.073**	-0.067**	0.025	0.017	-6.845***	-6.053**	5.005**	4.216*
	(-2.57)	(-1.99)	(1.14)	(0.63)	(-2.84)	(-2.16)	(2.39)	(1.67)
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.29	0.28	0.19	0.16	0.34	0.35	0.39	0.38
Number of Observations	2363	2363	2363	2363	2363	2363	2363	2363

Panel B: Smaller Reporting Companies

	(1) 1(All Cash)	(2) 1(All Cash)	(3) 1(All Stock)	(4) 1(All Stock)	(5) Perc. Cash	(6) Perc. Cash	(7) Perc. Stock	(8) Perc. Stock
1(SRC)	-0.050*	-0.047	0.025	0.026	-5.445**	-5.059*	4.461*	4.421
	(-1.65)	(-1.29)	(1.07)	(0.93)	(-2.13)	(-1.68)	(1.96)	(1.64)
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.30	0.29	0.20	0.18	0.35	0.35	0.39	0.38
Number of Observations	2090	2090	2090	2090	2090	2090	2090	2090

Panel C: Limited Disclosure Targets

	(1) 1(All Cash)	(2) 1(All Cash)	(3) 1(All Stock)	(4) 1(All Stock)	(5) Perc. Cash	(6) Perc. Cash	(7) Perc. Stock	(8) Perc. Stock
1(Limited Discl. Target)	-0.073***	-0.072**	0.035	0.029	-7.207***	-6.994**	5.661***	5.293**
	(-2.62)	(-2.15)	(1.61)	(1.08)	(-3.05)	(-2.51)	(2.71)	(2.09)
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.29	0.28	0.19	0.16	0.34	0.35	0.39	0.38
Number of Observations	2363	2363	2363	2363	2363	2363	2363	2363

Table 7: Public Float

The dependent variable is an indicator for becoming a takeover target. In Panel A, the variable of interest is an indicator for being a NAF (SRC). Control variable is the public float (in natural logs). Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level. In Panel B, the variable of interest is an indicator for being below $75M in public float. Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged), as well as their squares and cubes. Firm and Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the firm-level. Columns (1)-(3) use a sample within $15M of the threshold. Columns (4)-(5) use a sample within $10M of the threshold.

Panel A: Acquisition Likelihood (Float)

	(1) 1(Target)	(2) 1(Target)	(3) 1(Target)	(4) 1(Target)
1(NAF)	-0.007**	-0.007**		
	(-2.47)	(-2.32)		
1(SRC)			-0.012***	-0.011***
			(-3.22)	(-2.97)
Controls	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.01	0.01	0.01	0.01
Number of Observations	51268	51268	38212	38212

Panel B: Regression Discontinuity at $75M

	60-90M			65-85M	
	(1) 1(Target)	(2) 1(Target)	(3) 1(Target)	(4) 1(Target)	(5) 1(Target)
1(Float < $75M)	-0.020*	-0.022*	-0.022*	-0.031**	-0.034**
	(-1.83)	(-1.92)	(-1.74)	(-1.98)	(-2.09)
Controls	Yes	Yes	Yes	Yes	Yes
Controls^2	No	Yes	Yes	No	Yes
Controls^3	No	Yes	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	No	Yes	Yes
StatexYear FE	No	No	Yes	No	No
Adj. R-squared	0.17	0.17	0.10	0.11	0.12
Number of Observations	3050	3050	3050	1999	1999
Frac. Below	0.56	0.56	0.56	0.56	0.56

Table 8: 2007 Reform
The dependent variable is an indicator for becoming a takeover target. The variable of interest is the interaction of an indicator for being designated an SRC and post-2007 (when designation was created). Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book ratio, annual return, and the number of analysts following the firm (logged). Firm, Industry-by-Year, and State FE are included in all specifications. Standard errors are clustered at the firm-level. All columns use observations between 2004 and 2010. Column Titles indicate size of firms allowed in estimation, and Column Groups indicate the variable used to restrict size.

Difference-in-Differences

	Public Float				Revenue			
	(1) <250M	(2) <200M	(3) <150M	(4) <100M	(5) <250M	(6) <200M	(7) <150M	(8) <100M
Post x Treat	-0.021**	-0.020**	-0.021*	-0.028*	-0.029***	-0.031***	-0.020*	-0.022*
	(-2.21)	(-2.04)	(-1.92)	(-1.96)	(-3.08)	(-3.05)	(-1.89)	(-1.69)
Leverage	-0.012	-0.017	-0.012	-0.002	-0.003	-0.008	-0.012	0.004
	(-0.87)	(-1.13)	(-0.74)	(-0.12)	(-0.21)	(-0.51)	(-0.74)	(0.21)
Ln(AT)	-0.025***	-0.020**	-0.024***	-0.027***	-0.021***	-0.017**	-0.017*	-0.021**
	(-3.08)	(-2.39)	(-2.65)	(-2.67)	(-2.60)	(-2.07)	(-1.90)	(-2.11)
CAPX/AT	-0.005	-0.000	-0.018	-0.017	-0.018	0.006	0.067	0.072
	(-0.09)	(-0.01)	(-0.25)	(-0.20)	(-0.28)	(0.09)	(1.10)	(1.08)
Ln(Sale Gr.)	0.007	0.005	0.008	0.007	0.006	0.007	0.007	0.011*
	(1.23)	(0.86)	(1.29)	(1.16)	(1.09)	(1.36)	(1.26)	(1.90)
Market-to-Book	0.002	0.001	0.002	0.002	0.001	0.001	0.000	0.001
	(1.14)	(0.39)	(0.87)	(0.56)	(0.81)	(0.85)	(0.16)	(0.47)
Annual Return	-0.003	-0.004	-0.006*	-0.006	-0.001	-0.002	-0.002	-0.003
	(-1.00)	(-1.01)	(-1.72)	(-1.39)	(-0.41)	(-0.63)	(-0.41)	(-0.68)
Ln(Num. Analysts)	-0.022***	-0.023***	-0.027***	-0.028***	-0.022***	-0.023***	-0.023***	-0.024***
	(-4.05)	(-3.94)	(-4.47)	(-3.93)	(-3.94)	(-4.06)	(-3.69)	(-3.36)
Ln(Target Age)	0.054*	0.076**	0.076**	0.088**	0.051	0.051	0.052	0.009
	(1.73)	(2.32)	(2.09)	(2.04)	(1.56)	(1.44)	(1.36)	(0.20)
Oper. Cash Flow / AT	0.030*	0.034*	0.033*	0.056**	0.021	0.016	0.015	0.012
	(1.67)	(1.81)	(1.70)	(2.50)	(1.07)	(0.83)	(0.80)	(0.65)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.14	0.14	0.14	0.15	0.11	0.12	0.12	0.11
Number of Observations	9248	8418	7405	5985	8737	7866	6816	5446
Frac. Treated	0.45	0.48	0.53	0.61	0.45	0.47	0.52	0.56

Table 9: Dormant Period

The dependent variable is the Dormant Period (days) between mergers. The variables of interest are an indicator for the target being a NAF (SRC). Firm Control variables include leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Deal Control variables include indicators for public acquirer, termination fees, hostile deal, and same industry. Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are EHW.

Panel A: Dormant Period (NAF)

	Dormant Period					
	(1)	(2)	(3)	(4)	(5)	(6)
1(NAF)	-0.133	-0.209*				
	(-1.14)	(-1.87)				
1(NAF) x Same Ind.			-0.281**	-0.428***		
			(-1.98)	(-2.76)		
1(AF) x Same Ind.			-0.109	-0.123		
			(-1.13)	(-1.30)		
1(NAF) x Diff Ind.			-0.077	-0.066		
			(-0.45)	(-0.41)		
1(NAF) x Public Acq.					-0.216	-0.318**
					(-1.45)	(-2.13)
1(AF) x Public Acq.					-0.030	-0.031
					(-0.29)	(-0.30)
1(NAF) x Private Acq.					-0.093	-0.143
					(-0.60)	(-0.96)
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes
Number of Observations	2354	2354	2354	2354	2354	2354
1(NAF)=1(AF) (p-value)			0.181	0.033	0.169	0.039

Panel B: Dormant Period (SRC)

	Dormant Period					
	(1)	(2)	(3)	(4)	(5)	(6)
1(SRC)	-0.089	-0.166				
	(-0.69)	(-1.38)				
1(SRC) x Same Ind.			-0.203	-0.355**		
			(-1.30)	(-2.14)		
1(Non-SRC) x Same Ind.			-0.076	-0.115		
			(-0.74)	(-1.15)		
1(SRC) x Diff Ind.			-0.036	-0.059		
			(-0.19)	(-0.34)		
1(SRC) x Public Acq.					-0.220	-0.318*
					(-1.38)	(-1.95)
1(Non-SRC) x Public Acq.					-0.006	-0.043
					(-0.05)	(-0.38)
1(SRC) x Private Acq.					0.005	-0.071
					(0.03)	(-0.45)
Firm Controls	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes
Number of Observations	2081	2081	2081	2081	2081	2081
1(SRC)=1(Non-SRC) (p-value)			0.368	0.111	0.154	0.073

Table 10: Failed Deals

The dependent variable is the target cumulative abnormal return (CAR) from 25 days before announcement to 25 days after deal failure as the dependent variable. The variable of interest is an indicator for the target being a NAF. Control variables are cash compensation offered, market value of equity for target firm, the deal size relative to acquirer size, premium offered for target, an indicator for hostile deal, an indicator for tender offer, and the market-to-book ratios of the target and acquirer. Fixed effects are indicated in the footer. Standard errors are EHW.

Target CAR $(B-25, F+25)$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1(NAF)	0.360**	0.376**	0.363***	0.414*				
	(2.48)	(2.28)	(2.62)	(1.78)				
1(SRC)					0.435*	0.413	0.317	0.243
					(1.72)	(1.56)	(1.17)	(0.73)
Cash Comp.			0.100	0.131			0.094	0.100
			(1.21)	(0.80)			(1.08)	(0.56)
Target MV Eq			-0.020	-0.051			-0.034	-0.081*
			(-0.94)	(-1.16)			(-1.35)	(-1.67)
Deal Value / Acq. MV Eq			-0.048**	-0.035			-0.041**	-0.036
			(-2.54)	(-1.14)			(-2.00)	(-1.10)
Target Premium			0.002**	0.002**			0.001**	0.002*
			(2.17)	(2.13)			(1.98)	(1.93)
1(Hostile)			0.109	0.143			0.125*	0.158*
			(1.58)	(1.64)			(1.89)	(1.85)
1(Tender Offer)			0.062	-0.011			0.049	-0.003
			(0.74)	(-0.06)			(0.58)	(-0.02)
Market-to-Book (Targ.)			0.001	0.057			-0.002	0.053
			(0.02)	(0.72)			(-0.05)	(0.63)
Market-to-Book (Acq.)			-0.014	-0.080			0.008	-0.061
			(-0.25)	(-0.72)			(0.14)	(-0.53)
Constant	-0.035	-0.038	-0.111	0.071	-0.002	-0.000	0.003	0.311
	(-1.08)	(-1.07)	(-0.56)	(0.18)	(-0.06)	(-0.00)	(0.02)	(0.76)
SIC1xYear FE	No	No	No	Yes	No	No	No	Yes
SIC1 FE	No	Yes	Yes	No	No	Yes	Yes	No
Year FE	No	Yes	Yes	No	No	Yes	Yes	No
Adj. R-squared	0.06	0.11	0.14	-0.06	0.04	0.08	0.12	-0.10
Number of Observations	211	211	211	211	211	211	211	211

Table 11: Quality of M&A Deals

The dependent variables are acquirer cumulative abnormal return over various windows, goodwill impairment, and combined firm abnormal ROA. The variable of interest is an indicator for the target being a Limited Reporting Target (i.e. NAF or SRC). Firm Control variables include the Target's leverage, total assets (logged), return on assets, sales growth (logged), market-to-book, annual return, and the number of analysts following the firm (logged). Deal Control variables include indicators for termination fees, hostile deal, and same industry. Industry-by-year FE are included in all specifications. State or State-by-Year are included when specified. Standard errors are clustered at the acquirer firm-level.

Panel A: Cumulative Abnormal Return

	FF3+M CAR[-1,+1]		FF3+M CAR[-3,+3]		FF3+M CAR[-5,+5]	
	(1)	(2)	(3)	(4)	(5)	(6)
1(Limited Discl. Target)	-0.004	-0.008	-0.006	-0.007	-0.009	-0.010
	(-0.72)	(-0.91)	(-0.83)	(-0.74)	(-1.27)	(-0.99)
Target Controls	Yes	Yes	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes	No	Yes
Adj. R-squared	0.10	0.08	0.09	0.07	0.07	0.06
Number of Observations	1277	1277	1277	1277	1277	1277

Panel B: Goodwill Impairment

	1(GWI_3YR)		1(GWI_5YR)	
	(1)	(2)	(3)	(4)
1(Limited Discl. Target)	0.015	0.030	-0.033	-0.062
	(0.35)	(0.54)	(-0.77)	(-1.10)
Target Controls	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.09	0.05	0.14	0.12
Number of Observations	1089	1089	1089	1089

Panel C: Abnormal ROA

	2yr Abn ROA		3yr Abn ROA	
	(1)	(2)	(3)	(4)
1(Limited Discl. Target)	-0.001	-0.000	0.012**	0.019**
	(-0.16)	(-0.01)	(1.99)	(2.16)
Target Controls	Yes	Yes	Yes	Yes
Deal Controls	Yes	Yes	Yes	Yes
SIC1xYear FE	Yes	Yes	Yes	Yes
State FE	Yes	No	Yes	No
StatexYear FE	No	Yes	No	Yes
Adj. R-squared	0.11	0.02	0.12	0.02
Number of Observations	1098	1098	989	989