June 15, 1987

To Our Clients:

A 1985 study which concluded that companies which (between 1974 and 1984) defeated hostile tender offers and stayed independent for at least one year thereafter had benefited their shareholders -- and which was criticized by a number of commentators -- has recently been re-examined by Prof. Donald Margotta and Ms. Felicia Marston. They have reaffirmed this conclusion following an analysis of the 56 companies included in the 1985 study.

The Margotta and Marston study compared the returns of target firms from the time of rejection of the tender offer through December 31, 1985 or until the firm was de-listed, to the returns that would have been earned had a stockholder sold his shares at the tender offer price and invested the proceeds in the S&P 500 market index. While the loss of the bid premium was not fully recovered during the first two years following the rejection of the bid -- which was the maximum time horizon analyzed by Frank Easterbrook and Gregg Jarrell in their criticism of an earlier version of the 1985 study -- the stock price performance of the targets exceeded the market index for periods beyond two years.

The new study also analyzed the stock price performance and accounting data of the potential acquirors and their targets, concluding that there was no evidence that targets were less efficient or produced lower returns to shareholders than either their industry averages or the potential acquiring firms.

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