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DANCING WITH ACTIVISTS

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Abstract

An important milestone often reached in the life of an activist engagement is the entering into a “settlement” agreement between the activist and the target’s board. Using a comprehensive hand-collected data set, we provide the first systematic analysis of the drivers, nature, and consequences of such settlement agreements. We identify the factors that determine the likelihood of a settlement, showing that the evidence is consistent with settlements being more likely when the activist has a credible threat to win board seats in a proxy fight. We argue that due to incomplete contracting settlements can be expected not to contract directly on the operational changes that activists seek but rather on changes in board composition that serve as an intermediary step for obtaining operational and leadership changes down the road. Consistent with this incomplete contracting hypothesis, we document that settlements indeed focus on changes in boardroom composition and that such settlements are subsequently followed by increases in CEO turnover, increased payout to shareholders, and higher likelihood of a sale or a going-private transaction. We find no evidence to support concerns that settlements enable activists to extract significant rents at the expense of other investors by introducing directors not supported by other investors or by facilitating “greenmail”. Finally, we document that stock price reactions to settlement agreements are positive and that the positive reaction is higher for “high-impact” settlements. Our analysis provides a look into the “black box” of activist engagements and contributes to understanding how activism brings about changes in corporate value and performance.

JEL Classification: G12, G23, G32, G34, G35, G38, K22

Keywords: Corporate governance, hedge fund activism, activist settlements.

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I. Introduction

In August 2013, Third Point, the hedge fund led by Daniel Loeb, disclosed a significant stake in the auction house Sotheby's, criticized the company for its poor governance and its failure to take advantage of a booming market for luxury goods, and called for the ouster of the company's CEO. Third Point launched a proxy fight for board representation and both sides prepared for a contested election at the company's upcoming annual meeting. However, the day before the scheduled annual shareholder meeting, the company and the activist fund entered into a settlement agreement in which Sotheby's agreed to appoint three of the Third Point director candidates and Third Point agreed to discontinue the proxy fight. The settlement terms did not require the company to make any of the operational and executive changes that Third Point was seeking. However, ten months later, Sotheby's announced the hiring of a new CEO, the appointment of a new board chairman, and a plan to return capital to its investors.

While such settlements used to be rare, they now occur with significant frequency, and they have been attracting a great deal of media and practitioner attention. Understanding settlement agreements is important for obtaining a complete picture of the corporate governance landscape and the role of activism within it. Using a comprehensive, hand-collected dataset of all the settlement agreements between activists and targets during a five-year period, we provide in this paper the first systematic empirical investigation of activist settlements. We study the drivers of settlements, their growth over time, their impact on board composition, their consequences for the operational and personnel choices that targets make, and the stock market reaction accompanying them. We further study the aftermath of settlements in terms of CEO turnover, payouts to shareholders, M&A activity, and operating performance.

With the growing recognition of the importance of hedge fund activism, a large empirical literature on the subject has emerged (see Brav et al. (2015b) for a recent survey). This literature has studied the initiation of activist interventions – the time at which activists announce their presence, usually by filing Schedule 13(d) with the SEC after passing the 5% ownership threshold, and the stock market reactions accompanying such announcements.¹ This literature

¹ Studies analyzing such initiations, including the stock market reactions accompanying them, and the stock accumulations preceding them, include Bebchuk, Brav, Jackson, Jiang, 2013; Becht, Franks, Grant, and Wagner, 2015; Boyson, Ma, and Mooradian, 2016; Boyson and Mooradian, 2011; Brav, Jiang, Partnoy, and Thomas, 2008; Clifford, 2008; Edmans, Fang, and Zur 2014; Gantchev and Jotikasthira, 2016; Giroud and Mueller, 2011; Klein and Zur, 2009; Mietzner and Schweizer 2014. Norli, Oostergard, and Schindele 2015.

has also studied extensively the changes in the value, performance and behavior of firms that take place during the years following activist interventions; among other things, researchers have studied the changes in Tobin's Q, return on assets (ROA), payouts to shareholders, capital structure, likelihood of an acquisition, and accounting practices that ultimately follow activist interventions.² But there has been limited empirical work on the "black box" in between – the channels through which activists' influence is transmitted and gets reflected in targets' economic outcomes.³ In particular, the determinants, nature and role of settlement agreements – and the cooperation between activists and targets that they introduce – has not been subject to a systematic empirical examination. We attempt to help fill this gap.

We begin by investigating the factors that determine the likelihood that an activist will be able to obtain a settlement agreement. Building on insights from the economics of settlement, we hypothesize that an activist will need to have a credible threat to win seats in a proxy fight to be able to extract a settlement agreement. Consistent with this hypothesis, we find that the odds of a settlement agreement in general, and a "high-impact" settlement agreement involving a substantial change in company leadership, increase with several factors that are associated with improved odds for the activist in winning board seats in a proxy fight.

We quantify the upward trend in activist settlements. In particular, we show that the unconditional likelihood of a settlement increased threefold from the time period 2000-2002 (3%) to the period 2003-2005 (9%), increased by another 56% during 2006-2008 (14%) and by 29% during 2009-2011 (18%). These results hold when controlling for target and activist characteristics. Consistent with the view that settlements require activists having a credible threat to win board seats in a proxy fight, we argue that the increase in the settlement rate was driven by the growing willingness of institutional investors and proxy advisors to support activists, which in turns strengthened the credibility of the activist's threat to win seats in a contest.

² Studies of the subject include Aslan and Kumar, 2016; Bebchuk, Brav, and Jiang, 2015; Becht, Franks, Mayer, and Rossi, 2009; Bourveau and Schoenfeld, 2016; Boyson, Gantchev, and Shivdasani, 2016; Boyson, Ma, and Mooradian, 2016; Boyson and Mooradian, 2011; Boyson and Pichler 2016, Brav, Jiang, and Kim, 2015a; Brav, Jiang, Ma, and Tian, 2016; Brav, Jiang, Partnoy, and Thomas, 2008; Burkart and Lee, 2015; Cheng, Huang, and Li, 2015; Cheng, Huang, Li, and Stanfield, 2012; Clifford, 2008; Corum and Levit, 2015; Gantchev, Gredil, and Jotikasthira, 2016; Gow, Shin, and Srinivasan, 2014a,b; Greenwood and Schor, 2009; Jiang, Li, and Mei, 2016; Klein and Zur, 2009, 2011; Sunder, Sunder, and Wongsunwai, 2014.

³ Some empirical studies have provided insights on the engagement process (see, e.g., Appel, Gormley, and Keim 2016; Becht, Franks, Mayer, and Rossi, 2009; Boyson and Pichler, 2016; Gantchev 2013; He and Li, 2017; McCahery, Sautner, and Starks 2016). However, none of them has paid significant attention to investigating settlement agreements and their role.

Turning to the terms of settlement, we explain the cost and difficulty of entering into contractual agreements that specify ultimate outcomes – the types of changes in operations, strategy, payouts or executive personnel that activists often seek. We document that settlements indeed rarely stipulate directly such outcomes. Rather, activists commonly settle on changes in board composition. We demonstrate that settlements are a key channel through which activists bring about board changes and we investigate the nature of these changes, showing that they bring about an increase in the number of activist-affiliated and activist-desired directors, well-connected directors and decrease the number of old and long-tenured directors.

Why do activists settle on changes in board composition if their ultimate goal is in bringing about operational or personnel changes? We argue that introducing into the boardroom individuals who are sympathetic or at least open to the changes sought by the activist is an intermediary step that can facilitate and bring about such changes. Consistent with this view, we show that, while settlements generally do not specify an ouster of the CEO, settlements are followed by a considerable increase in CEO turnover and in the performance-sensitivity of CEO turnover in the years following the settlement. Thus, settlements often plant the seeds for a subsequent CEO removal that is more face-saving to the CEO and the incumbent directors than an immediate ouster would be. Similarly, while settlement agreements generally do not specify operational changes, we document that such changes do follow in subsequent years. Settlements are followed by increased payouts to shareholders, a higher likelihood of target firms being acquired, and improvements in ROA.

We also investigate concerns raised by practitioners and the media that settlements between activists and targets enable activists to extract rents at the expense of other shareholders who are not “at the table” when the settlement is negotiated.⁴ We examine two suggested channels for such rent extraction and find little evidence that settlements provide activists with significant rents at other shareholders’ expense. First, we find no evidence that settlements enable activists to put directors on the board who are not supported by other shareholders. Directors who enter the board through settlements do not receive less voting support at the following annual general meeting than incumbent directors or those activist directors that get on the board without a settlement. Second, we find little evidence that settlements produce a

⁴ For recent media accounts, see Reuters, 07/18/2016, “Big Funds Push Back Against Settlement Agreements”; StateStreet, 10/10/2016, “Protecting Long-Term Shareholder Interests in Activist Engagements”

significant incidence of “greenmail” by getting the target to purchase shares from the activist at a premium to the market price; buybacks of activist shares occur in a very small fraction of settlement agreements and, when they do occur, they are typically executed at the market price.

Finally, we analyze the stock market reactions accompanying the announcement of a settlement agreement. Settlements are accompanied by positive abnormal stock returns. Furthermore, we find that the positive abnormal returns are especially large when the settlement is “high impact” in terms of introducing more new directors or providing for an immediate CEO turnover. This pattern is consistent with the view that the market welcomes the board composition and personnel changes that activist settlements produce and inconsistent with the view that such changes can be expected to be disruptive and detrimental to other shareholders.⁵

Our analysis is organized as follows. Section II illustrates the institutional background of the study and explains the data collection and sample construction. Section III examines the determinants of settlement agreements. Section IV explains our “incomplete contracting” hypothesis as to why settlement agreements can be expected to focus not on the changes in company operations and leadership that activists ultimately seek but on an “intermediate” objective to introduce into the boardroom new directors whose influence might lead to operational and leadership changes down the road. Section V analyzes the changes in board composition associated with settlements. Section VI investigates the subsequent operational and leadership changes that are associated with settlements. Section VII analyzes the stock market reaction to settlement announcements. Section VIII discusses additional analyses and robustness checks, and Section IX concludes.

II. Institutional Background, Data, and Summary Statistics

A. Institutional Background

The first stage of an activist intervention occurs when an activist reveals its presence and possibly the changes it might be seeking to the target’s board. This often happens when the

⁵ Whereas we make an effort to investigate the effects of activism settlements on a wide array of dimensions, we do not cover all possibly relevant dimensions. In a recent paper, Bishop et al. (2017) focus on the effect of such settlements with activists on subsequent “information leakage” prior to the issuance of 8-K filings and on bid-ask spreads.

activist files SEC Schedule 13(d) upon crossing a 5% ownership threshold.⁶ Typical objectives for the activism campaign include (i) maximizing shareholder value, which is the most common goal, (ii) changing capital structure, for example, by distributing excess cash to shareholders, (iii) changing business strategy, for example, by refocusing the company, (iv) sale of the target company, and/or (v) effecting governance changes, for example by replacing directors or the CEO. Most activists do not initially take an adversarial position, hoping to be able to reach a cooperative outcome, but 25% of the activists in our sample (similar to the frequency reported in Brav, Jiang, Partnoy, and Thomas (2008) for an earlier sample) express an adversarial position when disclosing their presence.

How can an activist bring about changes it is seeking given that the power to set the course of the company is vested in the company's board of directors? One important route that received significant attention is to run a proxy fight (see, Fos, 2016; Fos and Tsoutsoura, 2014; Fos and Jiang 2016; Gantchev 2013). To do so, the activist needs to nominate director candidates, file a proxy statement and campaign for shareholder support. Even without launching a proxy fight, the activist can seek to persuade other shareholders that the changes it seeks would be desirable, hoping that gaining such support would apply pressure on the company's board.

A settlement agreement offers a "cooperative" alternative to the activist and the incumbent directors fighting it out. It ends, at least for a specified time, the conflict between the two sides, and it requires concessions on both sides. The most important and almost universal concession made by the activist is a "standstill." During a specified "standstill" period, the activist agrees to refrain from activities with respect to influencing the control or policies of the company. The termination of the standstill can be event-driven (i.e., until certain agreed-upon conditions are in effect) or time-driven (i.e., until a definite expiration date). There are two major types of standstill agreements: (i) a share ownership standstill which prohibits the activist from acquiring additional voting securities of the target company and, (ii) a corporate governance standstill which prohibits further activism activities such as seeking a merger, seeking additional board representation, or solicitation of the company's proxies.

The incumbent directors, on their part, can agree to take certain steps that would move matters in a direction favored by the activist. The incumbents have the power to agree to

⁶ The Schedule 13D filing is a mandatory filing under Section 13(d) of the Securities Exchange Act that requires investors to disclose within 10 days of acquisition of, or conversion into, more than 5% of any class of securities of a publicly traded company if they have an interest in influencing the control or the management of the company.

specified buybacks or special dividends, to exploring a sale of the company or a recapitalization, to make certain governance changes, to replace the CEO, to add specified new directors as well as to avoid re-nominating specified incumbent directors. In Section IV below we will provide a precise picture of what concessions activists commonly obtain.

B. Data Sources

We obtain stock returns from the Center for Research in Security Prices (CRSP), and accounting data from Compustat. The remaining data used in this study comes from six sources. First, data on activism events come from a dataset put together by two of us that is an extension of the sample studied in Brav, Jiang, Partnoy, and Thomas (2008). The events are identified mainly through Schedule 13(d) filings submitted to the SEC (accessible via the EDGAR system), which disclose beneficial ownership of 5% or more of any class of publicly traded securities of a company where the investors intend to influence corporate policy or control. In putting together this dataset, Schedule 13(d) filings aiming at bankruptcy reorganization or distress investing, and those representing risk arbitrage after the announcements of mergers and acquisitions, were manually excluded because such events are of a different nature compared to shareholder activism. To supplement Schedule 13(d) filings, news searches for activists who launch public activism though with stock ownership below 5% at mid- to large-cap companies were conducted. Our sample period begins in 2000 because settlements were rare before 2000 and ends at the end of 2011 which is the last year included in our activist events dataset.

Second, information on the existence of settlement agreements between activists and targets was obtained from FactSet's Shark Repellent, Capital IQ Key Developments, and via news archive searches. We used these sources to determine, for each activism campaign launched between 2000 and 2011, whether or not a settlement agreement was reached by January 2014.

Third, information on the contents of each settlement agreement was hand-collected from the public filings that targets and activists made and supplemented using news archive searching. For detailed settlement information, we further restricted the manual data collection to campaigns that were initiated during the five-year period of 2007-2011. For each of these campaigns, we collected information on the terms of the settlement. We also collected information about events preceding the settlement, including the activist's demands prior to the

settlement agreement and the activist's campaign tactics including the filing of proxy material. Because we have detailed, hand-collected data only on settlements reached during the years 2007-2011, a part of our analysis focuses on this period whereas other parts analyze the full period 2000-2011.

Fourth, information on director and CEO characteristics and turnover is collected from the Directors Database Archive, a product of Corporate Board Member Magazine, which provides quarterly snapshots of executives and directors of firms listed on the NYSE, NASDAQ, and AMEX going back to the year 2000.⁷ We supplement this data with information gathered from proxy filings and news searches to determine whether the new director is affiliated with the activist fund or, in the case of a director independent of the fund, at least favored by the fund.

Fifth, director election voting outcomes were obtained from ISS Voting Analytics for the time period 2007 to 2014. This database covers the Russell 3000. We matched the names of the directors of our sample firms to the director names provided in ISS Voting Analytics by hand.

Last, for each of the activism campaigns in our 2000-2011 sample, we searched FactSet's Shark Repellent, Capital IQ, Thomson Reuters' SDC, and news archives for privately negotiated share repurchase transactions between hedge fund activists and their target companies.

C. Summary Statistics

Table 1 reports the annual frequency of both activist interventions and settlements. During the 12-year period of 2000-2011, there were 2,063 hedge fund activist events. Of these events, 12% (250 in total) produced a settlement agreement between the activist and the target company. The Table indicates that settlements were rare during the beginning years of this period, but the incidence of settlements has gone up considerably since then.

Appendices A and B provide information about notable targets and activists. Appendix A lists settlements related to activism campaigns launched between 2007 and 2011 with firms with market capitalization of \$2 billion and above, a total of 24 cases. The two largest target companies during the sample period were Motorola, settling with Carl Icahn in 2008, and Yahoo, which settled with Third Point in 2012. Appendix B lists the 32 activists that were involved in

⁷ This database has recently been used in Keusch (2017), Larcker, So and Wang (2013), and Stuart and Yim (2010). Since Board Magazine was acquired by NYSE, it does not update or sell the Directors Database any longer, which means that the last year for which we have data on all the directors of companies listed on NYSE, NASDAQ, and AMEX is 2012.

three or more settlements. The three activists that entered into the largest number of activist settlements were Ramius Capital (15 settlements), Carl Icahn (13 settlements), and ValueAct (10 settlements).

We next compare the characteristics of target firms with and without settlements. Table 2 reports the univariate comparisons. Companies that reach a settlement with activists are significantly larger (in terms of market capitalization), command a lower valuation (in terms of Tobin's q), and have higher institutional ownership. The two groups of firms do not differ significantly in terms of operating performance (ROA), capital structure (in terms of Debt/Assets or Cash/Assets ratios), dividend payout, and past-year stock returns.⁸

Table 2 also provides a comparison of campaign characteristics at target firms with and without settlements. Activist events with settlements are more likely when the activist proposes a specific agenda (regarding capital structure, payout, asset reallocation, and governance) than when the activists merely publicize a "general" goal to engage with the management and to improve shareholder value; when the stock market reaction to the announcement of activism is higher; and when the activist filed a proxy statement making a contested election possible in the event a settlement agreement is not reached. As will be discussed, these patterns are consistent with our hypothesis and with our multiple regression results.

III. Determinants of Settlement

A. The Economics of Activist Settlements

A settlement that averts a proxy fight is akin to a settlement of litigation prior to going to a trial in court. The economics of litigation and settlement (see Spier 2007 for a review) provides insights on why cases often settle prior to trial and when a settlement is expected. Settlements are driven by the fact that, by saving litigation costs, a settlement could make both parties better off. For a settlement to take place, however, two conditions must be met. First, the expectations of the expected trial outcome that the two sides have should not be highly divergent. Second, the plaintiff must have a credible threat to go to trial; otherwise, the defendant would not settle as it

⁸ Brav, Jiang, and Kim (2015b) report the comparison of all targeted companies with their industry peers.

would not expect a trial in the event the case is not settled (see Bebchuk, 1984; Bebchuk and Klement, 2011).

The economics of settling an activist conflict without a contested corporate election is similar to the economics of settling a litigated case without a trial. Because pursuing an activist conflict all the way to a contested election would impose significant costs on both sides, a settlement would produce gains, which the parties could share, from avoiding or reducing such costs. A dissident's costs of running a proxy fight can easily rise to millions of dollars (Gantchev 2013).⁹ For the incumbents, in addition to the out-of-pocket costs of running a proxy fight, an activist conflict involves additional costs: conducting an activist conflict could impose costs on management time and attention; resisting an activist with good arguments runs the risk of alienating other investors if the defense is perceived as unnecessary; and attacks on incumbent directors by the activist can produce substantial reputation costs for these directors (Fos and Tsoutsoura 2014; Gow, Shin, and Srinivasan 2014b). The prospect of avoiding or stopping the incurring of such costs provides a motivation for a settlement.

We note that the motivation of a settlement exists even when the activist can be expected to fare very well in the event of a proxy fight and thus has a strong bargaining position. Even in such a case, providing the activist with the large boardroom presence it could obtain in a proxy contest through a settlement might be provide the incumbents with a an outcome that has face-saving advantages as well as some transition arrangements that the incumbents value and the activist does not mind accepting. To the contrary, a settlement is unlikely in case where the activist's bargaining position is weak.

In such cases, the question is whether the conditions for a settlement are satisfied. In the case of an activist conflict, it is likely that, at least when a proxy fight is sufficiently close to the shareholder vote, the parties are likely to receive from their respective proxy solicitors predictions of the vote's outcome that do not substantially. Therefore, the key condition for incumbents to agree to enter into a settlement with a significant concession is that the activist has a credible threat to win one or more board seats in the absence of the settlement. Without such a credible threat, incumbents would have little incentive to enter into a settlement agreement. However, when incumbents learn from their proxy solicitors and shareholders that the activist

⁹ In the Trian Partners vs. DuPont proxy fight in 2015, the activist spent \$8 million launching the contest and DuPont spent \$15 million to defend.

has such a credible threat, the parties would have an incentive to reach a settled outcome and share the gains from avoiding the costs of an activist conflict.

Furthermore, in the event that an activist engagement ends with a settlement agreement, the economics of settlement provides us with insights regarding the terms that the activist would be able to obtain. The more successful the activist is expected to be in a contested election – the more the activist can be expected to obtain in a settlement.

B. Determinants of Settlements

Settlements in general: We now turn to testing the hypothesis concerning when a settlement can be expected. The relevant sample includes all 1,686 activist campaigns (with non-missing information) launched by hedge funds over the period from 2000 to 2011. Table 3 reports the results of a regression in which the dependent variable is a dummy variable that has the value of 1 if the activist engagement is settled. We include as explanatory variables a number of variables that are likely to increase the activist's chances in a contested election and thereby bolster the credibility of the activist's threat:

The activist's stake: Other things equal, a larger stake for an activist should be associated with an increased likelihood of success in a proxy fight and in turn higher odds of obtaining a settlement. To begin, the activist's stake provides the activist with more votes on which it can always count. Furthermore, a larger stake provides a signal of the activist's confidence that it would be able to increase target firm value.

Market reaction to 13(d) filing: Other things equal, the higher the stock price reaction to the initial announcement of activism, the higher the market's expectation regarding the benefits that the activism campaign brings about in the future. A favorable market reaction signals the market's approval of the activism campaign and hence increases the activist's bargaining power.

Settlements in past engagements: Other things equal, a track record of obtaining settlements in past engagements should be associated with an increased likelihood of a settlement. An activist that had a sufficiently credible threat to win proxy fights and was thus able to extract settlements in past engagements is likely one that has a good relationship with, and good reputation among, institutional investors and one that knows well the art of activism.

Past firm performance: Other things equal, poor past performance (we measure performance using Tobin's Q, ROA, and past stock returns) has negative consequences for

investors' perception of corporate management and thus bolsters the odds of activist success in a proxy contest, strengthening the credibility of the activist's threat.

Table 3 reports the results using a variety of specifications which allow for fixed effects at the industry, year, and industry-year level. In order to accommodate these fixed effects, we apply the linear probability model. While the overall relations are consistent with the univariate analysis shown in Table 2, the simultaneous inclusion of all covariates offers more information about each variable's marginal contribution to the likelihood of a settlement. Panel A of Table 3 shows that, consistent with our predictions, several variables are associated with a higher probability of a settlement.

Activist ownership: When activist ownership is above the sample median (6.4%), the probability of a settlement increases by 4-5 percentage points, which is an economically meaningful effect given the overall probability of 13%.

Track record of reaching past settlements: Each past settlement adds about three percentage points to the probability of settlement in the current campaign.

Underperformance of the target: A lower valuation of the target (as measured by Tobin's Q) is associated with an increased probability of a settlement. A low valuation can make shareholder more willing to vote for the activist and thereby enhanced the credibility of the activist's threat.

Planned proxy fights: A publicly declared intention to solicit proxy votes is associated with an increase in the probability of a settlement by 12-13 percentage points. Such a public filing increases the reputational costs to the activist of withdrawing without obtaining meaningful concessions, and it thus serves as a costly signal (Spence, 1973) that strengthens the credibility of the activist's threat to go all the way to a contested shareholder meeting in the absence of such concessions.¹⁰

Corporate governance objective: Because raising corporate governance concerns about the incumbents is a standard tactic in proxy fight, activists that think seriously about a proxy fight plant the seeds for it by citing a corporate governance objective already when making their

¹⁰ While a public announcement of a planned proxy fight increases the reputational costs of withdrawing without concessions, activists may and sometimes do drop a proxy fight and move without obtaining concessions. For this reason, we view such announcement as bolstering the credibility of the activist's threat but not making this credibility so strong as to make a settlement certain. During the period since 2007 for which we have data on such announcements, the incidence of settlement amount cases with such announcement is substantially higher than in the set of all engagements but still slightly below 50%: of the 109 engagements with such announcement, 51 settled.

initial 13(d) filing. Thus, the association between making such announcement and increased odds of a settlement is consistent with the association between planned proxy fight and such increased odds.

The last two columns of Table 3 reveal a clear rising trend in the occurrence of settlements. Using the unconditional likelihood of settlement of 3% in 2000-2002 (the omitted base case) as a benchmark, the odds of a settlement increased by 5.8 percentage points in 2006-2008, and by 12.9 percentage points during 2009-2011.

High-Impact Settlements: Finally, we define a high-impact settlement as one whose terms include significant changes in company structure or leadership. In particular, we regarded a high-impact settlement agreement to be one that stipulates at least one of the following outcomes: (i) a strategic transaction such as a spin-off of major assets, (ii) CEO departure, (iii) more than two director additions, (iv) more than one addition of an activist-affiliated director, and (v) more than one incumbent director departure. Altogether there are 69 such high-impact settlements, or 41% of the sample that includes all settled activist campaigns launched between 2007 and 2011.

Panel B of Table 3 applies a similar framework to analyze the determinants of high-impact settlements as Panel A did for the universe of all settlements. In the first three columns we apply a linear probability model where the dependent variable is an indicator for high impact settlement, and the baseline category pools both no-settlement and non-high impact settlement cases. The last two columns report results from multinomial logit models where the three outcomes, no settlement; non-high impact settlement; and high impact settlement are all treated as parallel states. The results are overall consistent with those in Panel A but are noticeably noisier. Above median activist ownership, looming proxy fight, and low valuation remain robust predictors of activists reaching high-impact settlements. The effects of other covariates are short of being consistent across the different models.

IV. Incomplete Contracting and the Contracting for Boardroom Influence

Activist hedge funds are ultimately interested in obtaining operational or leadership changes that they believe would substantially increase the value of their shares. They are therefore interested in changes such as CEO replacement, increased payouts to shareholders, a major transaction such as a sale of the company, or some other substantial change in the strategic direction of the company. However, we expect that settlements will commonly not directly

contract for such changes but only contract for boardroom turnover that might facilitate such changes later on.

For example, in the Sotheby's case, Third Point campaigned against the CEO and the strategic plan he was pursuing. The settlement agreement signed in May 2014 provided board seats for Third Point founder Dan Loeb and two of his associates but kept Sotheby's CEO William Ruprecht in place. In November 2014, however, Ruprecht stepped down and Dan Loeb handpicked Tad Smith from Madison Square Garden to lead the company.

Our hypothesis builds on the theory of incomplete contracting developed over the years by Oliver Hart and his co-authors, and described in detail in his Nobel Prize Lecture on the subject (2016).¹¹ The incomplete contracting paradigm focusses on situations in which contracting parties have primarily an interest in some subsequent ex post actions or outcomes, but contracting on such ex post actions is difficult or impossible due to costs of doing so or limits on what courts can observe ex post (see Aghion and Bolton (1992) for a well-known application of the insights of incomplete contracting to explain financial contracting choices that focus on corporate influence and control arrangements). We argue that our setting is one in which directly contracting on the ex post outcomes the activists seek is costly or sometimes not even feasible.

There are two reasons why we expect not to find direct contracting on outcomes in settlement agreements between activists and incumbents. First, postponing operational and leadership changes until after the settlement would be face-saving to the incumbent directors and thus impose fewer costs on them. For example, if the incumbent directors accept a settlement provision requiring the immediate firing of a CEO whom the incumbents have thus far been supporting, they might be viewed as "throwing the CEO under the bus." By contrast, if the CEO announces her departure several months down the road, the change can be attributed to changes in the personal circumstances of the CEO or to the CEO's completion of a certain stage. Similarly, if the incumbent directors accept a provision requiring an increase in shareholder payouts which they have been resisting during the campaign, they might be viewed as capitulating under pressure to accept a view different than theirs. By contrast, if such change is made by the board several months down the road, it can be presented as a consequence of

¹¹ We are grateful to Oliver Hart for a detailed discussion of the applicability of the incomplete contracting paradigm to our setting, and the consistency of our findings with an incomplete contracting view.

discussions on the board, and the resulting development of views, or a change in the company's circumstances.

Second, some future changes in strategy might be difficult or impossible to contract on at the time of the settlement because the optimal implementation would depend on contingencies that would be difficult or impossible for a court to verify and enforce. Suppose, for example, that the activist would like to have the company explore a sale. When and at what price it would be optimal to sell would, of course, depend on what offers a search for buyers would generate and what would take place in the market in the meantime. Of course, the parties could attempt to include in the settlement agreement provisions that require the directors to explore a sale, but the activist would have a basis for concern that, if the existing team of directors remains in place, they would not explore a sale wholeheartedly. Thus, to increase the likelihood that the company will effectively pursue a sale, or some other change in strategy, it would be important for the activist to place in the boardroom new directors who could be expected to support or even push for needed reforms. Similarly, the optimal design of an increase in leverage through buybacks might depend on the circumstances that would prevail when such an increase is effected, and might therefore be difficult to contract on at the time of the settlement.

What can activists do when it is costly or difficult to contract directly on ex post choices? The incomplete contracting paradigm suggests that in such a setting it might be optimal to contract on the identity of the agents that will make those ex post choices down the road. The goal of the activist is to introduce into the boardroom individuals that are expected or likely to be open to the type of changes that the activist seeks. Doing so might facilitate ex post changes in operation or leadership. Because the new directors usually constitute only a minority of the board, one might wonder how much influence on subsequent decisions the new directors might have. Note, however, that most of the incumbent directors are commonly independent rather than tightly affiliated with the CEO. In such a case, a couple of new directors who are well-informed and active in board discussions can influence independent directors on the board and bring about significant changes.

Bringing this incomplete contracting hypothesis to the data, the evidence is consistent with our hypothesis that settlement agreements can be expected to focus on board composition and not on the types of strategic and leadership changes that activists ultimately seek to affect firm value. Table 4 provides a summary of the terms specified in settlement agreements. More

specifically, Panel A provides the frequency of governance and strategic outcomes specified in 167 settlement agreements reached in campaigns that were launched between 2007 and 2011. We find that 87.4% of the settlements result in the appointment of new directors, presumably those endorsed by the activists. Indeed, in 56.3% of the settlements, directors affiliated with the activists joined the board, and in 44.9% the added directors were favored by, though not affiliated with the activists. Director departure is also common, occurring in 40.7% of the cases. Finally, 3.6% of the settlements result in immediate CEO departure, and a larger fraction equal to 18.6% of the CEOs step down within a year after settlement.¹² Panel B provides additional details in regards to the director turnover outlined in Panel A. The median number of directors added to the board is two, with 17 settlements leading to four or more director additions. The median number of activist-affiliated directors added is one, and reaches a high of four.

To verify that the amount of board turnover specified in the settlement agreement is indeed exceptional and not simply an artifact of target firm underperformance, we track board turnover among target firms from three years before to five years after the settlement agreement. Figure 1 depicts the results of this exercise. Consistent with the amount of board turnover provided by the settlement agreement being exceptional, there is a peak in both the addition and departure of directors in the year of the settlements. The average addition (departure) is 2 (1.5), whereas the normal level, proxied by the level in event years $t+4$ and $t+5$, is close to 0.5. The slight asymmetry in the addition vs. departure implies that the boards of target firms expand around the year of settlement. In untabulated analyses we find that the average board size increases from about 8.2 directors prior to the settlement to a peak of 8.6 when the settlement is reached. Board size gradually adjusts to its normal level during the ensuing three years.

Table 5 maps the pattern shown in Figure 1 into a OLS regression framework.¹³ In this table the dependent variables are *Number of Director Additions* and *Number of Director Departures*. The observations are recorded at the firm-year level for all publically listed firms in the Board Magazine Directors Database universe between 2000 and 2012. The key independent variables are time dummy variables for pre-settlement years [$t-3$, $t-1$], and short-term post-

¹² The probability of CEO turnover within a year after settlement is 29% for high-impact settlements (as defined above) and 11% for all other settlements.

¹³ Given that the variables are censored at zero, Tobit is the preferred regression model. However, due to the need to accommodate high-dimensional fixed effects, we opt for the linear regression. Applying Tobit without the fixed effects yields similar inferences for the key variables of interest.

settlement years $[t, t+2]$, and longer-term post-settlement years $[t+3, t+5]$. These time period identifiers measure the average annual level of the dependent variable in the particular time period relative to the annual average of all untargeted firms, after accounting for the effects of any control variables. The coefficients clearly confirm the patterns in Figure 1: Both additions and departures occur frequently during the $[t, t+2]$ period, where there are, on average, 0.63 – 0.78 new directors and 0.33 – 0.42 existing directors who leave the board per year. These estimates represent an “abnormal” board turnover relative to all firm-year observations that are not associated with activism. Importantly, firms that eventually settle do not experience a higher rate of board turnover prior to the settlement, $[t-3, t-1]$, compared to control firms, mitigating concerns that settlement targets are structurally different than untargeted firms. Similarly, there is no difference in board turnover between settlement firms in period $[t+3, t+5]$ and control firms, implying that the effect of a settlement on board turnover is temporary and, hence, directly related to the activist’s demands during the negotiation process that leads to the settlement agreement.¹⁴

The regression framework allows us to explore related effects. For all activist interventions in the sample, we include time dummies around the year of the initial activist intervention, which typically takes place one year prior to the year of settlement if there is a settlement. Table 5 indicates that the intervention per se is associated with 0.22 – 0.23 new directors and 0.12 – 0.14 departures in the $[t, t+2]$ time period in addition to the effect of the settlements. By controlling for the time window surrounding the initial activist intervention, we effectively disaggregate total board turnover associated with settlements into turnover associated with the initial activist intervention and the incremental turnover that is directly related to the settlement. Importantly, the coefficient for the time period immediately following the settlement remains statistically and economically significant after controlling for the time periods surrounding the initial activist engagement. The coefficients on the control variables also reveal some notable relations. Turnover is generally lower among older ($\ln(\text{Firm Age})$) and better performing (ROA) firms, and fewer additions and more departures are expected for larger boards – a necessary condition to maintain stationarity.

¹⁴ While the significant coefficients on *Post-Settlement Yrs* $[t, t+2]$ confirm that board turnover is higher in the period immediately following settlements than in control firms, partial F-tests reported at the bottom of Table 5 show that board turnover immediately following settlements is also significantly higher compared to settlement firms’ own past $[t-3, t-1]$ and the more distant future $[t+3, t+5]$.

V. Changes in Board Composition

Having established the magnitude of board turnover following activist engagements in general, and settlement agreements in particular, we now turn to the characteristics of the directors that are added to and removed from targets' boards. A change in the identity of directors does not necessarily imply a change in director characteristics. We begin by examining whether new directors are affiliated with or desired by the activist fund. We then turn to the personal characteristics such as age, tenure, and connectedness to shed further light on board renewal. Finally, we explore whether directors added during settlement negotiations receive lower voting support at subsequent annual general meetings.

A. *Activist Directors*

We begin by providing evidence that activists are indeed associated with the addition of new directors and that settlements are associated with the appointment of more activist-affiliated or activist-desired directors than campaigns not leading to a settlement. To examine whether activists indeed influence the appointment of directors, we proxy for the relationship between activists and directors by separating newly-added directors into three mutually-exclusive categories: (i) directors that are affiliated with the activist fund, (ii) directors that are not affiliated with but (publicly) favored by the activist, and (iii) other directors. The status of "favored but not affiliated" is based on manual classification from proxy materials and news searches. The dummy variable is coded as one for directors who are not employees of the fund but there is evidence of *any of the following*: a) they are described in media accounts as being selected or desired by the fund; b) they appear on the fund's proxy material, can be replaced by the fund in case they are unable to continue serving on the board, c) have to resign if the fund falls below a certain ownership threshold, or d) have previously been appointed by the fund during other campaigns.

Table 6 documents the annual number of activist-affiliated, activist favored but unaffiliated, and other directors that are added to the board of target companies following the initial activist intervention (i.e., 13(d) filing) and settlement agreements. Aggregating the effects of settlements and the effects of initial intervention, we find that the total number of director additions are distributed evenly across all three types of directors: about 0.29-0.31 affiliated directors per year, 0.35 – 0.37 favored but not affiliated directors, and 0.35 – 0.36 other directors.

What is different across the three types is the direct effect of a settlement. For favored but unaffiliated directors, all the additions are associated with settlements. That is, interventions without a settlement do not, on average, see many such directors added to the board. On the contrary, “other” new directors are added following the initial intervention, and not following settlements. Activist-affiliated directors are somewhere in between: while the intervention brings about 0.05 additions per year, the settlement adds another 0.24 – 0.26.

Though the board turnover around intervention and settlement is statistically significant and economically meaningful, it reflects changes that are clearly small relative to the full size of a board (typically 8 – 9 directors). Such changes reflect the activist’s strategy to influence rather than control the board. The activists, even if successful, are not able to dominate the boardroom or to dictate corporate policy. Instead, they aim at persuading other shareholders to support their candidates, and then influencing decision-making inside the boardroom. Such a strategy differentiates activists from the corporate raiders of the 1980s who tended to seek outright control.

B. Personal Characteristics of New and Departing Directors

Some institutional investors such as BlackRock and State Street have publicly expressed concerns about the directors that are added to corporate boards as a result of settlements rather than victory in a proxy fight where institutional investors have a say.¹⁵ We aim to examine the validity of these concerns in two ways. First, we examine the personal characteristics of the directors that enter (and leave) the board following settlement agreements. Second, we test in the next section whether activist-affiliated and activist-desired directors receive lower voting support at annual general meeting elections.

To examine the personal characteristics of directors that enter and leave the boardroom following settlement agreements, we focus on three director traits that are likely to proxy for their effectiveness as overseers. The first is a dummy variable *Age > 70* for directors who are at least in their seventies. The second is *Connectedness*, which is the number of different listed companies a director served as a board member during the past five years. This measure assumes that directors preserve personal connections they made in the recent past (Stuart and Yim 2010).

¹⁵ For recent media accounts, see Reuters, 07/18/2016, “Big Funds Push Back Against Settlement Agreements”, StateStreet, 10/10/2016, “Protecting Long-Term Shareholder Interests in Activist Engagements”

And the third is *Tenure*, years of service on the current board, a measure of both experience and entrenchment. Table 7 shows the results of linear probability regressions on all director-year observations for all publically listed companies covered in the Board Magazine Directors Database.

What is noteworthy about this analysis is how the characteristics of the directors involved in board turnover are different when turnover is associated with activist intervention and settlement. The corresponding coefficients are those with the interaction terms between the pre- and post-intervention/settlement time dummy variables and director personal traits. We find that in the $[t, t+2]$ period following a settlement, target firms appoint more well-connected directors and fewer directors that are above 70 years of age than control firms. While these companies also appoint more well-connected directors in the $[t-2, t]$ period prior to settlement, partial F-tests indicate that the increase in connectedness from pre to post settlement is positive and significant (p-values between 1.1% and 5.1%). In addition, we observe more (fewer) additions of well-connected (septuagenarian) directors following the initial launch of activism campaigns. With respect to director departures, incumbent directors with longer tenure resign more frequently in firms that recently settled with activists than in other firms. Interestingly, older directors are less likely to depart from the boards of firms that will in the future be targeted by activists, potentially signaling the need for board renewal.

The main effects of the director characteristics proxies show that, in general, newly-appointed directors are below 70 years of age while septuagenarian and long-tenured directors are more likely to lose their current seats. Perhaps a bit surprising, well connected directors are less likely candidates for new appointment—possibly due to the fact that they already serve on more boards than their less-connected peers and are thus considered “busy” (Core et al. 1999).

Taken together, these results imply that following settlements, boards are comprised of fewer old directors, and shorter-tenured and better-connected directors than prior to the settlement, thereby arguably increasing board effectiveness (Core, Holthausen, and Larcker 1999; Larcker, So, and Wang 2013; Nili 2016).

C. Subsequent Voting Support for New Directors

Next, we test the hypothesis that directors added to the board during settlement negotiations, that is, without the vote of other shareholders, are perceived by investors as less

qualified or committed. Specifically, we examine director voting outcomes at target firms' annual general meetings between 2007 and 2014. Table 8 reports the results of analyses where the dependent variables are the fraction of votes supporting (column 1) or against (column 2) a particular director in a given year, or the fraction of votes withheld (column 3). The directors whose voting results are considered are classified into several mutually-exclusive categories based on whether they were added during a settlement or not and whether they are affiliated with, desired by, or unrelated to ("Other") the activist. These classifications are captured by six indicator variables. The omitted base case represents incumbent directors who were already on the target firm's board prior to the campaign.

Columns 1 and 2 of Table 8 show that directors who are added to the board during an activism campaign (irrespective of whether the campaign resulted in a settlement or not) generally receive significantly more votes in their favor and fewer votes against them compared to incumbent directors. In column 1 the differences in voting support between incumbents and new directors range between 1.7 percentage points in the case of activist-desired directors who join the board without settlements and 4.8 percentage points for activist-desired directors who join the board with a settlement. This difference-in-differences is also statistically significant, implying that activist-desired directors receive more voting support when they join the board following a settlement than without a settlement. Another important observation is that among directors added during settlement campaigns, those affiliated with the fund do not receive lower voting support compared to those who are unaffiliated with the fund. On the contrary, column 2 shows that affiliated directors get fewer votes against them than desired directors and other directors. Taken together, we find no evidence that directors who join boards following settlements receive lower voting support than incumbent directors or those who join the board during non-settlement campaigns.

VI. Subsequent Changes in Leadership and Operations

We have argued that, although settlements directly affect only the composition of the board, activists seek such changes in board composition as an instrument of facilitating strategic changes in leadership or operations down the road. In this Part we test this hypothesis and examine the extent to which settlements are associated with increased likelihood of such changes. Consistent with this view, we find that settlements are associated, even compared with

activist engagements not involving a settlement, with subsequent increases in CEO turnover, payouts to shareholders, the likelihood of a strategic transaction, and operating performance.

A. CEO Turnover

While the high portion of settlement agreements that contractually specify director departures (40.7%) and especially director additions (87.4%) suggest that the above documented board renewal is directly attributable to the settlement agreement, only very few settlements stipulate the ouster of the incumbent CEO (3.6%). This result might seem puzzling given that Becht, Franks, Mayer, and Rossi (2009) find that replacing target firms' CEOs is an important mechanism through which activist funds can implement their objectives. In line with this claim, Figure 2 shows that CEO turnover spikes to an annual rate of 25%, during the year of the settlement, up from a pre-settlement average of 12 – 13% annually, and significantly higher than the average turnover probability of 11% in the Directors Database Archive universe. The rate lingers at about 15 – 16% for the ensuing five years. Taken together, these results suggest that the CEO is allowed to resign 'quietly' after the settlement as opposed to her ouster being publicly announced in the settlement agreement.

Table 9 examines CEO turnover around initial activist interventions and settlement agreements in a regression framework. During the $[t, t+2]$ period following settlement agreements, CEO turnover at target firms in excess of turnover at control firms is between 4.9 and 7.8 percentage points per year. Importantly, abnormal turnover is insignificant before the settlement agreement and in the period $[t+3, t+5]$, implying that the decision to replace the CEO following settlement agreements is directly related to activist pressure.¹⁶ We also document significant abnormal CEO turnover in the $[t, t+2]$ period following the initial activist intervention of 4.3 to 4.7 percentage points per year, in line with the notion that many activism campaigns are successful in replacing the CEO even in the absence of a settlement. The coefficient estimates on the control variables suggest that CEO turnover is higher in smaller, younger and underperforming firms and among older CEOs.

¹⁶ While the significant coefficients on *Post-Settlement Yrs* $[t, t+2]$ confirm that CEO turnover is higher in the period immediately following settlements than in control firms, partial F-tests reported at the bottom of Table 9 show that CEO turnover immediately following settlements is also significantly higher compared to settlement firms' own past $[t-3, t-1]$.

To the extent that activists attempt to replace CEOs at target companies as a way to restore governance and performance, this effort should be reflected in an increased sensitivity of CEO turnover to performance. To this end, we test whether activism and settlement agreements affect the relation between firm performance and CEO turnover. Specifically, we run a linear probability model for CEO turnover at the firm-year level. The key independent variables are interaction terms between the time dummy variables relative to the launching of activist campaigns or settlement agreements and an indicator for *Underperformance*, which is equal to 1 if the company underperformed the value-weighted CRSP market return (columns 1 to 4) or the industry benchmark return based on 3-digit SIC codes (columns 5 to 8) over the previous year. Table 10 reports the results.

Underperforming CEOs are less likely (or at least no more likely) to lose their jobs *prior* to hedge fund targeting and settlements, compared to similarly-performing non-event firms, as evident from the negative coefficients on the interaction terms between the pre-activism or pre-settlement time dummies and *Underperformance*, though only two coefficients are statistically significant. Importantly, the coefficients on *Post-Settlement Yrs[t, t+2] x Underperformance* are uniformly positive and significant, and more so when underperformance is measured against the stock market (columns 1 to 4), in which case annual CEO turnover is 9 to 11 percentage points higher compared to control firms.¹⁷ The turnover-performance sensitivity is also significantly higher in the period [t, t+2] following the initial activist intervention compared to control firms and compared to the [t-3,t-1] period prior to the intervention. Overall, the empirical evidence implies that activists oust CEOs selectively, and future departure of underperformers is a key element of the settlement.

B. Shareholder Payouts

Activists often seek an increase in shareholder payouts, and Brav, Jiang, Partnoy and Thomas (2008) document increases in payout among target firms following activist interventions. Consistent with the incomplete contracting hypothesis, however, a share buyback is directly stipulated in only 3% of our settlement agreements. Furthermore, and consistent with

¹⁷ While the significant coefficients on the *Post-Settlement Yrs[t, t+2] x Underperformance* interactions confirm that CEO turnover among underperforming firms is higher following a settlement agreement than in the absence of a settlement, partial F-tests reported at the bottom of Table 10 show that, for firms that eventually settle, the CEO turnover-performance sensitivity is significantly higher following settlement than prior to settlement.

this hypothesis as well, when we go beyond the contractual stipulations in the settlement and examine the annual level of payout in the years surrounding the settlement date, we find that payout yield spikes in the year that the settlement agreement is filed.

Figure 3 shows that the pre-settlement level of payout yield is around 3.5%, increases to almost 6% in the year of settlement and reverts back to around 4% in the following 5 years. This pattern is confirmed in regression analyses presented in Table 11. Specifically, from pre ($[t-3, t-1]$) to post ($[t, t+2]$) settlement, the average increase in payout yield is between 1.1 and 1.3 percentage points, which is economically significant given the average payout of around 4% observed in 9 years surrounding activist intervention. Partial F-tests presented at the bottom of Table 11 reveal that these differences are also statistically significant with p-values ranging between 0.4% and 1.2%.

With respect to initial activist intervention, payout is significantly higher before and after the intervention than in control firms that are not targeted. Additional F-tests show that there is some modest evidence that payout also increases from before to after the initial activist intervention, with p-values between 7.4% and 11.3%. In combination, these results imply that increases in payout are concentrated among target firms that settle with the dissident, providing further credence to the hypothesis that hedge fund activists actively try to increase distributions to shareholders.

C. Rent-Extraction via Greenmail?

Related to the above evidence on payout, some commentators have expressed concern that target companies might buy out the activist in some settlements, and that settlements might thus enable activists to extract rents at the expense of other shareholders similar to economic rents corporate raiders might have extracted during the 1980s through “greenmail.”¹⁸ To consider this concern, we investigate whether settlements enable activists to extract significant private gains via greenmail, and we find no evidence that this is the case.

In particular, we review the record of each settlement and corporate disclosures of buybacks following the settlement. We find that only 8 settlements during our period were followed by a privately-negotiated buyback that enabled the activist to sell shares to the issuer.

¹⁸ See, e.g., Wall Street Journal, 6/11/1014, “Activist Funds Dust Off ‘Greenmail’ Playbook” and Forbes, 2/19/2016, “Greenmail Lives! Activist RiverNorth Folds At Fifth Street After A Tannebaum-Led Buyout”

Furthermore, in 7 out of these 8 cases, the record indicates that the buyback was executed without a premium to the market price, and in the remaining case we were unable to determine the price of the transaction. Thus we find no evidence validating the greenmail concern.

D. Strategic Transactions

Prior research documents activists' ability to put target firms into play (Boyson, Gantchev, and Shivdasani 2016; Burkart and Lee 2015; Corum and Levit 2016; Greenwood and Schor, 2009). However, less than 8% of settlement agreements signal the possibility for a strategic transaction.¹⁹ As explained, our hypothesis is that strategic transactions such as selling the target firm are difficult to contract on in the settlement – it does not make sense to commit to a sale before a business partner is found and negotiations are conducted – but that settlements can be used to facilitate a transaction later on. Thus, in this section we examine whether the likelihood of target firms being sold increases in the aftermath of settlements.

Figure 4 documents an increase in the probability of target firm stock market delisting in the year following the settlement, which persists until years after. Importantly, this increase in delisting propensity is concentrated among those that are related to mergers and acquisitions (M&A) or going-private transactions while there is no effect of settlement on distress-related delistings. Table 12 confirms these results in a linear probability model regression framework: The probability of M&A or going-private transaction increases by about 3 percentage points in the period $[t, t+2]$ following settlement compared to control firms but reverts back to the normal level in period $[t+3, t+5]$. This increase is statistically and economically significant given an average M&A/going-private rate of around 9% in the 6 years following settlement. Post-settlement there is no significant increase in the probability of distress related delisting.

For the time periods following initial activist intervention, another interesting pattern emerges: while the probability of M&A and going private is significantly higher in both post intervention time periods than in control firms, the probability of distress delisting is actually significantly *lower* in years $[t, t+2]$ following the 13(d) filing. Collectively, these results imply that target firms are more likely to delist for favorable reasons (M&A and going private) than

¹⁹ 1.2% of agreements specify the sale of the firm, another 1.2% a merger and 5.4% stipulate the formation of a Strategic Transaction Committee on the board of directors.

control firms, and especially so following settlement agreements but less likely to delist due to financial distress, refuting the claim that hedge fund activists destabilize target firms.²⁰

E. ROA

Several prior studies on hedge fund activism document deterioration in ROA among target firms prior to intervention, and a full recovery afterwards (for recent evidence, see Bebchuk, Brav, and Jiang (2015) and Gantchev, Gredil, and Jotikasthira (2016)). In our sample, target firms' ROA evolves in a similar "V"-shape pattern around the year of a settlement. As Figure 5 shows, the ROA of the firms that eventually reach settlements with activists see their ROA decrease from an average of 9% to about 4%, and then rebound after the settlement, to about 8% in the period three to five years afterwards.

Table 13 provides a more formal regression-based analysis of the operating performance following settlement agreements. In this specification, the dependent variable is ROA at the firm-year level for all publicly traded firms with available data during the sample period. The key independent variables are time dummy variables, $d[t-3], \dots, d[t], \dots, d[t+5]$, that indicate whether a firm-year observation belongs to a target firm from three years before to five years after the settlement agreement. In order to isolate the effect of a settlement from that of the activist intervention, the last two columns of the table further add the corresponding time dummy variables surrounding the year of initial activist intervention.

All specifications share a common pattern. The ROA of target firms deteriorates prior to the settlement agreements, and is significantly below the normal levels the year before and during the year of the settlement (about 3.4 – 3.8 percentage points). The underperformance completely disappears three years after the settlement, and does not reappear at least for another two years.²¹ In the regressions we control for size and age, as well as for year and firm fixed effects (or industry-year and firm fixed effects). Hence the benchmark is a firm's own normal level, corrected for time-varying firm size and age, and industry-year effects.

It is worth noting that the improvement in ROA post settlement is robust to controlling for before-and-after time dummy variables surrounding the initial announcement of the activism

²⁰ For an example of such claims, see Reuters, 11/16/2015, "The Cannibalized Company"

²¹ P-values of partial F-tests reported at the bottom of Table 14 show that improvements in settling firms' operating performance from pre-settlement ($[t-1], [t]$) to post-settlement ($[t+3], [t+4], [t+5]$) years are mostly statistically significant.

campaign, where the coefficients on the latter confirm the pattern documented in the literature that firms with deteriorating ROA performance are more likely candidates and, once they become targets, their performance improves afterwards. The combined evidence suggests that within activist targets, the ones with larger recent operating performance declines are more likely to reach settlements with activists, presumably because their poor track records lend more bargaining power to their opponents. In addition, the fact that events that ended with settlement agreements produce substantial ROA gains suggests that the operating performance associated with hedge fund activism is unlikely to be attributable to stock picking alone. Negotiating and delivering an agreement, which frequently involves proxy solicitations, serving on the target's board, and agreeing to standstill provisions, is highly costly for the activists, who ought to put in such an effort only if they believe it can bring about real changes.

VII. Stock Market Reaction

In examining stock market reactions, the literature has paid close attention to the stock price reactions accompanying the filing of SEC 13(d) schedules that alert the market to the purchase of a significant stake by an activist. The existing literature to date has provided consistent evidence indicating that hedge fund activism leads to a short-term price “bump” on the order of 5 – 7% which is not reversed in the longer term (for up to five years). Moreover, this positive reaction from the stock market is justified by the ex post improvement in both operating performance and corporate governance, e.g., increases in the return on assets and in CEO pay-for-performance. (e.g., Bebchuk, Brav, and Jiang 2015; Keusch 2017) The purpose of this study is to highlight how settlements help to generate the gains to activism.

Consider first the market reaction to the announcement of a settlement agreement. Table 14 shows that there is a statistically significant 1% average buy-and-hold abnormal return in excess of the industry benchmark during the [t-1, t+1] day window around the settlement date; and the results are almost identical if the time window is expanded to [t-3, t+3].

When we use the estimates of abnormal returns as dependent variable, then high-impact settlements (as defined in Section III.B) earn an extra 2.6 percentage points compared to non-high impact settlements. This result is consistent with prior literature documenting higher announcement and holding-period returns for activism campaigns that result in board turnover, takeovers and other forms of corporate restructurings (Becht, Franks, Grant, and Wagner 2015;

Greenwood and Schor 2009). Within the components of high-impact settlements, CEO replacement generates the highest short-term returns, specifically, 6.1% above the average abnormal return of settlements in which the CEO is retained.

These results are consistent with the market reacting favorably to the stipulations in settlement agreements, for example the changes in board composition, and anticipates the changes in leadership and operations. The results are inconsistent with shareholders viewing privately-negotiated settlement agreements as devices for activist rent extraction.

VIII. Comparison with Matched Firms

The foregoing results are consistent with settlements having a causal effect on changes in board turnover, CEO turnover, and firm operations. We are confident that some of the effects on board turnover are indeed causal because the board changes are stipulated in the settlement agreements and, in the absence of activist pressure, target firms are unlikely to nominate Dan Loeb, Carl Icahn or Bill Ackman to their boards. However, other results are also consistent with the alternative interpretation that targets which settle underperform targets that do not settle and would have made the observed CEO and operational changes even in the absence of a settlement. In the preceding analyses we try to mitigate concerns that this alternative interpretation is driving our results by controlling for lagged ROA, Tobin's Q, and stock returns. In analyses presented in the Internet Appendix, we relax assumptions about functional form by comparing future board and CEO turnover as well as future operating performance between target firms that settle with activists and a set of control firms that are matched based on past performance and other firm characteristics.

We design the propensity-score matching algorithm to achieve parallel trends in pre-event performance between settlement firms and control firms. To that end, we match each firm that reaches a settlement agreement to a control firm within the same two-digit SIC industry and year with the closest propensity score. The propensity score is estimated in a probit model in which the incidence of settlement in a given year is predicted based on firm size as well as the level and trend in operating performance and valuation prior to the settlement by using $\text{Ln}(\text{Market Cap})[t-1]$, $\text{ROA}[t-1]$, $\Delta\text{ROA}[t-2,t-1]$, $\Delta\text{ROA}[t-3,t-2]$, $\text{Tobin's Q}[t-1]$, $\Delta\text{Tobin's Q}[t-2,t-1]$, $\Delta\text{Tobin's Q}[t-3,t-2]$ as the determinants of a settlement. As documented in Internet Appendix E, the matching algorithm is successful to the extent that the level in ROA is only

statistically different between settlement firms and control firms in year $t-3$ prior to the event but not in the other pre-event years. In addition, untabulated analyses show that firm valuation, as proxied by Tobin's Q , is not significantly different between treatment and control firms in any of the pre-event years.

We begin by examining differences in board turnover between settlement firms and control firms. Specifically, we track and compare board turnover around settlement years and propensity-score matched placebo years. The independent variables of interest are the $d[t+k] \times Settlement$ interaction terms, which measure the difference between director turnover in year $t+k$ around the settlement year to director turnover in year $t+k$ around the matched placebo year.

Three results tabulated in Internet Appendix A are worth noting: First, prior to the settlement/placebo year, there are no significant differences in board turnover between treatment and control firms, providing further support for the matching algorithm used. Second, divergence in board turnover between treatment and control firms begins in year t , with the number of director additions (resignations) in settlement firms exceeding those in matched firms by around 1.5 (0.6) directors. Divergence continues, albeit to a much weaker extent, until year $t+2$ for director additions and until year $t+1$ for director resignations. Third, in years $t+3$ through $t+5$, we observe no difference in board turnover between treatment and control firms, lending support to the claim that the spike in board turnover following settlement agreements is temporary and, hence, directly related to the activist's demands during the negotiation process that leads to the settlement.

We follow the same procedure to estimate the treatment effect of settlement on CEO turnover and present the results from the linear probability models in Internet Appendix B. Similar to the analysis on board turnover, the likelihood of CEO turnover is not significantly different between treatment and control firms prior to the settlement agreement. In the year the settlement is reached, however, the probability of CEO turnover in treatment firms is about 12 percentage points higher than it is among control firms. Similar to the trend in board turnover, divergence in CEO turnover continues until year $t+2$ and disappears afterwards.

In Internet Appendix C, we confirm that the increase in payout following settlements documented in Table 11 holds in our matched sample, albeit the effect being weaker. In the years prior to the settlement, there is no difference in payout between treated (settlement) and control firms. Similar to Table 11, divergence starts in the year of the settlement with treated firms

showing higher payout yield than control firms. In year $t+1$ there is still weak evidence of higher payout among settlement firms.

In Internet Appendix D, we repeat the analyses for stock market delistings that are shown in Table 12 of the paper. A delisting is a relatively rare event so the smaller size of the matched sample decreases the power of the test. We find evidence that the overall likelihood of stock market delisting is higher among settling firms in the year following the settlement. However, we find no statistically significant effect when we differentiate between M&A or going-private delistings and distress related delistings. Three years after the settlement, the likelihood of distress-related delisting is higher among settlement firms compared to control firms but this result is driven by only 4 events.

Finally, we compare operating performance between firms that reach a settlement and our propensity-score matched control firms. The regression framework is again the same as in the two preceding analyses. As described earlier, pre-trends in ROA of treatment firms are similar to those of control firms, except that settlement firms perform significantly worse three years prior to the settlement. Consistent with the results presented in Table 13, however, firms that settled start to outperform control firms in years $t+3$ through $t+5$ following the settlement. While the differences in performance are economically meaningful (between 2 and 4 percentage points per year), they are statistically significant only in year $t+3$, which is not surprising given the relatively small number of settlement agreements.²² These findings suggest that activist pressure and influence that is directly observable in the form of settlement agreements between the activist and the target company has, if anything, a positive influence on future firm performance.

Overall, the results from the propensity-score matching provide further evidence that is consistent with the findings reached in the preceding parts of this paper. Of course, because the matching of settlement firms to control firms is based on observable firm characteristics, the matching methodology can only mitigate but not eliminate endogeneity concerns altogether.

²² Similarly, p-values of partial F-tests reported at the bottom of Internet Appendix E show that improvements in settling firms' performance from pre-settlement to post-settlement years are significantly stronger than performance improvements among the matched control firms only in year $t+3$.

IX. Conclusion

Settlement agreements between the activist and the target's board have been playing an increasing role in the corporate governance landscape. Using a comprehensive hand-collected data set, we provide the first systematic analysis of the drivers, nature, and consequences of such settlement agreements. We identify the factors that determine the likelihood of a settlement, showing that the evidence is consistent with settlements being more likely when the activist has a credible threat to win board seats in a proxy fight. We then document that settlements bring about major changes in board composition rather than provide directly the operational changes that activists seek, but that settlements are followed by such changes, including increases in CEO turnover, increased payout to shareholders, and higher likelihood of a sale or a going-private transaction. We find no evidence that settlements allow activists to appoint directors who are not supported by other shareholders or that they enable the extraction of economically meaningful rents through greenmail. Settlements are followed by improvements in operating performance and their disclosure is accompanied by positive stock price reactions. Our analysis highlights the importance of settlements and provides an empirical foundation on which future examination of settlements and activist engagements more generally can build.

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Appendix A. List of Settlement Agreements Involving Large Companies

This table reports sample settlement agreements reached between January 2007 and January 2014 during campaigns that were launched between January 2007 and December 2011 involving target companies with at least \$2bn market capitalization. Market cap is expressed in millions of dollars. Month & year refers to the time the settlement agreement was reached.

Company	Market cap	Activist	Month & year	Main changes obtained by activists
Motorola Inc	36,300	Icahn	April 2008	- One incumbent director resigns - Two new directors, one affiliated with the activist, one favored by the activist but unaffiliated
Yahoo	19,195	Third Point	May 2012	- Six incumbent directors resign - Four new directors are added, three affiliated with the activist, one favored by the activist but unaffiliated
Clear Channel Com.	17,188	Highfields Capital	May 2008	- Two incumbent directors resign - Two new directors are added, one favored by the activist but unaffiliated, one not identified to be favored by the activist
Adobe Systems	17,102	ValueAct	December 2012	- One new director added who is affiliated with the activist
Yahoo	16,977	Icahn	July 2008	- One incumbent director resigns - Three new directors are added, one affiliated with the activist, two favored by the activist but unaffiliated
Motorola Solutions	15,373	ValueAct	October 2012	- Two new directors added, one affiliated with the activist, one not identified to be favored by the activist
Biogen Idec	14,705	Icahn	March 2010	- One incumbent director resigns - Two new directors added, one favored by the activist but unaffiliated, one not identified to be favored by the activist
Chesapeake Energy	11,041	Icahn	July 2012	- Five incumbent directors resign - Five new directors are added, one affiliated with the activist, four not identified to be favored by the activist
Forest Laboratories	10,138	Icahn	June 2013	- One new director added who is affiliated with the activist
Sara Lee	8,653	ValueAct	August 2008	- One new director added who is affiliated with the activist
CBRE Group	6,569	ValueAct	December 2012	- One new director added who is affiliated with the activist
Family Dollar Stores	6,265	Triam Fund Mgmt.	September 2011	- One new director added who is affiliated with the activist

Appendix A (continued)				
Willis Group Holdings	5,807	ValueAct	April 2013	- One incumbent director resigns - One new directors added who is affiliated with the activist
Legg Mason	4,660	Triam Fund Mgmt.	October 2009	- One new director added who is affiliated with the activist
Rowan	4,390	Steel Partners	March 2008	- One new directors added who is affiliated with the activist - Company agrees to attempt to sell its manufacturing business
Ceridian	3,931	Pershing Square	September 2007	- Four new directors added, one affiliated with the activist, three favored by the activist but unaffiliated
Navistar International	2,966	Icahn	November 2011	
Omnicare	2,778	ValueAct	February 2008	- Two incumbent directors resign - Three new directors added, one affiliated with the activist, two not identified to be favored by the activist
New York Times	2,520	Harbinger Capital	March 2008	- Two incumbent directors resign - Four new directors added, one affiliated with the activist, one favored by the activist but unaffiliated, two not identified to be favored by the activist
Quicksilver Resources	2,513	SPO Advisory Corp	October 2010	
Sybase	2,275	Sandell Asset Mgmt.	February 2008	
WEBMD Health	2,092	Icahn	June 2012	- One new director added who is affiliated with the activist
Novell	2,085	Elliott Associates	August 2010	
St Joe	2,023	Fairholme Capital Mgmt.	February 2011	- Four incumbent directors resign - Four new directors added, two affiliated with the activist, two favored by the activist but unaffiliated - CEO resigns

Appendix B. Activists with Three or More Settlements

This table reports the names of activists who reached three or more settlements for interventions launched between calendar year 2000 and 2011. Number of settlements refers to the number of settlements the activist reached during the sample period. Number of Interventions refers to the number of interventions launched by the activist during the sample period. % Settlements refers to the percentage of interventions that resulted in a settlement agreement.

Activist Name	Number of settlements	Number of interventions	% Settlements
Ramius Capital Group	15	30	50
Icahn	13	41	32
ValueAct	10	65	15
Barrington Capital Group	9	20	45
SRB Management / Becker Drapkin	8	13	62
Steel Partners	7	44	16
Stillwell Partners	6	27	22
Third Point	6	34	18
Financial Edge Fund / PL Capital	6	23	26
Riley Investment Management	6	14	43
Pirate Capital	5	19	26
Red Oak Partners	5	8	63
Crescendo Partners	4	8	50
Jana Partners	4	22	18
Pershing Square	4	11	36
Sandell Asset Management	4	11	36
Shamrock Value	4	17	24
Wynnefield Capital	4	27	15
Elliott Associates	4	17	24
Carlson Capital	4	9	44
Raging Capital Management	4	7	57
Boston Avenue Capital	3	16	19
Costa Brava Partnership	3	8	38
Lawndale Capital	3	8	38
MMI Investments	3	20	15
Trian Capital Partners	3	7	43
Henry Partners	3	5	60
Seidman	3	20	15
Red Mountain Capital Partners	3	8	38
Palo Alto Investors	3	19	16
Coliseum Capital Management	3	4	75
Starboard Value	3	7	43

Appendix C. Variable Definitions

Settlement characteristics

High Board Turnover is an indicator variable equal to 1 if the settlement agreement stipulates that at least 2 activist-affiliates join the board or at least 3 new directors join the board or at least 2 incumbent directors leave the board and equal to 0 otherwise.

Strategic Transaction is an indicator variable equal to 1 if the target firm merges or seeks to sell itself or establishes a board committee to explore strategic alternatives and equal to 0 otherwise.

CEO Departure is equal to 1 if the settlement agreement stipulates that the CEO will leave the company and equal to 0 otherwise.

High Impact Settlement is an indicator variable equal to 1 if ‘Strategic Transaction’ is equal to 1 or CEO Departure is equal to 1 or High Board Turnover is equal to 1 and equal to 0 otherwise.

Buy & Hold Industry-Adjusted Return is the continuously-compounded industry-adjusted share price performance around the date the settlement agreement is reached.

Identifiers for time relative to 13(d) filing or settlement agreement

Activism[t+k] with $k \in \{-3, 5\}$ is equal to 1 in year k relative to the year of the 13(d) filing and equal to 0 otherwise.

Settlement[t+k] with $k \in \{-3, 5\}$ is equal to 1 in year k relative to the year of the settlement and equal to 0 otherwise.

Pre-Settlement Yrs[t-3,t-1] is an indicator variable equal to 1 in the 3 years preceding the settlement agreement and equal to 0 otherwise.

Post-Settlement Yrs[t,t+2] is an indicator variable equal to 1 in the year of the Settlement Agreement and the two following years and equal to 0 otherwise.

Post-Settlement Yrs[t+3,t+5] is an indicator variable equal to 1 in the third, fourth and fifth year following the settlement and equal to 0 otherwise.

Pre-Activism Yrs[t-3,t-1] is an indicator variable equal to 1 in the 3 years before the 13(d) and equal to 0 otherwise.

Post-Activism Yrs[t,t+2] is an indicator variable equal to 1 in the year of the 13(d) filing and the two following years and equal to 0 otherwise.

Post-Activism Yrs[t+3,t+5] is an indicator variable equal to 1 in the third, fourth and fifth year following the 13(d) filing and equal to 0 otherwise.

Board and director characteristics

Board Size is the number of directors on the board.

Ln(Board Size) is equal to the natural logarithm of 1 plus the number of directors on the board.

Director Additions is the number of new directors on the board.

Director Departures is the number of directors that leave the board.

Affiliated Director Additions is the number of new directors on the board that are affiliated with the activist.

Desired Director Additions is the number of new directors on the board that were desired/chosen by the activist.

Other Director Additions is the number of new directors on the board that are neither affiliated with nor desired/chosen by the activist.

Director Age > 70 is an indicator variable equal to 1 if the director is older than 70 and equal to 0 otherwise.

Connectedness is the number of other boards the director served on over the past 5 years.

Tenure is the number of years the director has been on the board of the company

Fraction of Votes Supporting Director is the proportion of votes at the annual meeting supporting the director.

Fraction of Votes Against Director is the proportion of votes at the annual general meeting against the director.

Fraction of Votes Withheld is the proportion of votes at the annual general meeting withheld in a director election

Activism campaign characteristics

Objective General / Capital Structure / Sale / Strategy / Governance are indicator variables representing the objective(s) stated by the activist in its initial 13(d) filing with the SEC.

Number Past Settlements identified the number of settlements reached by the activist in the past.

Activist Ownership is the fraction of the target's shares owned by the activist as reported on its 13(d) filing.

Above-median Activist Ownership is an indicator variable equal to 1 for campaigns with activist ownership above the sample median and equal to 0 otherwise.

Market Reaction to 13(d) Filing is the continuously-compounded industry-adjusted share price performance between 10 days prior to 10 days after the activist's 13(d) filing.

Looming Proxy Fight is an indicator variable equal to 1 if the activist has threatened a proxy fight and equal to 0 otherwise (only collected for campaigns launched between 2007 and 2011).

Company characteristics and outcomes

Market Cap is the target firm's market capitalization in millions.

Ln(Market Cap) is equal to the natural logarithm of 1 plus target firm's market capitalization.

Ln(Firm Age) is equal to the natural logarithm of 1 plus the number of years since the firm first appeared on CRSP.

ROA is earnings before interest, taxes, and depreciation over lagged total assets.

Tobin's Q is the sum of the book value of debt and the market value of equity scaled by the sum of the book value of debt and the book value of equity.

Book / Market is the book value of equity scaled by the market value of equity.

Debt / Assets is the book value of debt scaled by total assets.

Cash / Assets is the sum of cash and marketable securities scaled by total assets.

Dividend Yield is the dividend per share scaled by share price.

Institutional Ownership is the fraction of shares outstanding held by institutional investors.

Past Returns is the share price performance over the 12 months leading up to the 13(d) filing.

One Year Return is equal to the continuously-compounded stock return over the calendar year.

Underperform Industry is an indicator variable equal to one if the firm's continuously-compounded industry-adjusted stock return over the calendar year is negative and equal to 0 otherwise.

Underperform Market is an indicator variable equal to one if the firm's continuously-compounded market-adjusted stock return over the calendar year is negative and equal to 0 otherwise.

Acquisition / Going Private Delisting is an indicator variable equal to 1 in the year of a stock market delisting that is related to merger and acquisition or going private transactions and equal to 0 otherwise.

Distress Delistings is an indicator variable equal to 1 in the year of a stock market delisting that is related to financial distress based on the CRSP delisting codes and equal to 0 otherwise.

All Delistings is an indicator variable equal to 1 the year of a stock market delisting and equal to 0 otherwise.

Payout Yield is the sum of dividends and repurchases divided by market capitalization

Privately-Negotiated Repurchase is an indicator variable equal to 1 if the target firm repurchases shares from the activist in a privately-negotiated transaction

CEO Turnover is an indicator variable equal to 1 if the CEO leaves the firms and equal to 0 otherwise.

CEO Age > 60 is an indicator variable equal to 1 if the CEO is older than 60 and equal to 0 otherwise.

Time Trend Variables

Time Trend is a linear time trend.

Years 2003 - 2005 is an indicator variable equal to 1 for years 2003 to 2005 and equal to 0 otherwise.

Years 2006 - 2008 is an indicator variable equal to 1 for years 2006 to 2008 and equal to 0 otherwise.

Years 2009 - 2011 is an indicator variable equal to 1 for years 2009 to 2011 and equal to 0 otherwise.

Figure 1. Director Additions and Departures around Settlement Agreements

This figure documents the average number of new directors joining the board and incumbent directors leaving the board preceding and following settlement agreements. The sample consists of all settlement agreements reached between hedge fund activists and target companies between January 2000 and January 2014 during campaigns that were launched between 2000 and 2011. The number of settlement agreements with information available on director turnover in the year of settlement is 230. Year 0 on the x-axis represents the year during which the settlement agreement was reached.

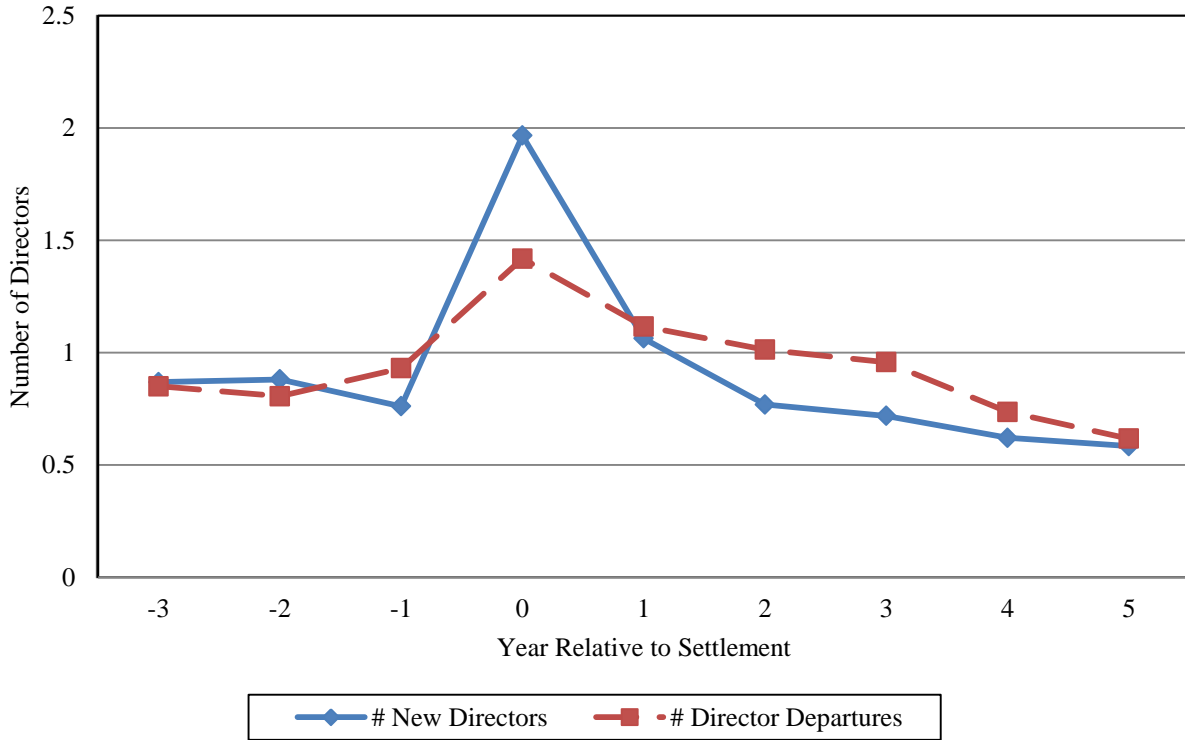


Figure 2. CEO Turnover around Settlement Agreements

This figure documents the average probability of CEO turnover preceding and following settlement agreements. The sample consists of all settlement agreements reached between hedge fund activists and target companies between January 2000 and January 2014 during campaigns that were launched between 2000 and 2011. The number of settlement agreements with information available on CEO turnover in the year of settlement is 227. Year 0 on the x-axis represents the year during which the settlement agreement was reached.

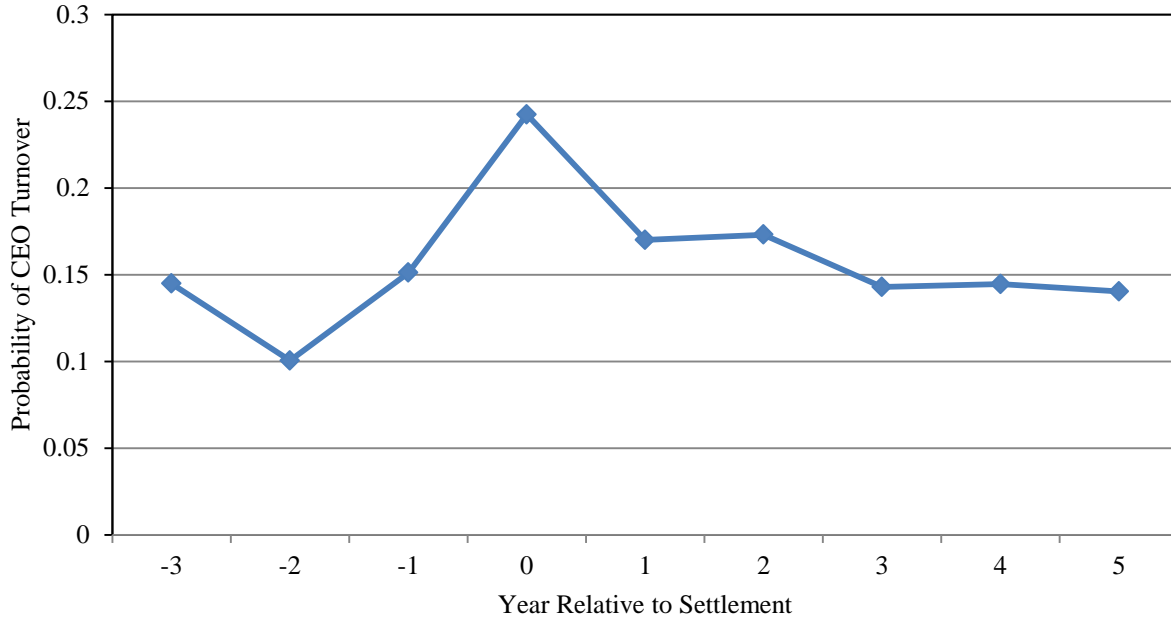


Figure 3. Payout Yield around Settlement Agreements

This figure documents the average payout yield (dividends plus repurchases scaled by market capitalization) preceding and following settlement agreements. The sample consists of all settlement agreements reached between hedge fund activists and target companies between January 2000 and January 2014 during campaigns that were launched between 2000 and 2011. The number of settlement agreements with information available on payout yield in the year of settlement is 195. Year 0 on the x-axis represents the year during which the settlement agreement was reached.

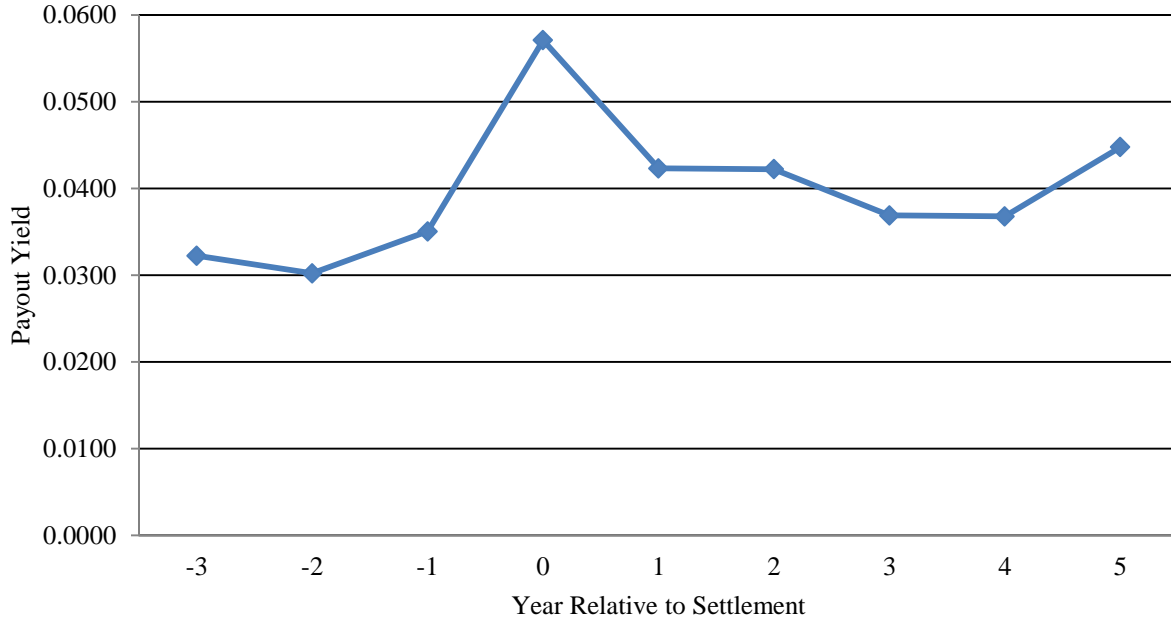


Figure 4. Stock Market Delisting following Settlement Agreements

This figure documents target companies' average probability of mergers and acquisitions related delisting and financial distress related delisting following settlement agreements. The sample consists of all settlement agreements reached between hedge fund activists and target companies between January 2000 and January 2014 during campaigns that were launched between 2000 and 2011. The number of settlement agreements with information available on (the absence of) delisting in the year of settlement is 233. Year 0 on the x-axis represents the year during which the settlement agreement was reached.

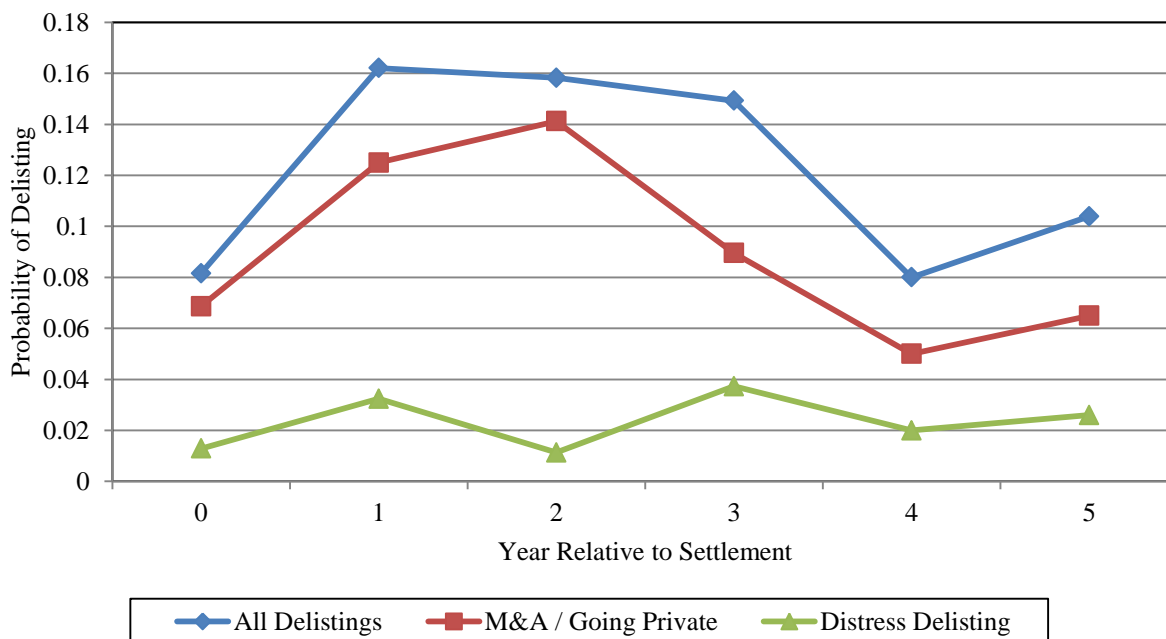


Figure 5. Return on Assets around Settlement Agreements

This figure documents target companies' average Return on Assets (ROA) preceding and following settlement agreements. The sample consists of all settlement agreements reached between hedge fund activists and target companies between January 2000 and January 2014 during campaigns that were launched between 2000 and 2011. The number of settlement agreements with information available to calculate Return on Assets in the year of settlement is 202. Year 0 on the x-axis represents the year during which the settlement agreement was reached.

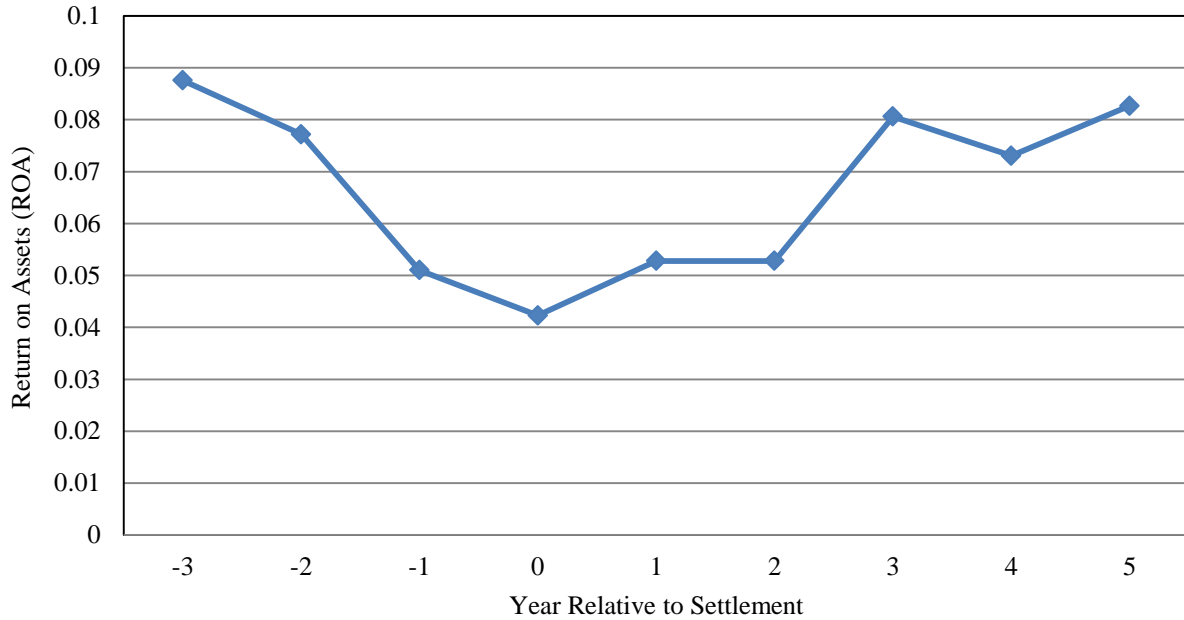


Table 1. Incidence of Activist Interventions and Settlements over Time

This table documents the distribution of all activist interventions that were launched between calendar years 2000 and 2011 and the number and percentage of those interventions that led to settlement agreements between the activist and the target company by January 2014. In subsequent analyses, the number of interventions and settlements studied can be smaller depending on data availability. Number of interventions refers to the total number of activist campaigns launched during the year. Number of settlements refers to the subset of those campaigns that eventually (in the same year or later) led to a settlement. % Settlements refers to the subset of those campaigns that eventually (in the same year or later) led to a settlement.

Year	Number of interventions	Number of settlements	% Settlements
2000	103	3	3%
2001	84	3	4%
2002	119	3	3%
2003	115	7	6%
2004	137	7	5%
2005	217	26	12%
2006	266	33	12%
2007	305	40	13%
2008	258	47	18%
2009	134	23	17%
2010	169	33	20%
2011	156	25	16%
Total (Average)	2063	250	12%

Table 2. Descriptive Statistics on Activist Interventions

This table reports descriptive statistics on campaign characteristics and target characteristics separately for 1686 activism campaigns launched between 2000 and 2011 that did (n=1466) and did not (n=220) result in settlement agreements. ***, **, * denote statistically significant differences in means at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix C. The information for the characteristic Looming Proxy Fight is limited to 149 (700) interventions launched between 2007 and 2011 that did (did not) result in a settlement agreement.

	Non-settlement interventions		Settlement interventions		Difference in means
	N = 1466		N = 220		
	Mean	StDev	Mean	StDev	
<i>Target Characteristics</i>					
Market Cap	798.1276	2618.9169	1515.3121	4561.5584	-717.1846 ***
ROA	0.0457	0.1947	0.0532	0.1344	-0.0074
Tobin's Q	1.8029	1.7807	1.4709	0.7963	0.332 ***
Debt / Assets	0.2148	0.2317	0.1916	0.2133	0.0233
Cash / Assets	0.2194	0.241	0.2099	0.2229	0.0095
Dividend Yield	0.0088	0.0237	0.0101	0.0274	-0.0013
Past Returns	-0.0364	0.5367	-0.0336	0.4542	-0.0028
Institutional Ownership	0.5394	0.2987	0.6192	0.2707	-0.0798 ***
<i>Campaign Characteristics</i>					
Activist Ownership	0.0837	0.0636	0.0848	0.045	-0.0012
Objective General	0.5778	0.4941	0.1273	0.334	0.4505 ***
Objective Capital Structure	0.1351	0.3419	0.2091	0.4076	-0.074 ***
Objective Sale	0.1978	0.3985	0.3273	0.4703	-0.1295 ***
Objective Strategy	0.1576	0.3645	0.3136	0.465	-0.1561 ***
Objective Governance	0.2879	0.4529	0.8318	0.3749	-0.544 ***
Market Reaction to 13(d)	0.0402	0.1833	0.0559	0.163	-0.0157
Looming Proxy Fight	0.0829	0.2759	0.3423	0.4761	-0.2594 ***

Table 3. The Determinants of Settlements

This table documents the campaign, activist, and target characteristics that predict the occurrence of settlement agreements and high impact settlement agreements. Panel A reports the results of linear probability models predicting settlement for 1,686 activism campaigns launched between 2000 and 2011. Panel B reports the results of linear probability models (columns 1 through 3) and multinomial logit models (columns 4 and 5) predicting whether activists reach high impact settlements in 849 campaigns launched between 2007 and 20011. Standard errors are clustered by firm, t-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

Panel A: The determinants of settlements						
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Activist Type and Strategy</i>						
Above-median Activist Ownership	0.038** (2.33)	0.050* (1.93)	0.046** (2.21)	0.051* (1.66)	0.039** (2.36)	0.040** (2.41)
Market Reaction to 13(d) Filing	0.043 (1.10)	0.117** (2.09)	0.008 (0.18)	0.086 (1.25)	0.043 (1.10)	0.043 (1.10)
Number Past Settlements	0.036*** (5.07)	0.030*** (3.81)	0.037*** (4.33)	0.031*** (3.44)		
Looming Proxy Fight		0.127** (2.12)		0.135* (1.90)		
<i>Campaign Objectives</i>						
Objective General	-0.019 (-0.65)	-0.008 (-0.16)	-0.001 (-0.02)	-0.002 (-0.03)	-0.041 (-1.40)	-0.043 (-1.47)
Objective Capital Structure	-0.017 (-0.57)	0.024 (0.47)	-0.016 (-0.44)	0.012 (0.21)	-0.027 (-0.89)	-0.028 (-0.94)
Objective Sale	0.012 (0.42)	-0.018 (-0.39)	0.055 (1.63)	0.012 (0.22)	-0.001 (-0.03)	0.001 (0.04)
Objective Strategy	0.025 (0.85)	0.018 (0.40)	0.036 (1.00)	0.034 (0.65)	0.017 (0.57)	0.018 (0.60)
Objective Governance	0.232*** (9.36)	0.271*** (5.91)	0.232*** (7.46)	0.260*** (4.79)	0.230*** (9.36)	0.230*** (9.34)
<i>Target Performance</i>						
ROA _{t-1}	-0.027 (-0.61)	0.013 (0.16)	0.034 (0.56)	0.087 (0.85)	-0.016 (-0.36)	-0.023 (-0.48)
Tobin's Q _{t-1}	-0.011*** (-3.40)	-0.013** (-2.33)	-0.010** (-2.48)	-0.013 (-1.63)	-0.012*** (-3.71)	-0.012*** (-3.70)
Past Returns	0.025 (1.62)	0.033 (1.33)	0.035* (1.89)	0.047 (1.42)	0.018 (1.18)	0.015 (0.98)

Table 3 Panel A (continued)

<i>Target Characteristics</i>						
Ln(Market Cap) _{t-1}	0.016**	0.025**	0.016	0.025	0.018**	0.018**
	(2.04)	(1.98)	(1.55)	(1.61)	(2.31)	(2.37)
Debt / Assets _{t-1}	-0.052	-0.010	-0.069	-0.074	-0.061	-0.064
	(-1.36)	(-0.17)	(-1.38)	(-0.94)	(-1.55)	(-1.61)
Cash / Assets _{t-1}	-0.019	0.020	-0.032	0.014	-0.024	-0.023
	(-0.46)	(0.31)	(-0.60)	(0.17)	(-0.59)	(-0.57)
Dividend Yield _{t-1}	0.424	0.817*	0.338	0.689	0.452	0.473
	(1.24)	(1.77)	(0.90)	(1.47)	(1.25)	(1.31)
Institutional Ownership _{t-1}	-0.005	-0.037	-0.020	-0.057	-0.003	0.009
	(-0.14)	(-0.66)	(-0.40)	(-0.81)	(-0.07)	(0.24)
<i>Trend Variables</i>						
Time Trend					0.014***	
					(5.73)	
Years 2003 - 2005						0.031
						(1.50)
Years 2006 - 2008						0.058***
						(2.90)
Years 2009 - 2011						0.129***
						(5.49)
Industry * Year FE	No	No	Yes	Yes	No	No
Industry FE	Yes	Yes	No	No	Yes	Yes
Year FE	Yes	Yes	No	No	No	No
Observations	1,686	849	1,686	849	1,686	1,686
Adjusted R2	0.201	0.241	0.181	0.222	0.174	0.173

Table 3 (continued)

Panel B. The determinants of high impact settlements

	Base Category:		No settlement or non high impact settlement		Non high impact settlement	
	(1)	(2)	(3)	(4)	(5)	
<i>Activist Type and Strategy</i>						
Above-median Activist Ownership	0.043** (2.30)	0.042** (2.16)	0.046* (1.88)	0.701* (1.82)	0.717* (1.83)	
Market Reaction to 13(d) Filing	0.047 (1.10)	0.070 (1.58)	0.020 (0.44)	0.517 (0.49)	0.463 (0.45)	
Number Past Settlements	0.011* (1.79)	0.012* (1.94)	0.011* (1.74)	-0.016 (-0.32)	0.007 (0.13)	
Looming Proxy Fight	0.110** (2.33)	0.103** (2.17)	0.099* (1.78)	0.717* (1.72)	0.714* (1.68)	
<i>Campaign Objectives</i>						
Objective General	-0.057* (-1.86)	-0.049 (-1.53)	-0.052 (-1.44)	-1.180 (-1.43)	-1.487* (-1.68)	
Objective Capital Structure	-0.014 (-0.40)	0.003 (0.10)	0.007 (0.17)	-0.092 (-0.20)	-0.307 (-0.65)	
Objective Sale	-0.056* (-1.79)	-0.053* (-1.67)	-0.041 (-1.14)	-0.755* (-1.78)	-0.887** (-2.07)	
Objective Business Strategy	-0.017 (-0.53)	-0.018 (-0.55)	-0.011 (-0.31)	-0.445 (-1.09)	-0.519 (-1.25)	
Objective Governance	0.071** (2.45)	0.072** (2.33)	0.041 (1.10)	-0.245 (-0.37)	-0.479 (-0.68)	
<i>Target Performance</i>						
ROA _{t-1}	0.029 (0.74)	0.019 (0.38)	0.025 (0.44)	0.636 (0.50)	1.061 (0.82)	
Tobin's Q _{t-1}	-0.008** (-1.99)	-0.010** (-2.44)	-0.015** (-2.42)	-0.362 (-1.27)	-0.402 (-1.38)	
Past Returns	0.002 (0.10)	0.002 (0.12)	0.023 (1.01)	-0.177 (-0.46)	-0.182 (-0.46)	
<i>Target Characteristics</i>						
Ln(Market Cap) _{t-1}	-0.002 (-0.24)	0.002 (0.28)	0.001 (0.14)	-0.169 (-1.01)	-0.207 (-1.17)	
Debt / Assets _{t-1}	-0.024 (-0.68)	-0.033 (-0.78)	-0.008 (-0.15)	0.208 (0.22)	0.331 (0.33)	
Cash / Assets _{t-1}	-0.029 (-0.73)	-0.050 (-1.03)	-0.046 (-0.81)	-0.571 (-0.59)	-0.356 (-0.37)	
Dividend Yield _{t-1}	0.186 (0.35)	0.410 (0.76)	0.421 (0.91)	-1.405 (-0.15)	-0.736 (-0.08)	
Institutional Ownership _{t-1}	0.055 (1.46)	0.012 (0.29)	0.027 (0.57)	1.894** (2.18)	1.882** (2.03)	
Industry * Year FE	No	No	Yes	No	No	
Industry FE	No	Yes	No	No	No	
Year FE	Yes	Yes	No	No	Yes	
Observations	849	849	849	849	849	
R2	0.107	0.117	0.130	0.231	0.249	

Table 4. Settlement Terms

This table outlines the terms specified in settlement agreements between activist hedge funds and their target companies. Panel A provides frequencies on governance outcomes and strategic outcomes specified in 167 settlement agreements reached during activist interventions that were launched between calendar years 2007 and 2011. The frequencies represent the number and percentage of settlement agreements that led to a certain outcome. Panel B tabulates the number of settlement agreements that specify a certain number of director additions or director departures, followed by the average number of director additions and departures per settlement.

Panel A. Governance and Strategic Changes					
	Number of settlements		% Settlements		
Addition of New Director(s)	146		87.4		
Addition of Director(s) Affiliated with Activist	94		56.3		
Addition of Director(s) Favored by but Unaffiliated with Activist	75		44.9		
Addition of other Director(s)	36		21.6		
Director Departure(s)	68		40.7		
CEO Departure	6		3.6		
CEO Departure within a Year After Settlement	31		18.6		
Sale of Target Firm	2		1.2		
Merger of Target Firm	2		1.2		
Formation of Strategic Transactions Committee	9		5.4		
Panel B. Director Additions and Departures					
Number of director additions/departures per settlement	Number of settlements with director additions	Number of settlements with additions of activist-affiliated directors	Number of settlements with additions of activist-favored but unaffiliated directors	Number of settlements with additions of other Directors	Number of settlements with director departures
None	30	73	92	131	99
1	49	71	46	22	23
2	52	19	23	9	26
3	19	3	3	2	9
4	9	1	1	2	2
More than 4	8	0	2	1	8
Total	167	167	167	167	167
Average per Settlement	1.7	0.7	0.7	0.4	0.9

Table 5. Board Turnover around Settlement Agreements

This table documents annual Board turnover before and after activist interventions and settlement agreements. Columns 1 to 4 examine the number of new directors on the Board and models 5 to 8 the number of director departures. The time period identifiers measure the average annual level of the dependent variable in the particular period relative to the annual average of all non-target (i.e., control) firms after accounting for the effects of any control variables. At the bottom of the table, p-values of partial F-tests indicate whether the average annual frequencies of director additions and departures differ significantly pre and post activism and pre and post settlement agreement (A[.] stands for Activism[.] and S[.] for Settlement[.]). Coefficients and standard errors clustered by firm are estimated using OLS. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	Number of director additions				Number of director departures			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Years around settlement agreements</i>								
Pre-Settlement Yrs[t-3,t-1]	0.004 (0.06)	0.010 (0.16)	-0.059 (-0.91)	-0.039 (-0.62)	-0.046 (-0.87)	-0.032 (-0.63)	-0.067 (-1.22)	-0.042 (-0.82)
Post-Settlement Yrs[t,t+2]	0.777*** (10.30)	0.761*** (10.42)	0.643*** (8.44)	0.634*** (8.55)	0.415*** (5.86)	0.405*** (5.87)	0.326*** (4.57)	0.327*** (4.69)
Post-Settlement Yrs[t+3,t+5]	0.017 (0.20)	0.015 (0.17)	0.040 (0.46)	0.043 (0.51)	0.044 (0.51)	0.073 (0.87)	0.057 (0.67)	0.093 (1.10)
<i>Years around activist interventions</i>								
Pre-Activism Yrs[t-3,t-1]			0.048 (1.46)	0.025 (0.77)			-0.012 (-0.38)	-0.026 (-0.86)
Post-Activism Yrs[t,t+2]			0.231*** (6.41)	0.217*** (6.02)			0.142*** (3.93)	0.124*** (3.44)
Post-Activism Yrs[t+3,t+5]			0.011 (0.32)	-0.004 (-0.12)			-0.002 (-0.05)	-0.016 (-0.50)
<i>Controls</i>								
Ln(Market Cap) _{t-1}	0.007 (0.56)	0.003 (0.20)	0.009 (0.75)	0.005 (0.37)	-0.129*** (-11.68)	-0.130*** (-11.35)	-0.128*** (-11.54)	-0.129*** (-11.26)
Ln(Firm Age) _{t-1}	-0.190*** (-4.69)	-0.172*** (-4.07)	-0.190*** (-4.71)	-0.171*** (-4.05)	-0.200*** (-5.48)	-0.178*** (-4.68)	-0.200*** (-5.48)	-0.178*** (-4.66)
ROA _{t-1}	-0.318*** (-4.95)	-0.303*** (-4.72)	-0.310*** (-4.85)	-0.295*** (-4.61)	-0.203*** (-3.39)	-0.184*** (-3.02)	-0.197*** (-3.31)	-0.178*** (-2.93)

Table 5 (continued)

Tobin's Q_{t-1}	-0.009**	-0.010**	-0.008**	-0.010**	0.006*	0.004	0.006*	0.004
	(-2.17)	(-2.41)	(-2.08)	(-2.32)	(1.65)	(1.00)	(1.70)	(1.05)
One Year Return $_{t-1}$	-0.023**	-0.024**	-0.023**	-0.024**	0.006	0.005	0.006	0.005
	(-2.02)	(-2.02)	(-2.03)	(-2.03)	(0.57)	(0.48)	(0.55)	(0.47)
Board Size $_{t-1}$	-0.195***	-0.195***	-0.195***	-0.195***	0.258***	0.261***	0.258***	0.261***
	(-29.39)	(-29.52)	(-29.53)	(-29.66)	(43.84)	(44.87)	(43.92)	(44.96)
Industry * Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	67,963	67,963	67,963	67,963	67,963	67,963	67,963	67,963
Adjusted R2	0.195	0.199	0.196	0.200	0.237	0.244	0.238	0.245
P-values of F-tests								
S[t,t+2] vs. S[t-3,t-1]	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
S[t+3,t+5] vs. S[t-3,t-1]	0.902	0.964	0.357	0.430	0.330	0.249	0.198	0.151
S[t+3,t+5] vs. S[t,t+2]	0.000	0.000	0.000	0.000	0.000	0.001	0.011	0.023
A[t,t+2] vs. A[t-3,t-1]			0.000	0.000			0.000	0.000
A[t+3,t+5] vs. A[t-3,t-1]			0.333	0.433			0.779	0.787
A[t+3,t+5] vs. A[t,t+2]			0.000	0.000			0.000	0.000

Table 6. Activist-favored Directors following Settlement Agreements

This table documents the annual number of activist-affiliated, activist favored but unaffiliated, and other directors that are added to the Boards of activism target companies following activist intervention and settlement agreements. Columns 1 and 2 examine new directors that are affiliated with the activist, columns 3 and 4 new directors that are favored by the activist but unaffiliated with it, and columns 5 and 6 other new directors that could not be identified as being favored or selected by the activist. The time period identifiers measure the average annual level of the dependent variable relative to the average level among activism targets in year 3 after the activist intervention after accounting for the effects of any control variables. Coefficients and standard errors clustered by firm are estimated using OLS. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	Number of favored & affiliated directors		Number of favored but unaffiliated directors		Number of other new directors	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Years following settlement agreement</i>						
Post-Settlement Yrs[t,t+2]	0.260*** (5.52)	0.243*** (4.57)	0.354*** (4.84)	0.374*** (4.26)	0.050 (0.49)	-0.058 (-0.48)
<i>Years following activist intervention</i>						
Post-Activism Yrs[t,t+2]	0.054*** (2.99)	0.051** (2.47)	0.017 (0.61)	0.014 (0.45)	0.359*** (3.90)	0.353*** (3.39)
<i>Controls</i>						
Ln(Market Cap) _{t-1}	0.025 (1.48)	0.028 (1.32)	0.005 (0.23)	0.016 (0.64)	-0.200 (-1.57)	-0.178 (-1.43)
Ln(Firm Age) _{t-1}	0.082 (1.30)	0.094 (0.96)	0.159* (1.72)	0.144 (1.11)	0.230 (0.67)	0.378 (0.93)
ROA _{t-1}	-0.009 (-0.13)	-0.108 (-1.18)	-0.146 (-1.15)	-0.253 (-1.56)	-0.663* (-1.65)	-0.631 (-1.47)
Tobin's Q _{t-1}	-0.003 (-0.89)	-0.004 (-0.95)	-0.010 (-1.04)	-0.016 (-1.37)	-0.033 (-1.08)	-0.040 (-1.24)
One Year Return _{t-1}	-0.024 (-1.52)	-0.024 (-1.20)	-0.026 (-1.24)	-0.031 (-1.25)	0.016 (0.25)	0.017 (0.23)
Board Size _{t-1}	-0.022** (-2.28)	-0.021** (-1.98)	-0.028* (-1.88)	-0.024 (-1.59)	-0.162*** (-3.70)	-0.180*** (-3.51)
Industry * Year FE	No	Yes	No	Yes	No	Yes
Year FE	Yes	No	Yes	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,446	2,446	2,446	2,446	2,446	2,446
Adjusted R2	0.0759	0.0903	0.0141	0.0222	0.121	0.134

Table 7. Board Renewal around Settlement Agreements

This table documents the relation between director characteristics and the probability of director turnover around activist interventions and settlement agreements. Columns 1 to 4 examine additions of new directors and columns 5 to 8 departures of incumbent. The interaction terms capture whether turnover of directors with certain characteristics is lower or higher in periods before and after settlement agreements or activist interventions than for a non-target (i.e., control firms). At the bottom of the table, p-values of partial F-tests indicate whether the relation between director characteristics and director turnover is stronger after settlement agreements and activist interventions than before. Coefficients and standard errors clustered by firm are estimated using linear probability models. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	Prob(Director addition)				Prob(Director departure)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Years around settlement agreements</i>								
Pre-Settlement Yrs[t-3,t-1]	-0.005 (-0.88)	-0.005 (-0.96)	-0.009 (-1.46)	-0.009 (-1.50)	-0.006 (-0.99)	-0.005 (-1.00)	-0.010* (-1.82)	-0.009* (-1.71)
Pre-Settlement Yrs[t-3,t-1] * Age>70	0.004 (0.42)	0.004 (0.42)	0.009 (0.96)	0.009 (0.94)	0.002 (0.12)	0.002 (0.11)	0.020 (0.94)	0.020 (0.93)
Pre-Settlement Yrs[t-3,t-1] * Connectedness	0.006*** (4.38)	0.005*** (4.50)	0.005*** (3.42)	0.005*** (3.37)	0.001 (0.37)	0.000 (0.32)	0.001 (0.70)	0.001 (0.67)
Pre-Settlement Yrs[t-3,t-1] * Tenure					0.000 (0.30)	0.000 (0.31)	-0.000 (-0.22)	-0.000 (-0.22)
Post-Settlement Yrs[t,t+2]	0.068*** (9.65)	0.065*** (9.86)	0.058*** (8.23)	0.056*** (8.38)	0.042*** (4.88)	0.042*** (5.03)	0.031*** (3.74)	0.032*** (3.92)
Post-Settlement Yrs[t,t+2] * Age>70	-0.036*** (-2.77)	-0.039*** (-2.78)	-0.029** (-2.30)	-0.033** (-2.36)	-0.007 (-0.26)	-0.009 (-0.34)	-0.000 (-0.02)	-0.003 (-0.11)
Post-Settlement Yrs[t,t+2] * Connectedness	0.017*** (3.62)	0.016*** (3.50)	0.014*** (2.98)	0.014*** (2.89)	-0.002 (-0.60)	-0.002 (-0.60)	-0.001 (-0.39)	-0.001 (-0.37)
Post-Settlement Yrs[t,t+2] * Tenure					0.004*** (3.72)	0.004*** (3.81)	0.004*** (3.50)	0.004*** (3.57)
<i>Years around activist interventions</i>								
Pre-Activism Yrs[t-3,t-1]			0.002 (0.75)	0.002 (0.57)			0.002 (0.75)	0.001 (0.36)
Pre-Activism Yrs[t-3,t-1] * Age>70			-0.006 (-1.07)	-0.006 (-1.08)			-0.029*** (-2.94)	-0.029*** (-2.95)
Pre-Activism Yrs[t-3,t-1] * Connectedness			0.001 (0.57)	0.001 (0.72)			-0.001 (-0.59)	-0.001 (-0.62)
Pre-Activism Yrs[t-3,t-1] * Tenure							0.000 (1.19)	0.000 (1.17)
Post-Activism Yrs[t,t+2]			0.016*** (4.83)	0.015*** (4.64)			0.017*** (5.15)	0.016*** (4.90)

Table 7 (continued)								
Post-Activism Yrs[t,t+2] * Age>70			-0.009**	-0.009**			-0.011	-0.011
			(-2.17)	(-2.06)			(-1.19)	(-1.15)
Post-Activism Yrs[t,t+2] * Connectedness			0.004***	0.004***			-0.001	-0.002
			(2.97)	(2.96)			(-1.21)	(-1.28)
Post-Activism Yrs[t,t+2] * Tenure							0.001	0.001
							(1.38)	(1.48)
<i>Controls</i>								
Age>70	-0.058***	-0.058***	-0.057***	-0.057***	0.064***	0.064***	0.066***	0.066***
	(-52.30)	(-52.17)	(-51.95)	(-51.76)	(27.63)	(27.59)	(27.83)	(27.78)
Connectedness	-0.001***	-0.001***	-0.001***	-0.001***	-0.000	-0.000	-0.000	-0.000
	(-3.21)	(-3.23)	(-4.00)	(-4.03)	(-1.43)	(-1.60)	(-0.90)	(-1.03)
Tenure					0.002***	0.002***	0.002***	0.002***
					(26.57)	(26.66)	(25.79)	(25.86)
Ln(Market Cap) _{t-1}	-0.002	-0.003**	-0.002	-0.003*	-0.017***	-0.016***	-0.016***	-0.016***
	(-1.55)	(-2.00)	(-1.40)	(-1.85)	(-10.95)	(-10.21)	(-10.78)	(-10.02)
Ln(Firm Age) _{t-1}	-0.038***	-0.033***	-0.038***	-0.034***	-0.007	-0.008	-0.007	-0.008
	(-7.32)	(-6.35)	(-7.33)	(-6.36)	(-1.46)	(-1.59)	(-1.46)	(-1.59)
ROA _{t-1}	-0.026***	-0.026***	-0.025***	-0.025***	-0.029***	-0.031***	-0.028***	-0.030***
	(-3.51)	(-3.49)	(-3.36)	(-3.35)	(-3.55)	(-3.72)	(-3.44)	(-3.62)
Tobin's Q _{t-1}	-0.000	-0.000	-0.000	-0.000	0.001	0.001	0.001	0.001
	(-0.57)	(-0.57)	(-0.46)	(-0.47)	(1.43)	(1.31)	(1.50)	(1.36)
One Year Return _{t-1}	-0.002*	-0.002	-0.002*	-0.002	0.000	0.000	0.000	0.000
	(-1.92)	(-1.20)	(-1.92)	(-1.20)	(0.16)	(0.29)	(0.17)	(0.29)
Board Size _{t-1}	-0.024***	-0.025***	-0.024***	-0.025***	0.016***	0.017***	0.016***	0.017***
	(-32.41)	(-32.96)	(-32.58)	(-33.12)	(23.47)	(24.45)	(23.56)	(24.54)
Industry * Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	397,038	397,038	397,038	397,038	397,038	397,038	397,038	397,038
Adjusted R2	0.044	0.046	0.044	0.046	0.043	0.044	0.043	0.044
<i>P-values of F-tests</i>								
Age>70: Pre- vs. Post-Settlement	0.005	0.006	0.009	0.009	0.764	0.719	0.500	0.458
Connectedness: Pre- vs. Post-Settlement	0.011	0.013	0.048	0.051	0.491	0.500	0.526	0.544
Tenure: Pre- vs. Post-Settlement					0.001	0.001	0.001	0.001
Age>70: Pre- vs. Post-Activism			0.529	0.617			0.161	0.155
Connectedness: Pre- vs. Post-Activism			0.012	0.016			0.483	0.454
Tenure: Pre- vs. Post-Activism							0.835	0.762

Table 8: Activist Directors and Annual Director Elections

This table examines whether directors who are affiliated with or desired by the activists and/or those who are appointed to the board through a settlement receive lower voting support at future annual shareholder meetings. The independent variables of interest are the different director classifications, the omitted base case being incumbent directors who had been on the board prior to the activist intervention. At the bottom of the table, p-values of partial F-tests indicate whether differences between the various director classifications are statistically significant. Coefficients and standard errors clustered by firm are estimated using linear probability models. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	Fraction of Votes Supporting Director (1)	Fraction of Votes Against Director (2)	Fraction of Votes Withheld (3)
<i>Director classifications</i>			
Activist-Affiliated Directors Added Without Settlement	0.036** (2.37)	-0.019* (-1.88)	-0.000 (-0.05)
Activist-Affiliated Directors Added With Settlement	0.035** (2.36)	-0.020*** (-5.17)	-0.000 (-0.45)
Activist-Desired Directors Added Without Settlement	0.017 (1.14)	-0.003 (-0.48)	-0.000 (-0.36)
Activist-Desired Directors Added With Settlement	0.048*** (3.98)	-0.008 (-1.27)	0.000 (0.99)
Other Directors Added Without Settlement	0.029*** (5.08)	-0.012*** (-5.13)	0.000 (0.08)
Other Directors Added With Settlement	0.026* (1.82)	-0.013*** (-3.18)	-0.000 (-0.53)
<i>Control variables</i>			
Ln(Market Cap) _{t-1}	0.020 (1.32)	0.001 (0.37)	-0.003* (-1.70)
Ln(Firm Age) _{t-1}	-0.109* (-1.95)	0.019 (0.98)	0.004 (0.64)
ROA _{t-1}	0.022 (0.36)	-0.041** (-2.39)	-0.014 (-1.10)
Tobin's Q _{t-1}	0.005 (0.71)	-0.001 (-0.65)	0.000 (0.79)
One Year Return _{t-1}	0.018 (1.58)	-0.004 (-1.40)	-0.001 (-0.97)
Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Observations	9,987	9,987	9,987
Adjusted R2	0.418	0.321	0.225
<i>P-values of F-tests</i>			
Other Directors Added Without Settlement = Other Directors Added With Settlement	0.833	0.966	0.603
Activist-Desired Directors Added Without Settlement = Activist-Desired Directors Added With Settlement	0.046	0.623	0.574
Activist-Affiliated Directors Added Without Settlement = Activist-Affiliated Directors Added With Settlement	0.952	0.862	0.892
Other Directors Added With Settlement = Desired Directors Added With Settlement	0.187	0.440	0.420
Other Directors Added With Settlement = Affiliated Directors Added With Settlement	0.582	0.095	0.649
Desired Directors Added With Settlement = Affiliated Directors Added With Settlement	0.299	0.035	0.222

Table 9. CEO Turnover around Settlement Agreements

This table documents the average annual probability of CEO turnover before and after activist interventions and settlement agreements. The time period identifiers measure the average annual level of the dependent variable in the particular period relative to the annual average of all non-target (i.e., control) firms after accounting for the effects of any control variables. At the bottom of the table, p-values of partial F-tests indicate whether the annual probability of CEO turnover differs significantly pre and post activism and pre and post settlement agreement (A[.] stands for Activism[.] and S[.] for Settlement[.]). Coefficients and standard errors clustered by firm are estimated using linear probability models. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	Prob(CEO Turnover)			
	(1)	(2)	(3)	(4)
<i>Years around settlement agreements</i>				
Pre-Settlement Yrs[t-3,t-1]	-0.009 (-0.55)	-0.010 (-0.61)	-0.020 (-1.21)	-0.020 (-1.19)
Post-Settlement Yrs[t,t+2]	0.078*** (3.31)	0.078*** (3.48)	0.049** (2.04)	0.051** (2.25)
Post-Settlement Yrs[t+3,t+5]	0.025 (0.81)	0.022 (0.72)	0.021 (0.68)	0.020 (0.69)
<i>Years around activist interventions</i>				
Pre-Activism Yrs[t-3,t-1]			0.009 (1.08)	0.008 (0.91)
Post-Activism Yrs[t,t+2]			0.047*** (4.71)	0.043*** (4.36)
Post-Activism Yrs[t+3,t+5]			0.016 (1.54)	0.011 (1.07)
<i>Controls</i>				
CEO Age > 60	0.206*** (31.50)	0.207*** (31.67)	0.206*** (31.55)	0.207*** (31.72)
Ln(Market Cap) _{t-1}	-0.008** (-2.52)	-0.010*** (-2.85)	-0.007** (-2.29)	-0.009*** (-2.66)
Ln(Firm Age) _{t-1}	-0.024** (-2.28)	-0.028** (-2.53)	-0.024** (-2.31)	-0.028** (-2.52)
ROA _{t-1}	-0.087*** (-5.02)	-0.081*** (-4.51)	-0.085*** (-4.95)	-0.079*** (-4.43)
Tobin's Q _{t-1}	-0.001 (-0.82)	-0.001 (-0.87)	-0.001 (-0.75)	-0.001 (-0.79)
One Year Return _{t-1}	-0.024*** (-8.25)	-0.026*** (-8.14)	-0.025*** (-8.33)	-0.026*** (-8.20)
Industry * Year FE	No	Yes	No	Yes
Year FE	Yes	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes
Observations	57,548	57,548	57,548	57,548
Adjusted R2	0.160	0.165	0.161	0.165
<i>P-values of F-tests</i>				
S[t,t+2] vs. S[t-3,t-1]	0.001	0.000	0.008	0.005
S[t+3,t+5] vs. S[t-3,t-1]	0.310	0.327	0.223	0.216
S[t+3,t+5] vs. S[t,t+2]	0.204	0.149	0.508	0.430
A[t,t+2] vs. A[t-3,t-1]			0.000	0.000
A[t+3,t+5] vs. A[t-3,t-1]			0.541	0.764
A[t+3,t+5] vs. A[t,t+2]			0.007	0.004

Table 10. The Sensitivity of CEO Turnover to Firm Performance around Settlement Agreements

This table documents the CEO turnover-performance sensitivity before and after activist interventions and settlement agreements. The interaction terms capture whether CEO turnover in companies that underperform is lower or higher in periods before and after settlement agreements or activist interventions compared to non-target (i.e., control firms). At the bottom of the table, p-values of partial F-tests indicate whether the relation between underperformance and CEO turnover is stronger after settlement agreements and activist interventions than before. Coefficients and standard errors clustered by firm are estimated using linear probability models. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

Underperformance relative to:	Prob(CEO turnover)				Prob(CEO turnover)			
	Market				Industry			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Years around settlement agreements</i>								
Pre-Settlement Yrs[t-3,t-1] x Underperformance	-0.051*	-0.049*	-0.046	-0.047	-0.038	-0.027	-0.027	-0.021
	(-1.79)	(-1.74)	(-1.56)	(-1.62)	(-1.31)	(-0.95)	(-0.92)	(-0.72)
Post-Settlement Yrs[t,t+2] x Underperformance	0.112***	0.111***	0.093***	0.088**	0.078**	0.082**	0.062*	0.063*
	(3.16)	(3.18)	(2.60)	(2.50)	(2.40)	(2.52)	(1.90)	(1.91)
Pre-Settlement Yrs[t-3,t-1]	0.037	0.041*	0.011	0.017	0.035	0.031	0.004	0.004
	(1.63)	(1.79)	(0.49)	(0.75)	(1.46)	(1.31)	(0.17)	(0.16)
Post-Settlement Yrs[t,t+2]	0.013	0.029	-0.005	0.009	0.032	0.042*	0.012	0.021
	(0.62)	(1.44)	(-0.25)	(0.42)	(1.27)	(1.69)	(0.47)	(0.82)
<i>Years around activist interventions</i>								
Pre-Activism Yrs[t-3,t-1] x Underperformance			-0.016	-0.013			-0.023	-0.017
			(-1.24)	(-1.05)			(-1.62)	(-1.27)
Post-Activism Yrs[t,t+2] x Underperformance			0.021*	0.027**			0.017	0.022*
			(1.72)	(2.24)			(1.31)	(1.75)
Pre-Activism Yrs[t-3,t-1]			0.029***	0.025***			0.036***	0.031***
			(3.15)	(2.78)			(3.20)	(2.81)
Post-Activism Yrs[t,t+2]			0.031***	0.035***			0.034***	0.036***
			(3.32)	(3.83)			(3.33)	(3.64)

Table 10 (continued)

<i>Controls</i>								
Underperformance _{t-1}	0.050***	0.046***	0.049***	0.045***	0.046***	0.041***	0.046***	0.041***
	(18.68)	(17.43)	(18.12)	(16.89)	(17.30)	(15.94)	(17.28)	(15.74)
CEO Age > 60	0.092***	0.090***	0.092***	0.090***	0.092***	0.090***	0.092***	0.090***
	(21.60)	(22.75)	(21.59)	(22.73)	(21.78)	(22.71)	(21.77)	(22.71)
Ln(Market Cap) _{t-1}	0.000	0.002**	0.001	0.002***	-0.000	0.001	0.000	0.001*
	(0.49)	(2.27)	(0.92)	(2.88)	(-0.06)	(1.29)	(0.43)	(1.95)
Ln(Firm Age) _{t-1}	-0.018***	-0.011***	-0.019***	-0.011***	-0.019***	-0.012***	-0.019***	-0.012***
	(-9.57)	(-6.16)	(-9.79)	(-6.39)	(-10.01)	(-6.70)	(-10.26)	(-6.94)
Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Observations	68,636	68,636	68,636	68,636	68,630	68,630	68,630	68,630
Adjusted R2	0.0205	0.101	0.0216	0.103	0.0192	0.100	0.0204	0.102
<i>P-values of F-tests</i>								
Sensitivity to Underperformance: Pre- vs. Post-Settlement	0.000	0.000	0.001	0.001	0.008	0.011	0.043	0.055
Sensitivity to Underperformance: Pre- vs. Post-Activism			0.028	0.015			0.026	0.022

Table 11. Hedge Fund Activism, Settlements, and Payout Policy

This table documents target firms' payout yield (dividends and repurchases) before and after activist interventions and settlement agreements. The t+k time identifiers measure the level of the dependent variable relative to the average of all non-target (i.e., control) firms after accounting for the effects of any control variables. At the bottom of the table, p-values of partial F-tests examine whether changes in performance from pre to post activism or from pre to post settlement are statistically significant (A[.] stands for Activism[.] and S[.] for Settlement[.]). Coefficients and standard errors clustered by firm are estimated using OLS. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	Payout Yield			
	(1)	(2)	(3)	(4)
<i>Years around settlement agreements</i>				
Pre-Settlement Yrs[t-3,t-1]	-0.002 (-0.72)	-0.002 (-0.85)	-0.005* (-1.72)	-0.005* (-1.74)
Post-Settlement Yrs[t,t+2]	0.010** (2.36)	0.011** (2.50)	0.006 (1.45)	0.007 (1.62)
Post-Settlement Yrs[t+3,t+5]	0.003 (0.41)	0.003 (0.49)	0.002 (0.29)	0.002 (0.37)
<i>Years around activist interventions</i>				
Pre-Activism Yrs[t-3,t-1]			0.004** (2.31)	0.003** (2.03)
Post-Activism Yrs[t,t+2]			0.007*** (3.25)	0.006*** (3.28)
Post-Activism Yrs[t+3,t+5]			0.003 (1.42)	0.003 (1.38)
<i>Controls</i>				
Ln(Market Cap) _{t-1}	0.002*** (4.32)	0.003*** (5.50)	0.003*** (4.55)	0.003*** (5.72)
Ln(Firm Age) _{t-1}	0.008*** (6.28)	0.005*** (4.27)	0.008*** (6.26)	0.005*** (4.28)
ROA _{t-1}	0.005** (2.16)	0.003 (1.14)	0.005** (2.21)	0.003 (1.20)
Tobin's Q _{t-1}	-0.001*** (-4.41)	-0.001*** (-3.99)	-0.001*** (-4.37)	-0.001*** (-3.95)
One Year Return _{t-1}	-0.003*** (-7.67)	-0.003*** (-7.97)	-0.003*** (-7.68)	-0.003*** (-7.98)

Table 11 (continued)

Industry * Year FE	No	Yes	No	Yes
Year FE	Yes	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes
Observations	79,419	79,416	79,419	79,416
Adjusted R2	0.282	0.301	0.283	0.301
<i>P-values of F-tests</i>				
S[t,t+2] vs. S[t-3,t-1]	0.006	0.004	0.012	0.009
S[t+3,t+5] vs. S[t-3,t-1]	0.492	0.419	0.300	0.261
S[t+3,t+5] vs. S[t,t+2]	0.300	0.282	0.515	0.487
A[t,t+2] vs. A[t-3,t-1]			0.113	0.074
A[t+3,t+5] vs. A[t-3,t-1]			0.684	0.782
A[t+3,t+5] vs. A[t,t+2]			0.051	0.050

Table 12. Hedge Fund Activism, Settlements, Stock Market Delisting

This table documents the probability of delistings after activist interventions and settlement agreements. Columns (1) and (2) examine all delistings, columns (3) and (4) delistings related to mergers and acquisitions and going private transactions, columns (5) and (6) distress delistings. The t+k time identifiers measure the level of the dependent variable relative to the average of all non-target (i.e., control) firms after accounting for the effects of any control variables. Coefficients and standard errors clustered by firm are estimated using OLS. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	All Delistings		Acquisition / Going Private Delistings		Distress Delistings	
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Years around settlement agreements</i>						
Post-Settlement Yrs[t,t+2]	0.027* (1.95)	0.028** (2.06)	0.029** (2.23)	0.030** (2.32)	0.003 (0.64)	0.003 (0.64)
Post-Settlement Yrs[t+3,t+5]	0.035* (1.84)	0.030 (1.63)	0.016 (1.04)	0.013 (0.87)	0.015 (1.49)	0.014 (1.42)
<i>Years around activist interventions</i>						
Post-Activism Yrs[t,t+2]	0.020*** (3.77)	0.019*** (3.77)	0.037*** (8.15)	0.037*** (8.09)	-0.007*** (-3.14)	-0.007*** (-3.21)
Post-Activism Yrs[t+3,t+5]	0.018*** (3.10)	0.018*** (3.18)	0.022*** (4.62)	0.021*** (4.42)	0.002 (0.54)	0.002 (0.75)
<i>Controls</i>						
Ln(Market Cap) _{t-1}	-0.016*** (-30.08)	-0.016*** (-30.11)	-0.000 (-0.09)	-0.000 (-0.52)	-0.009*** (-26.59)	-0.009*** (-26.44)
Ln(Firm Age) _{t-1}	-0.005*** (-4.45)	-0.005*** (-4.46)	-0.007*** (-7.63)	-0.007*** (-7.98)	0.001* (1.93)	0.001** (2.31)
ROA _{t-1}	-0.074*** (-13.32)	-0.072*** (-12.78)	0.013*** (4.07)	0.013*** (4.02)	-0.062*** (-16.63)	-0.061*** (-16.30)
Tobin's Q _{t-1}	-0.000 (-0.07)	0.000 (0.39)	-0.003*** (-10.57)	-0.003*** (-9.80)	0.002*** (7.82)	0.002*** (7.72)
One Year Return _{t-1}	-0.020*** (-13.46)	-0.021*** (-13.47)	0.006*** (4.90)	0.005*** (3.90)	-0.017*** (-18.99)	-0.017*** (-18.31)
Industry * Year FE	No	Yes	No	Yes	No	Yes
Industry FE	Yes	No	Yes	No	Yes	No
Year FE	Yes	No	Yes	No	Yes	No
Observations	93,166	93,166	93,166	93,166	93,166	93,166
Adjusted R2	0.0370	0.0406	0.00908	0.0130	0.0504	0.0540

Table 13. Operating Performance following Settlement Agreements

This table documents Return on Assets (ROA) before and after activist interventions and settlement agreements. The t+k time identifiers measure the level of the dependent variable relative to the average of all non-target (i.e., control) firms after accounting for the effects of any control variables. At the bottom of the table, p-values of partial F-tests examine whether changes in performance from pre to post activism or from pre to post settlement are statistically significant (A[.] stands for Activism[.] and S[.] for Settlement[.]). Coefficients and standard errors clustered by firm are estimated using OLS. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

	Return on Assets			
	(1)	(2)	(3)	(4)
<i>Years around settlement agreements</i>				
d[t-3]	-0.007 (-0.88)	-0.009 (-1.16)	-0.006 (-0.82)	-0.009 (-1.12)
d[t-2]	-0.014** (-1.96)	-0.016** (-2.22)	-0.008 (-1.02)	-0.010 (-1.30)
d[t-1]	-0.032*** (-3.98)	-0.033*** (-4.16)	-0.022*** (-2.69)	-0.024*** (-2.89)
d[t]	-0.036*** (-4.09)	-0.035*** (-3.95)	-0.030*** (-3.22)	-0.028*** (-3.09)
d[t+1]	-0.022** (-2.27)	-0.022** (-2.20)	-0.022** (-2.20)	-0.021** (-2.09)
d[t+2]	-0.030** (-2.42)	-0.032*** (-2.62)	-0.034*** (-2.68)	-0.035*** (-2.84)
d[t+3]	0.001 (0.09)	0.001 (0.10)	-0.005 (-0.39)	-0.004 (-0.32)
d[t+4]	-0.011 (-0.79)	-0.010 (-0.66)	-0.018 (-1.26)	-0.015 (-1.06)
d[t+5]	-0.001 (-0.05)	0.000 (0.02)	-0.005 (-0.34)	-0.003 (-0.22)
<i>Years around activist interventions</i>				
d[t-3]			0.005 (1.13)	0.005 (1.21)
d[t-2]			-0.001 (-0.13)	-0.001 (-0.12)
d[t-1]			-0.011** (-2.15)	-0.010** (-2.11)
d[t]			-0.014*** (-2.86)	-0.014*** (-2.88)
d[t+1]			-0.006 (-1.08)	-0.006 (-1.16)
d[t+2]			0.001 (0.24)	0.001 (0.22)
d[t+3]			0.005 (0.98)	0.005 (0.93)
d[t+4]			0.007 (1.33)	0.006 (1.17)
d[t+5]			0.010* (1.86)	0.009 (1.63)

Table 13 (continued)

<i>Controls</i>				
Ln(Market Cap) _{t-1}	0.021*** (16.17)	0.022*** (16.51)	0.021*** (16.07)	0.022*** (16.41)
Ln(Firm Age) _{t-1}	0.009*** (3.47)	0.007*** (2.66)	0.009*** (3.46)	0.007*** (2.64)
Industry * Year FE	No	Yes	No	Yes
Year FE	Yes	No	Yes	No
Firm FE	Yes	Yes	Yes	Yes
Observations	98,290	98,275	98,290	98,275
Adjusted R2	0.700	0.712	0.700	0.712
<i>P-values of F-tests</i>				
S[t+3] vs. S[t-1]	0.005	0.004	0.157	0.117
S[t+4] vs. S[t-1]	0.125	0.094	0.757	0.577
S[t+5] vs. S[t-1]	0.036	0.031	0.255	0.201
S[t+3] vs. S[t]	0.001	0.002	0.039	0.044
S[t+4] vs. S[t]	0.056	0.061	0.387	0.353
S[t+5] vs. S[t]	0.015	0.019	0.097	0.103
A[t+3] vs. A[t-1]			0.004	0.006
A[t+4] vs. A[t-1]			0.003	0.006
A[t+5] vs. A[t-1]			0.001	0.002
A[t+3] vs. A[t]			0.000	0.000
A[t+4] vs. A[t]			0.000	0.000
A[t+5] vs. A[t]			0.000	0.000

Table 14. Market Reaction to Settlement Agreements

This table documents the stock market reaction to settlement agreements. Panel A shows the average market reaction and Panel B examines the determinants of the market reaction. The stock market reaction is measured over a 3-day window and a 7-day window with both windows being centered on the day that the settlement agreement is reached. Coefficients and heteroskedasticity-robust standard errors are estimated using OLS. T-statistics appear in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% level, respectively (two-tailed). All variables are defined in Appendix C.

Panel A. Average market reaction (2000 - 2011)

	Buy & Hold Industry-Adjusted Return				
	Event window	Average	Observations	Standard error	T-statistic
	(t-1, t+1)	1.02%	231	0.0042	2.44
	(t-3, t+3)	1.04%	231	0.0056	1.85

Panel B. Determinants of the market reaction (2007 - 2011)

	Buy and hold industry-adjusted return (t-1, t+1)				Buy and hold industry-adjusted return (t-3, t+3)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
High Impact Settlement	0.026**				0.027**			
	(2.56)				(2.11)			
CEO Departure		0.061**				0.123***		
		(2.22)				(2.80)		
High Board Turnover			0.025**				0.024*	
			(2.32)				(1.89)	
Strategic Transaction				0.013				0.021
				(1.30)				(1.28)
Looming Proxy Fight	-0.018	-0.015	-0.017	-0.014	-0.015	-0.013	-0.015	-0.012
	(-1.63)	(-1.45)	(-1.57)	(-1.37)	(-1.30)	(-1.13)	(-1.22)	(-0.95)
Ln(Market Cap) _{t-1}	-0.002	-0.001	-0.002	-0.001	-0.001	-0.001	-0.001	-0.000
	(-0.60)	(-0.43)	(-0.55)	(-0.36)	(-0.32)	(-0.23)	(-0.28)	(-0.12)
Book / Market _{t-1}	0.007	0.006	0.006	0.009	0.020	0.018	0.020	0.023
	(0.74)	(0.84)	(0.70)	(0.98)	(1.21)	(1.22)	(1.19)	(1.37)
Observations	154	154	154	154	154	154	154	154
Adjusted R2	0.0484	0.0285	0.0414	0.00436	0.0428	0.0756	0.038	0.0219