Research Topic:

Which takeover defenses are really efficient?

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1. Introduction

In the realm of corporate dynamics and strategic management, takeovers are pivotal events that can greatly impact companies and their stakeholders. A takeover occurs when one company seeks to acquire another company, often with the aim of gaining control, expanding market presence, or achieving synergistic benefits. However, in response to takeover attempts, target companies often employ various defense strategies to protect their independence, corporate governance structure, and the interests of their shareholders.

These defense strategies, commonly referred to as takeover defenses, serve as protective measures that target companies utilize to deter or resist potential acquirers. They aim to safeguard the company's strategic direction, preserve shareholder value, and ensure that decisions are made in the best interest of all stakeholders involved. Takeover defenses can take various forms, including legal provisions, governance mechanisms, and financial strategies, among others.

The main purpose of this thesis is to undertake a thorough investigation into takeover defenses and provide a critical assessment of their actual effectiveness. This study seeks to explore a diverse array of defensive strategies and corporate reactions to shed light on the takeover defenses that genuinely prioritize the interests of shareholders. By doing so, we aim to gain a deeper understanding of the efficacy of these defenses and their impact on shareholder value.

To achieve these objectives, the study will be organized as follows: The first section will provide an in-depth overview of different types of takeovers, including a clear definition of hostile takeovers, and examine the commonly employed defenses utilized by target companies. These defensive measures may include poison pills, golden parachutes, staggered boards, and other regulatory provisions.

The second section will review the existing literature on common theories surrounding takeover defenses and delve into the theories pertaining to each widely used takeover defense method, analyzing their potential impact on shareholder value. Moreover, this section will encompass discussions on the effectiveness of each defense strategy.

In addition to the theoretical analysis, this thesis will include three case studies to illustrate the practical implementation of defense strategies. The first case study will examine the Qualcomm-Broadcom takeover, exploring the utilization of defensive methods such as poison pills and litigation. The second case study will focus on the acquisition of Yahoo by Verizon, highlighting the significant payout made as a golden parachute to the CEO. The third case study will analyze the Arcelor and Mittal case, where the target company pursued a white knight while employing various other financial defense methods.

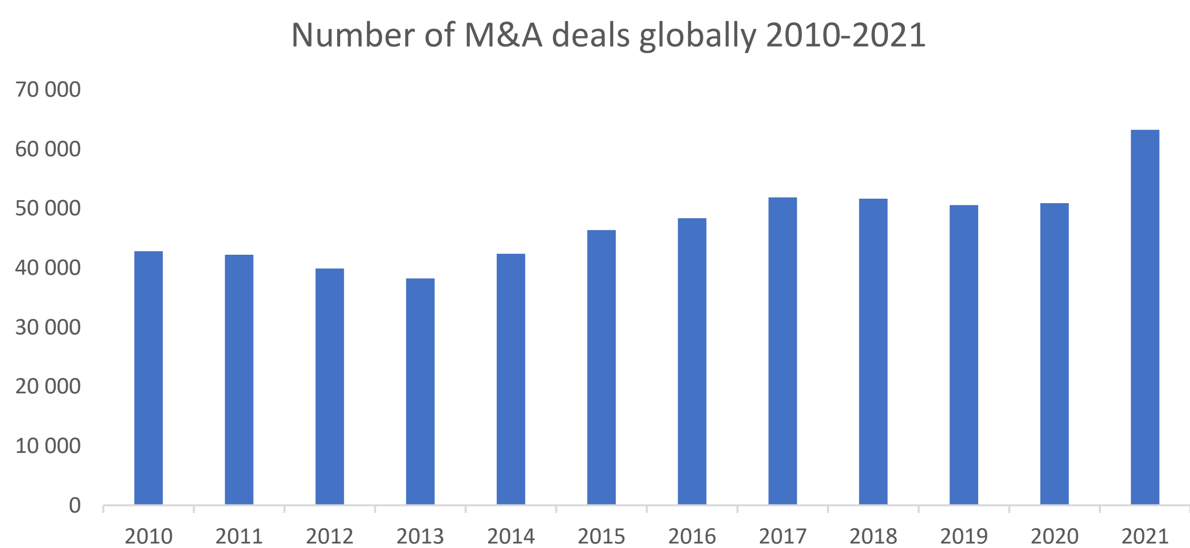
By addressing the central question of which takeover defenses are genuinely effective, this thesis aims to contribute to the ongoing discourse surrounding corporate governance, strategic management, and the protection of shareholder interests in the context of mergers and acquisitions.

2. Theoretical background

2.1. Takeovers

A takeover occurs when a company successfully acquires a portion of the ownership and control of a target company. Presently, takeovers are prevalent across various sectors worldwide, and their frequency continues to rise despite occasional periods of crisis. Several factors contribute to these deals and the rationale behind offering a substantial premium. In certain instances, multiple bidders engage in a bidding war. Takeovers can become intricate in certain cases.

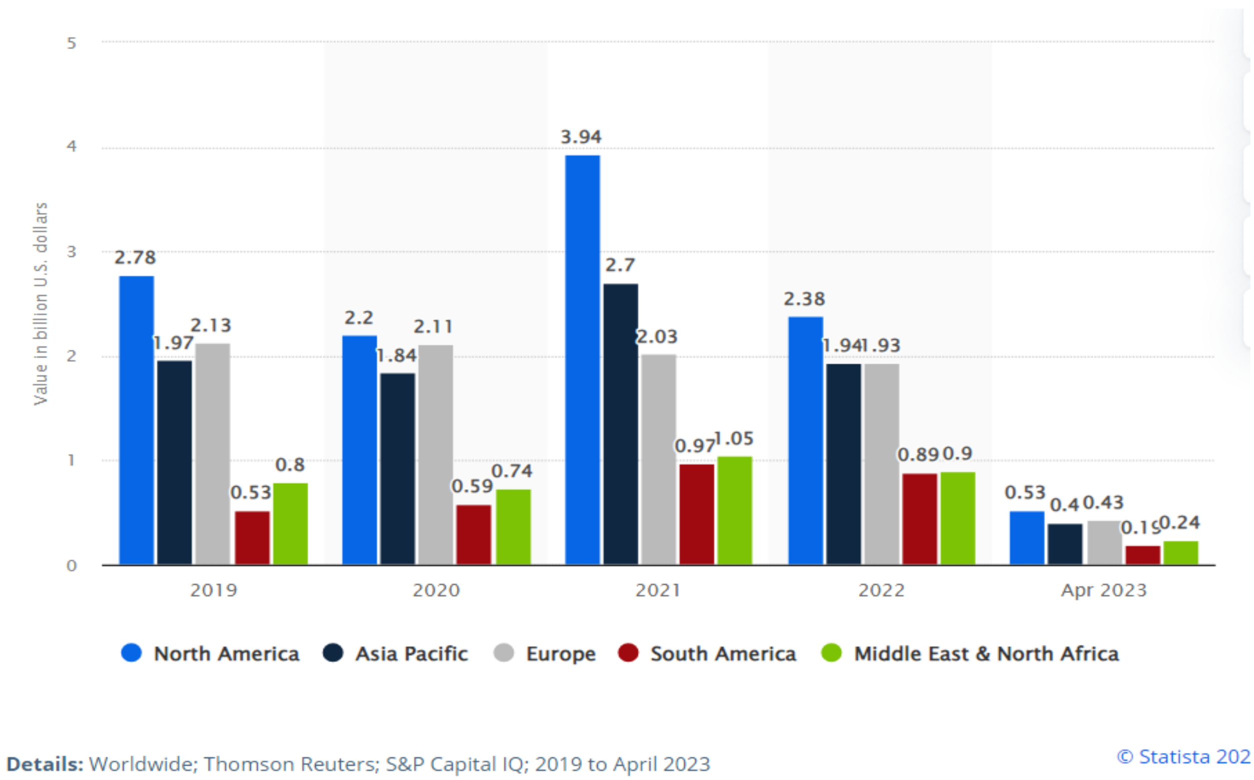
Below is a graph representing the number of global M&A deals during the period from 2010 to 2021:



Source: Statista

Takeovers possess the potential to exert noteworthy influences on companies, shareholders, employees, and the overall market. They possess the capability to transform industries, establish fresh market frontrunners, offer avenues for growth and advancement, or bring about operational alterations and restructuring of the workforce. The triumph of a takeover frequently hinges upon meticulous preparation, comprehensive analysis, proficient execution, and the seamless integration of entities following the merger.

Value of takeovers by region 2019 - 2023



Why have takeovers become a crucial element in the financial market?

2.1.1. Rationale for takeovers

The main rationale for takeovers is to generate value for shareholders. This can be achieved by acquiring an undervalued company or creating synergies that hold greater value than the premium paid. These synergies can take the form of revenue synergies or cost synergies.

Another motivation for acquiring a company is to enter new markets and expand its geographical presence. Acquiring an existing company on another continent could be more advantageous than creating your own subsidiary in the same foreign country.

Furthermore, companies may pursue takeovers to access new technologies by acquiring innovative startups that benefit from unique technology and techniques or for new highly qualified employees who can be the targeted asset of the acquired company. Some other actors use takeovers to eliminate competition. For example, technology giants may acquire new promising startups for the only purpose of destroying them and eliminating them from the market to get rid of any potential threats.

It is worth noting that Takeovers may also not have real rational drivers but be mainly ego-driven when CEOs see that it is simply destiny or think that the acquired company is a gem and synergies would be huge even without solid financial justifications. This ego problem is not uncommon and may explain why many mergers fail to realize the expected synergies and turn out to be pure failures and significant disappointments.

In general, the primary motivation behind takeovers is to enhance shareholder value by improving profitability, expanding market presence, and strengthening the company's strategic position.

2.1.2. Types of Acquisitions:

Takeovers vary a lot depending on the financial and strategic drivers of the deal. The most common types are:

- Horizontal acquisition: This happens when the bidder acquires a competitor to create synergies, increase market share and gain new clients. The acquisition of Instagram by Facebook in 2012 is an example.

- Vertical acquisition: In this case, the target company is a part of the supply chain of the bidder, a customer, or a supplier for example. The logic is to improve this supply chain by reducing costs and improving its efficiency. For example, Tesla acquired SolarCity, a solar panel manufacturer, in 2016.

- Conglomerate acquisition: This is about acquiring a company in a different industry. The purpose is to diversify the portfolio and reduce risk as a result. The merger of the Walt Disney Company and ABC in 1995 is a prime example.

2.1.3. Types of takeover offers (Cash/Non-Cash)

After analyzing the pros and cons of acquiring the target, the company must decide what type of takeover offer it should or has to make. There are several types of offers, and the most common ones are:

- Cash offer: This is an offer in cash and there would be a fixed price that the acquirer must pay.
- Stock offer: The buyer offers to exchange his own shares for the target shares. There would be an exchange ratio that depends on the value of the two stocks.
- Mixed offer: This is a mix between the last two types. The buyer would pay a part in cash and the remaining part by exchanging his shares for the target shares.

Each offer type has its own characteristics, pros, and cons. In some cases, the buyer may have the possibility to choose according to his preferences, and in other cases he may be obliged to choose one of the three. For instance, a company with low cash reserves would not have enough to make a cash offer. Another example is when the target is very big, it would be hard for any company to have enough cash to fund the deal.

The discussion of whether to pay in cash or in equity is always present and there is no consensus on which one is always better. It depends on the circumstances, the buyer, and target characteristics.

Let's discuss the pros and the cons of cash and equity payments:

- For the bidder:

	Cash	Stock
Pros	- Payment in absolute terms (No risk related to the change in stock prices). - Keeping all the potential upside. - Debt is cheaper than equity. - Increasing ROE momentum. - Positive signal about bidder stock price that it is not overvalued.	- Payment in relative terms (Possible profit from overvalued market stock price). - Raising balance sheet equity. - Reinforcing the Credit rating. - Positive effect on main Equity indices ranking.
Cons	- A financial bet on leverage. - Not every buyer has enough cash reserves for the offer.	- Sharing the potential upside.

- For the target:

	Cash	Stock
Pros	- Payment in absolute terms. - No worries about the success of the deal.	- Sharing upside risk. - Benefit from deferred taxation.
Cons	- Losing any control of the company and giving up any potential upside.	- Sharing downside risk. - Must live with the buyer.

Another difference between a cash offer and an equity offer is that the stock offer is a more friendly one as the two parties would have to share the potential upside and downside risks.

2.1.4. Takeovers Regulation

Regulation is a very important part of the success of a takeover, every acquisition requires regulatory approval, and over the years has become more complicated and sophisticated in order to be adapted to the new circumstances and ensure that the deals keep being conducted in a fair and transparent way and preventing people who are trying to bypass some laws to make personal benefits while harming the market or the country as a whole. The issues can be very little but can sometimes be crucial such as a country's national security.

Regulation is essential for many reasons: First, it contributes to protecting shareholder interests. Some company directors may stand against some offers that are beneficial for the shareholders or accept other ones that may decrease the shareholder wealth for individual reasons either because they are afraid of losing their jobs or because they were promised better salaries and advantages in the future. Regulation is set in a manner that ensures the shareholder rights are protected and puts them in an equivalent situation to others in terms of information provided about the offer. Another important point is the minority shareholders who risk some potential abuses when they have divergent visions from the majority ones. Thus, regulation prevents other parties from profiting from the delicate position of the minority shareholders to mislead them or put them under pressure.

The second objective of regulation is to preserve competition and prevent any kind of anti-competitive or monopolistic behavior. Regulation must defend the consumers and not let them suffer from high prices in a monopolistic sector. Let's say company A has a market share of 30% and company B has a market share of 20%, even if the two companies reach an agreement to merge, authorities may intervene to ban the deal otherwise the merged entity would have 50% as market share and would have more tools to acquire more clients and destroy financially competitors by lowering the prices as much as it can or by acquiring other companies. No one would be able to resist such a giant and the consumers may face terrible consequences, there will be no demand pressure if only one company controls almost all the offers. That's why regulation should preserve with all means fair competition and avoid the concentration of power that may cause an absence of innovation.

The third motivation of regulation is preserving market integrity, this consists in chasing inside traders, looking for any sign of market manipulation, and investigating takeover processes in search of unfair practices. Reinforcing regulation is essential to prevent every form of unethical manipulation and maintain the confidence of investors and all market participants more generally. Market integrity is a condition for the efficient functioning of the market.

National concerns are also one more reason why regulation is crucial in the takeover ecosystem: In some cases, takeovers may target companies that have sensitive data or activities related to national security and independence. The situation is even more delicate when a company based in a foreign country wants to acquire a national company: If there is any suspicion that this may lead to enable another country to overcome the home country in terms of technology or innovation, authorities have the right to intervene and investigate whether the deal may cause some national issues. This enables the prevention of sensitive data, assets, or technologies from falling into the wrong hands.

Besides all that was already mentioned, regulation ensures transparency of takeovers because the deal actors are required in many cases to disclose and reveal the information related to the takeover process, especially when the target is listed. All relevant information about financial details and risks, business plans, and operational risks must be shared at some point with all the stakeholders, not only the shareholders. By preserving takeover transparency, it is easier to eliminate fraud attempts and develop a fair market for all the participants.

The last reason why regulation is important is that it enables the upholding of corporate governance standards. In a takeover, where control may be passed to new owners, it is essential to ensure that the rights of all stakeholders like employees and customers don't fade. This consists in supervising companies and checking whether all charts and contracts are still applied and respected. Responsible management should always be supervised in case of change of control to ensure everything is legal and ethical.

In general, takeover regulations aim to achieve a balance among the interests of various stakeholders, safeguard against potential misconduct, and uphold the integrity of the market. These regulations establish a well-defined structure that promotes equitable and efficient transaction procedures, considering diverse economic, legal, and societal factors.

2.1.4.1. Europe Regulation

Let’s discuss regulation details in Europe and the United States. For the European case, the regulation varies from one country to another, but it is generally based on common principles and frameworks that apply at the continental level. There have always been efforts to harmonize regulation not only in the M&A sector and deals. However, each European Union member state has its own national law and regulations regarding takeovers.

The Takeover Directive (Directive 2004/25/EC) is a significant EU regulation that governs takeovers and applies to companies listed on EU stock exchanges. Its purpose is to establish a set of minimum standards for regulating takeover bids. The directive has two main objectives: safeguarding the interests of minority shareholders and ensuring fairness by promoting equal treatment of shareholders during takeover bids. It achieves these goals by defining rules regarding the takeover offer's content, the responsibilities of the board of directors, disclosure obligations, and the rights of shareholders to accept or reject the offer.

2.1.4.1.1. Regulation in France

In addition to this common regulation, as explained, European countries have their own specific takeover regulations:

In France, the regulation of takeovers is mainly carried out by the Financial Markets Authority. The AMF supervises takeover bids and ensures that they are aligned with the rules outlined in the French Commercial Code.

Here are some of the key rules established by the AMF regarding takeovers in France:

- Mandatory Offer: If a shareholder or a group of shareholders reaches a specific threshold of shares or voting rights (30%) in a French company, they are obligated to make “une offre obligatoire” to acquire the remaining shares of the company.

- Equal Treatment: The AMF places significant emphasis on ensuring equal treatment for all shareholders during takeovers. This means that the offer price and conditions must be identical for all shareholders of the targeted company.

- Disclosure Requirements: The bidder and the target company must disclose some information about the takeover bid. This includes details about the bidder's plans, financial situation, and any arrangements made during the bidding process.

- Role of the Board of Directors: The board of directors of the targeted company gives their opinion on the takeover offer. This opinion should be based on an evaluation of the bid's impact on the company and its shareholders.

- Prohibition of Market Manipulation: The AMF strictly prohibits market manipulation and insider trading. It actively supervises trading activities and investigates any suspicious movements that could harm the market.

2.1.4.1.1. Regulation in the rest of Europe

Other European countries have their own regulatory frameworks and national specialized authorities, for instance:

In the United Kingdom: The UK has the City Code on Takeovers and Mergers (Takeover Code). It sets out rules for public takeover bids involving companies listed in the UK, including the requirement for fair treatment of shareholders and rules regarding disclosure and the role of the board of directors.

Germany: Germany has the Securities Acquisition and Takeover Act (WpÜG). It establishes rules for mandatory and voluntary takeover bids, disclosure requirements, and shareholder rights.

The key rules are almost the same as the AMF ones with just little differences that do not make so much difference.

It is essential to recognize that regulations and requirements for takeovers can vary a lot across European countries. As a result, it is important to take that into account when dealing with cross-border deals so that it is possible to assess the specific regulations applicable to the jurisdictions involved. The regulation risk increases in this case and the best solution is to seek help from legal advisors to avoid falling into some traps.

2.1.4.2. United States Regulation

In the United States, takeover regulation is mainly carried out by federal securities laws, alongside state corporate laws. The two main federal laws that regulate takeovers are the Securities Act of 1933 and the Securities Exchange Act of 1934.

The first one is about the initial issuance and registration of securities by companies. In the context of takeovers, companies must register their securities with the Securities and Exchange

Commission (SEC) when they are going public. Registration goes along with certain requirements, such as providing detailed information about the company and its financial status.

The second one governs reporting and disclosure requirements for companies whose securities are listed on U.S. stock exchanges. It regulates tender offers, a form of offer that will be discussed later. It mandates certain disclosure and procedural requirements for tender offers, including providing a detailed offer document (such as a tender offer statement) to shareholders and filing it with the SEC.

State corporate laws are also a part of the US takeover regulation ecosystem. Each state has its own set of laws governing corporations, encompassing rules related to shareholder rights, director duties, and voting requirements. Although state laws can vary, they generally provide a framework for shareholder voting on major corporate transactions like mergers or acquisitions. Some states, such as Delaware, have influential corporate laws due to their popularity as jurisdictions for incorporating businesses.

To compare the regulation rules between the European region and the United States, below are some American rules about takeovers:

Mandatory Offer: Unlike France, in the United States there is no rule for mandatory offers. However, if an acquirer reaches a certain ownership threshold (5%), he is required to disclose his holdings and respect some compliance rules.

Equal Treatment: The principle of equal treatment for shareholders exists in the United States as well. In tender offers, all shareholders of the same class of securities must be treated equally.

Disclosure Requirements: The Securities Act of 1933 and the Securities Exchange Act of 1934 impose extensive disclosure requirements in the United States.

Role of the Board of Directors: Like France, the board of directors in the United States plays a significant role in the takeover process. The board has a duty to act in the best interests of the shareholders and is expected to evaluate the takeover offer.

Prohibition of Market Manipulation: The United States has strict regulations against market manipulation and insider trading.

2.1.5. Types of takeovers (Friendly / Hostile):

There are two main types of takeovers: friendly and hostile.

The takeover is described as friendly when the management of the target company agrees to the acquisition by the specific acquirer and to the deal terms after long negotiations with the acquirer management to make the deal most beneficial for the two sides.

In contrast, the target company's management may disagree with the idea of being acquired by the bidder for many reasons. Either they believe an acquisition would affect the long-term goals of the company in a negative way and change the social values of the company or they believe that the potential buyer would not really bring value as the visions are not similar and that they would prefer so many other bidders over the actual one.

In case of disagreement, the buyer might stop the process and look for other targets more open to a takeover offer, but he may also not stop and try to bypass this refusal by making a public tender offer directly to the shareholders. Another possibility is aggressive tactics like launching a proxy fight to change the structure of the board of directors.

2.1.5.1. Bear Hug

The first form of a hostile takeover is a bear hug. The term insinuates that the acquirer is a bear that is hugging its target. Hugging is the friendly part of it while the fact that the acquiring company is a big creature that cannot be resisted and should be hugged anyways without any resistance. In financial terms, a bear hug is making a very attractive offer way above the market valuation. Other attractive terms and promises may be included in the offer such as retaining key employees or preserving the pre-existing company culture.

A reason why it would be hard sometimes to turn down a bear hug is that the company boards have a duty to act in what is best for the company and its shareholders. Thus, saying "no" to a very high premium may cause some issues later such as lawsuits or other tactics of shareholder activism.

The good point about the bear hug for the acquirer is that he can avoid dealing with a reticent board of directors and directly make his offer to the shareholders. However, including such a high premium in the offer forces the market to question why the share price would be undervalued to that point. The target management will be on the defensive as a result and will be more concentrated on this discussion. Besides, when the management sees that sooner or later the deal will happen and believe that they will probably be fired during the post-merger integration phase, managers generally decide to reward themselves with golden parachutes, a takeover defense that we will discuss later. The point here is that this tactic makes the deal even more costly for the acquiring company.

2.1.5.2. Tender Offer

The second form is the tender offer. The offer is made directly to the shareholders of the target to buy their shares at a premium price. The price offered is generally higher than the market price so there is more chance that shareholders will accept the proposition.

The acquiring company announces to the market that it is making an offer and sets up a deadline for shareholders to decide whether to accept or not. Generally, the day after, the stock trades at a discount due to an uncertainty of the success of the tender offer but later the more the market is sure about the success the less the discount is.

The buyer would normally put a condition such as acquiring a controlling interest to be willing to effectively buy the shares at the pre-specified price. Every shareholder willing to sell shares at the price agreed on must send a “tender offer acceptance” document to the bidder.

A tender offer may be friendly or hostile. In case it is friendly, there would be negotiations about the deal terms and conditions. While if it is hostile, the tender offer is a way to bypass the management and overcome the refusal of the directors and this leads to a takeover battle and defensive tactics implemented by the board as a reaction.

2.1.5.3. Proxy fight

The last form of a hostile takeover is the proxy fight. It consists of gaining control of the board of directors and their votes. The acquiring company identifies a list of the most supportive shareholders of the deal. Then, it sends proxy statements to convince them to vote for its nominees to the board and to vote out the managers the most reticent to the deal.

The objective is to replace the current board of directors with a new one willing to accept the deal. That is why this is considered a proxy contest. The winner is the one who keeps control over the board of directors. Proxy fights are very common and can be a very efficient tool to bypass the refusal of executives or some shareholders.

The challenge is whether the acquiring company can convince enough shareholders to control most of the board. Solid arguments should be made on why the deal should be accepted. The challenge is whether the buyer can prove that he has prominent ideas on how to improve the target finances and increase the shareholder wealth as a value.

2.2. Takeover defenses:

2.2.1. Rationale:

In a world where takeovers are more common and widespread all over the world, Takeover defenses have become an essential weapon for companies that do not want to be acquired by a specific buyer. This can be since the management, or the board of directors think that the offer is not as beneficial as it seems to be.

Thus, companies adopt these strategies first to prevent or counter unsolicited bids. The goal here is to make it more difficult for the acquirer to complete the transaction or the deal by making it more expensive and less attractive. Sometimes, the defenses are only employed for the only purpose to stall until another efficient defense is used. It is also common to use more than one strategy at once to be sure that would compromise the bidder's attempts. Time is very crucial in hostile offers; stalling enables the target management either to negotiate a better deal or to think more about it and how to counter it if the conclusion is that it would be better to avoid the deal.

Besides, the company may not be totally against the idea of being acquired by a specific buyer, but the directors believe that the deal can have better deals for the target and its shareholders, and for that, they need tools of pressure to be able to negotiate with the bidder and push him to make a better offer. The initial valuation may seem not fair to the board of directors, but it is essential to try their best to improve the terms.

In addition to that, takeover defenses are a way to preserve the independence and let the actual management continue achieving long-term goals and working on new projects. This is especially important when the shareholders and the management have a solid long-term vision and believe that a takeover would compromise their business plan and make the future state, they are seeking unreachable. Independence is equivalent to stability sometimes, a must for the executives to be able to perform.

Another important point about takeover defenses and a question that must be asked each time these strategies are employed: Do they increase Shareholder wealth? The problem here is to know whether it is worth using these strategies to turn down an offer, seeing the costs and the effects on stock price for example. Also, one should be sure that these defenses are efficient and if the buyer can easily bypass them or not. Creating value for shareholders is always a primary goal for directors and something they must have in mind in every decision they make.

Shareholders are the owners of the company; they invested their capital in the company and each one of them has expectations of a return on their investment. When defending the company against a hostile bidder, the decision should be based on whether the defense strategies create or destroy value for shareholders.

So, discussing the efficiency of the takeover defenses refers to checking whether the tactics increase shareholder value, decrease the possibility that the hostile takeover succeeds, and enable the target to negotiate better deal terms.

2.2.2. Types of takeover defenses:

Takeover defenses are really numerous, companies have been inventing new defenses to adapt to the new characteristics of hostile offers and to new regulations.

There are two main types of defenses: preventive ones that are used before the deal is made such as poison pills or golden parachutes and active ones such as White Knight or Pac-man that are employed once the deal is made.

Below is a table representing the takeover defenses that will be discussed later:

Preventive takeover defenses	Active takeover defenses
Poison pills	Litigation
Corporate chart amendments	Greenmail
Golden parachutes	White Knight
Supermajority provision	Pac-man
Jurisdiction incorporation	Capital structure changes
	Standstill agreements

3. Literature review

3.1. The Impact of Bid Defenses in Hostile Acquisitions:

3.1.1. Management entrenchment:

The managerial entrenchment theory of takeover defenses suggests that managers may adopt and maintain certain defensive measures to safeguard their positions and solidify their power within a company. These defenses are put in place to shield managers from the potential threat of being replaced or removed by acquiring entities. By implementing takeover defenses, managers aim to protect their authority and maintain control over the direction and decision-making within the organization.

According to some authors such as Jensen and Ruback (1983), corporate takeovers can solve agency problems in companies and improve management efficiency and decrease management entrenchment as a result. As a result, firms that implement takeover defenses generally have managers who are inefficient. Such defenses create agency problems, allowing managers to prioritize their own interests over those of shareholders. Entrenched management can lead to reduced firm value and diminished shareholder wealth. He advocates for stronger shareholder rights and market forces to discipline management behavior.

When managers are protected against raiders, their efficiency decreases and do not work anymore for the only purpose of increasing shareholder wealth. They may engage themselves in other activities that may even harm that. There is no danger of being substituted by someone else or just fired. The fear of losing your job isn't there anymore. (Grossman and Hart, 1980)

Moreover, many papers conclude that takeover defenses lead to negative stock price reactions and cause a decrease in the firm's value. For example, Bhagat and Jeffris (1991) find a negative relationship between supermajority vote provisions and firm values. In other words, using supermajority vote is associated with lower firm values.

3.1.2. Shareholders' interests:

The theory of shareholder interest in relation to takeover defenses suggests that these defenses are primarily designed to safeguard and advance the welfare of shareholders. According to this theory, managers and boards of directors employ these defenses with the intention of guaranteeing that shareholders receive equitable value for their investments. Additionally, they aim to prevent hostile takeovers or undervalued acquisitions that could potentially undermine shareholder wealth. In essence, the shareholder interest theory posits that takeover defenses are implemented to protect and enhance the interests of shareholders.

DeAngelo and Rice (1983) see that the antitakeover provisions can benefit the shareholders by improving the expected level of gains by encouraging shareholders to ask for a higher premium using the weapon of defensive strategies and also replacing tender bids with a more friendly offer where there would be cooperation between the two boards and the 2 companies would be able to agree on a better deal for both parties.

David A.Becher and Terry L.Campbell (2004) examine the effect of takeover defenses on the likelihood and terms of takeover offers. The authors make an analysis of a sample of publicly traded firms and find that defense strategies decrease the likelihood of being acquired and increase the acquisition premium if the deal is done. Besides, the authors find that poison pills and golden parachutes are among the most effective strategies for compromising takeovers.

M.Ertugturl (2014) argues that takeover defenses can increase the bargaining power of target companies by reducing the probability and cost of a hostile takeover while specifically focusing on the impact of poison pill defenses, golden parachutes, and crown jewel defenses.

Implementing defense strategies strengthens the position of the target during negotiations and directors have better chances of improving the deal terms, capturing higher returns, and sharing of merger benefits.

The shareholder interest theory assumes that the management of a company acts as a fiduciary for the shareholders and has a duty to act in their best interests. Therefore, the implementation of takeover defenses is seen to safeguard shareholder value by maintaining control and negotiating better terms in potential acquisitions.

It's worth noting that the shareholder interest theory assumes that managers act in good faith and make decisions that are genuinely in the best interests of shareholders. Critics of this theory argue that managers may sometimes act in their own self-interest or seek to entrench themselves using takeover defenses.

The shareholder interest theory emphasizes the idea that takeover defenses are implemented to protect shareholders from value-destroying or opportunistic takeover attempts, ultimately seeking to safeguard shareholder interests and maximize long-term shareholder value.

3.2. Takeover defenses:

Takeover defenses can be divided into two main categories: preventive ones and reactive ones. The preventive strategies are implemented before the potential acquirer submits its offer while reactive strategies are implemented as a reaction to the bid when it occurs and that creates many differences between the two types as some companies prefer to use preventive ones while others tend to count on the reactive ones so that the market doesn't see the company as an enemy who is not willing to cooperate or to receive some offers with high premium that may be beneficial ones for all the parties and maximize the shareholders' value.

3.2.1. Preventive Takeover Defenses:

There are many different preventive takeover defenses, they are implemented as the company directors may expect that other actors on the market may be interested in giving some offers seeing that their stock value is undervalued or that they are growing very fast that they become a target for many other giant companies. These defenses are considered as a protection wall against some unsolicited bids in the future. However, on the other side, this could be a bad signal to the market and the company may never receive a reasonable offer with a very high premium and with expected financial prospects. In other words, this kind of defense may discourage potential buyers from looking into the company's potential and the possibility of buying it at some point in the future.

3.2.1.1. Poison Pills

The first example of preventive takeover defense is Poison pills, also known as a shareholder rights plan. It consists in enabling existing shareholders to buy extra stock at an important discount in case an unsolicited offer occurs, and the merger happens. The pill is only activated once the deal is done and may make the buyer reticent to buy and to continue negotiations as it will limit his benefit or even make the deal have a negative value.

There are two sorts of poison pills as explained by J.Pearce and R.Robinson (2004):

- Poison pill with flip-over fights:

  This is not a distribution of shares but rather of rights to existing shareholders, so they have the possibility to buy preferred stock at a very low price. The distribution has place when a triggering event happens such as an unsolicited acquisition. In other words, the increase in preferred stock leads to an increase in debt on the balance sheet and may oblige the unwanted suitor to withdraw its offer.

  The issue with these poison pills is that they can only be exercised when 100% of the company is being bought. Otherwise, it is almost useless. As a result, the bidder can target acquiring only a part of the company and not all of it, so it dodges this bullet.

- Poison pill with flip-in fights:

  The main difference with the flip-over poison pill is the triggering event as the condition is that the hostile bidder acquires a percentage of target shares but there is no condition on acquiring a controlling interest. It is almost the same mechanism, and the tactic makes the operation more expensive for the buyer through diluting the merged entity shares after buying additional shares at a discounted price.

These poison pills can be efficient in some cases by rebuffing the hostile bid or leading to an increase in the final price. However, the short-term effect of this mechanism is in general negative according to Malatesta and Walking (1988) as they found in their research that there is a small negative return two days after announcing the implementation of the pills.

M. Ryngaert (1987) also suggests that this defense strategy goes along with management entrenchment and destroys shareholder value and even if the negative abnormal returns after the announcement of the adoption of the pills are not very large proportionally, it still shows that poison pills do not create value for shareholders. However, when the company is not seen as a takeover target, the announcement of the implementation of the pills can be associated with abnormal positive returns. The same author finds that poison pills can increase the takeover premium indeed in comparison with friendly offers and that the number of poison pills have been increasing a lot during the 90s. He admits that the poison pill defenses altered the market for corporate control.

Richard D.MacMinn and Douglas O.Cook (1991) conclude after a generic analysis of this tool in "An anatomy of the Poison Pill" that flip-over poison pills can indeed stop a merger but not a takeover. The pursuer can dodge this poison by gaining a controlling interest without acquiring the total number of shares. However, the flip-in ones can lead to an increase in the tender price or stop the hostile takeover from happening. As a response to this defense, some acquirers choose to go to courts in seek of invalidating the pills.

3.2.1.2. Corporate chart amendments

This defense consists in limiting the number of directors that can join the board within a year so that a hostile buyer does not manage to replace the directors with others more in favor of the deal. Also known as the staggered board method, is used more to stall than to compromise. In general, it is used at the same time with other defenses. This prevents potential hostile acquirers from acting quickly by making surprising changes in the composition of the board of directors. This also gives a signal that the company is focusing on its long-term goals and growth by preserving a stable composition of the board.

In other words, a staggered board is divided into three to five classes of directors and each class has its own length. Due to this classification, a staggered board is also designed as a classified board. Once the classification is done, everything is set. Let's take a board divided into four classes. In case of a hostile attack, only a fourth of the board can be changed in one year, this gives enough time to the target company to reorganize its defense and implement more strategies.

However, the effect on shareholder value is negative according to many research, companies opt rather to use other defenses. In fact, one of the main critics to the staggered board method is that some directors who still have a lot of time to be re-elected are not worried about losing their jobs, they would not do their best. The absence of pressure may lead to a deterioration of their performance, affecting the shareholders' wealth indirectly.

Over the years, many institutional investors have become more and more reticent towards this tactic given its multiple costs and risks. Directors may deviate from their initial responsibilities and prioritize private benefits. As an addition to that, there is a risk of directors refusing a takeover that could have been beneficial to the shareholders.

Alma Cohen and Charles C.Y. Wang (2013) analyze the effect of staggered board on the shareholder value by looking into two Delaware court rulings in the Airgas-Air Products and Chemicals case. Air Products made three tender offers at first and the three were rejected so it launched a proxy fight that was hindered by a staggered board, during the first meeting a third of the board was replaced by directors in favor of the acquisition. After this move, Air Products managed to make the shareholders adopt a new bylaw provision that says that the next annual meeting would be held in four months instead of one year. As a response, Airgas took the case to Delaware Chancery Court arguing that this bylaw is illegal and there was a misinterpretation of its charter and that if this type of bylaws is allowed it would harm many companies and make the Staggered boards meaningless in some way. The chancery court did not invalidate the bylaw, so Airgas turned this time to the Supreme court which instead of focusing on the language of the chart, focused on the extrinsic evidence. The supreme court overruled the Chancery court decision and concluded that the bylaw should be invalidated.

3.2.1.3. Golden Parachutes

Golden Parachutes are compensation packages promised to executives in case of acquisition by an outside party and a change of control. According to J.Pearce and R.Robinson (2004), this is a solution to different incentives between shareholders and executives. Let's say a company receives a hostile offer that can maximize shareholders' value but puts in danger the jobs of the executives who risk being unemployed if the deal is done. So, the golden parachute is a way to align the interests of all the parties. On the other hand, the potential bidder would be more reticent to make an offer to avoid having to pay these golden parachutes to these people who may even leave the company afterwards.

Golden parachutes are not exclusively in the form of monetary rewards such as inclusion in pension plans, retirement benefits and insurance advantages.

Golden parachutes could be a very useful tool not only for hindering attempts of hostile takeover but also to attract and retain skillful executives. Besides, the directors can remain objective when receiving an acquisition offer and will not refuse an offer that will probably increase shareholders' wealth.

However, not all people are in favor of golden parachutes, the tool is controversial. The golden parachutes are, in some views not really a burden for the acquiring company when you compare it with the acquisition costs. If that is the case, implementing this defense would not prevent the takeover from happening. Another point against golden parachutes is that the directors are supposed to be working to increase the shareholder value, that is one of their main objectives and they are already paid for it with high wages, and they do not need additional packages or motivation to do literally “their job”.

The literature (Lucian Bebchuk, Alma Cohen, Charles C.Y. Wang, 2013) suggests that Golden parachutes are positively correlated with increased possibility of receiving an offer. The authors of the paper gave two reasons behind this correlation, the first one is an incentive reason: The fact that executives know that they will be make some money when accepting an offer, they tend to lower the required premium threshold and don’t really mind losing a part of the control of the company. The second reason is a private information one, executives have more information about their company compared to external parties and know when their company is more likely to receive many offers and during that period, they tend to put in place those golden parachutes to benefit from the deal if it ever happens.

The second point discussed in the same paper is the correlation between the Golden Parachutes and the premium paid in the acquisition. The conclusion is that the presence of this defense strategy is associated with lower premiums for two reasons: Executives while knowing they will be rewarded in case of a takeover, they bargain less for a better deal and a higher premium. Another reason is that some deals would not have succeeded in the absence of rewards for executives and those are the deals with low premiums.

Another point discussed by these authors and worth mentioning is the correlation between golden parachutes and shareholder value. The authors find that the adoption of Golden Parachutes decreases shareholder wealth, this happens before, around and after the adoption. The before phase can be explained by the selection, the around one can be explained by both managerial slack while the after phase is due probably to managerial slack.

3.2.1.4. Other preventive strategies

There are other preventive strategies that may be employed such as:

- Supermajority provision: This is a supermajority amendment used to prevent unsolicited bids by conditioning the approval of important corporate decisions such as an acquisition or merger by a high threshold of a at least 66% and usually between 70% and 90%. This increases the minimal threshold from 50% in most cases to a higher one making the operation more costly for the bidder. In fact, to gain control over the company the buyer must buy more shares and not only half of the outstanding shares.

- Strategic incorporation: This is about choosing the adequate incorporation to reduce the probability of success of a hostile takeover. The chosen jurisdiction would generally have many restrictions and limits on possible M&A deals.

3.2.2. Reactive Takeover defenses

3.2.2.1. Litigation

Litigation is a reactive takeover defense as it enables the target to stall. It should be used in parallel with other defenses. And this is how it works: the target company must pursue a legal injunction against the potential bidder. The latter will spend some time preparing documents to defend their position and that the injunction is unfounded. During this time, the target company seeks better offers or employ another defense that may stop the bidder. (to J.Pearce and R.Robinson (2004)).

According to Jarrell (1985), almost one-third of tender offers are faced by a litigation case. Despite the decrease in price stock the day of the announcement of the lawsuit, in the long-term, the final offer is on average 17% higher than the initial one. Besides, almost only 10% of companies that do not use litigation defense receive additional bids. These figures show that litigation can be an efficient tool indeed to stall and wait for better bids. The lawsuit has some costs but still can be worth it.

3.2.2.2. Greenmail

Greenmail is another reactive takeover defense. It consists in buying back the shares bought by the aggressor after paying a premium. The word is a combination between “greenbacks” as a reference to money and “blackmail” as a reference to making threats.

The goal is to encourage the bidder to sell the shares back to the target and make an easy profit while promising not to pursue any takeover attacks on the same company in the future. This works especially with acquirors who are not really interested in the long-term prospects of the acquisition.

Obviously, this technique is very expensive due to paying a premium without forgetting the possible additional costs related to the buy-back. Greenmail cases are not very common. However, some Greenmailers abuse this technique to make profit out of almost nothing as they were not intending investing on long-term. This could be seen as a sort as a market inefficiency as this blackmail can hurt some companies and their financial health. On the other side, others may argue that it is in fact aligned with market rules as the raider saw an opportunity and believe that the assets are undervalued so he has the right to launch a takeover to sell the assets afterwards to another actor who is willing to pay the fair price.

The other issue within the target company is that this Greenmail defense do not create more wealth for the shareholders or even worse it uses their funds to prevent a takeover to protect private interests. In some cases, an anti-greenmail provision is included in some charts to prohibit greenmail payments possibility for directors.

Many writers such as Andrei Shleifer and Robert W. Vishny (1986) find that the payment of a greenmail results in a fall in stock prices even if executives acted in the interest of shareholders. In fact, a greenmail payment is generally associated as standstill agreement which represents a negative signal for the market proving that the target is weak and absolutely needs this type of agreement to survive and resist unwanted offers. However, this is still aligned with the interest of long-term shareholders because this was just the effect of the transmission of private information held by managers to the market. The question about how a greenmail would create value for shareholders is also discussed: One proposed explanation is that greenmail pushes a way an unwanted pursuer but invites at the same time many other bidders to make offers and search more information about the target.

There are three theories about greenmail in literature, the first one is the management entrenchment and how using shareholders wealth to push aways unwanted bidders goes against the principles to which should the managers stick.

The second one is shareholder welfare that justifies the greenmail payment by the asymmetry of information between the market and managers. In fact, executives can have private information that makes them make the greenmail payment to save shareholders from “bad” offers.

The third one is that the “free rider” problem can be faced by greenmail. As a matter of fact, unsuccessful searches for undervalued have some costs and should be shared between investors and shareholders and Greenmail in one way of sharing those costs.

3.2.2.3. White Knight

One other way to fend off a hostile acquiror is to search for a better one, a more friendly one willing to make an offer and save the target from a deal seen as bad from its management’s perspective. The thing is that white knights are not easy to find in the market and neither it is easy to convince them why they should intervene and make that happen in a short time.

This white knight might be a competitor or a partner having an interest in buying the target.

A white squire is a variation of the white knight, it is a friendly acquiror willing to buy target shares, but the difference is that the target remains independent after the deal because the white squire buys only a part of the outstanding shares.

Another variation is the gray knight, it is not the best savior to have but still better than the hostile pursuer. He still looks for his own interests at first, but it is better than being acquired by the other one. While a yellow knight is a company that was willing to take over the target but decides finally to propose a merger of equals.

This technique may allow the target to be bought by an ally or use it as an element of pressure to obtain better deal terms but still has many risks. Even if the white knight seems to have the same interests as the target and share the same view but it might turn into an unexpected thing and there would be some post-merger integration problems. In other words, what seems to be a white knight can quickly turn into an enemy.

Literature (Xing Chen and Saif Ullah, 2018) finds that White knights face negative abnormal returns after the announcement. It is the case even for hostile bidders in contrast to what other researchers found such as Banarjee and Owers (1992).

In addition to that, C.Caroll and J.M. Griffith and P.M.Rudolph (1998) find that the acquisition decisions do not increase shareholder value in general and that the managers are worse than the ones in hostile bidders in terms of decision-making even before the concerned offer. Another conclusion is that managers who perform poorly in white knights are not replaced frequently and are not fired unless they make a very huge mistake that is very costly for shareholders. Otherwise, they do not have to worry about their positions much.

3.2.2.4. Pac-man

Another example of active takeover defenses is the Pac-man defense. It consists in making a counteroffer where the roles would be inversed, and the target would be the one willing to buy the bidder. It is a sort of chess game that has a lot of requirements as it is never easy to reverse the situation totally.

The name of the defense refers to the video game where a small character is eating its peers and that is the analogy: the Target might be eaten but may as well eat others.

This technique can be an element of surprise and an unexpected move that may fend off the hostile bidder and force it to withdraw its offer.

3.2.2.5. Other reactive strategies

Other reactive strategies can be:

- Capital structure changes: A restructuring in the capital may also compromise the success of the hostile takeover. This can be done through four mechanisms:
- Recapitalizing by paying a super dividend assuming more debt. Thus, the target would increase the debt in its balance sheet and would look less attractive repelling the hostile bidders.
- The second option is to raise additional debt without having to pay a super dividend. This debt can be issued by issuing bonds or borrowing funds.
- The third one is to issue additional shares. This would lead to a dilution of the existing shareholders' position but also a risk that these shares will be bought by a hostile bidder. That is why in general, the shares are offered to allied investors, described as "white squires".

- The last option is to buy back shares. The logic here is to reduce the number of shares so there are fewer available ones for the attacker. Another point is that the company would use cash or debt for the buy-back and that makes it less attractive for an acquisition.

- Standstill agreements: This is a sort of an agreement according to which a pursuer promises to not buy any additional target shares but also regulate any future sells of the shares to another pursuer that would not be obliged to comply with this agreement. This is a common type of agreement that exists even in other forms, for instance between a lender and a borrower.

4. Case studies

4.1. Qualcomm - Broadcom

4.1.1. Background of the case

- **Qualcomm:**

The target company in this case is Qualcomm, a multinational company specialized in semiconductor and telecommunications equipment. The headquarters are in San Diego, California. It was founded in 1985. The company offers solutions (Products and services) in many sectors: Mobile, automotive, consumer IoT and Networking IoT. Qualcomm is best known for its Snapdragon processors used in many mobile devices including phones. It is also very active in wireless technologies and played an important part in developing 5G technology.

Revenue (2017)	22.2 US billion dollars
EBITDA (2017)	4.1 US billion dollars
Number of employees (2017)	33,800

- **Broadcom:**

On the other side, the potential acquirer is Broadcom, which is also a company specialized in semiconductor equipment: It offers networking services related to high-performance connectivity and service/storage connectivity. It also offers End-to-End solutions and is a as active as Qualcomm in wireless technologies especially in mobile device connectivity. The company is present in a sector other than semiconductor solutions, infrastructure software represents almost one quarter of its revenue. The headquarters are in San Jose, California, United States. It was founded in 1991.

Revenue (2017)	$17.6 billion
EBITDA (2017)	$7 billion
Number of employees (2017)	14,000

- **Rationale:**

In 2017 Broadcom directors saw an opportunity in acquiring Qualcomm, the deal would have led to mutual benefits according to them. Of course, there would have been some financial synergies and the new entity would have revenues of around 51 billion dollars and an EBITDA of 23 billion dollars.

There is a strategic rationale as well, the new entity would have been a leading semiconductor company, the products and the two portfolios are complementary to each other. Also, the combined entity would be able to accelerate innovation and create more sophisticated solutions for the clients.

The merger would create a semiconductor giant as can be shown in the graph below:

4.1.2. Timeline and defense strategies

- November 6, 2017: Broadcom makes an unwanted bid to buy Qualcomm for $103 billion (70$ per share). The offer was a mix of cash/stock.
- November 13, 2017: The offer is turned down by Qualcomm that considers that the offer was lower than the fair price and that there would be regulatory hurdles anyways.
- December 4, 2017: As a result, Broadcom launches its first step of the hostile bid by starting a proxy fight. It nominates 11 new directors to the board during the next annual meeting on December 4, 2017. Qualcomm rejects the nominees for seats on the board of directors.
- February 5, 2018: Broadcom makes a better offer of 82$ per share. However, there is a condition for this offer, it is whether the acquisition of NXP semiconductors by Qualcomm will take place or not.

- February 8, 2018: The offer is rejected by Qualcomm, but the latter proposes a meeting to negotiate and discuss what should be changed in the deal terms and what everyone wants in the end.
- February 13, 2018: Broadcom takes a step back by decreasing the number of seats it is trying to win from eleven to only six.
- February 14, 2018: The two companies meet to discuss the potential deal and it was considered a successful meeting that may pave the way for a future combination.
- February 21, 2018: This defense strategy implemented by Qualcomm made the directors furious and unhappy, and reduced their offer by three dollars to show their disagreement with the decision.

The offer made on February 5, 2018, by Broadcom depended on whether the acquisition of NXP was going to happen according to the agreed price or not closing. Little did Broadcom directors know, this helped the target defend its dependence, it was a sort of a gifted poison pill. As a reaction to this, Qualcomm raised their offer for NXP semiconductors, using the poison pill they were handed.

The acquisition of NXP at a higher price is indeed a poison pill, it makes the target less attractive for Qualcomm as the raise would be equivalent to transferring four dollars per share to NXP shareholders.

- February 27, 2018: The CFIUS started investigating the acquisition plan especially since the acquirer was based in Singapore at that time even though it was planning to redomicile in the United States as soon as possible.
- March 4, 2018: Two days before the annual meeting, the CFIUS ordered to delay it by 30 days. The committee expressed its concerns about risks related to Broadcom's relationships with foreign parties.

- March 5, 2018: Broadcom defended its position arguing that the deal would be beneficial for the progress of the 5G technology in the country and that people should not worry about national security issues and promised to work on that in the future.

4.1.3. Outcome

After the alerts launched by the CFIUS that the potential deal may harm the national security of the United States, the President Donald Trump decided on March 2018 to block the deal. Besides the fact that Broadcom was based in Singapore, the company was also known for cutting research in order to improve profitability and that contributed in a way to the fall down of the deal.

Later, many suits were filed to U.S. District Court and the Chancery Court of Delaware against Qualcomm arguing that the company used false material and misled the CFIUS during its investigation about the potential risks of the Broadcom-Qualcomm deal.

In this case, a sort of poison pill was used by the target to compromise the pursuer's attempts and it obliged the latter to make a less attractive deal. After this first strategy, the second one was the regulation as it is still uncertain if Qualcomm provided information and put some pressure on CFIUS to convince them that the deal would be harmful to the United States, and it is a very risky one. In the end, the regulation barrier did indeed stop the pursuer from acquiring an American target even though Broadcom was redomiciling to the United States.

The outcome of Broadcom's attempted takeover of Qualcomm was a failure to gain regulatory approval, due in part to concerns about national security and the potential impact on the U.S. technology industry.

4.2. Yahoo - Verizon

4.2.1. Background of the case

- **Yahoo:**

Yahoo, established in 1994 by Jerry Yang and David Filo, is a multinational technology company. In the beginning, it started as a web directory, providing users with a wide collection of websites categorized across various topics. However, Yahoo quickly expanded its offerings to include a search engine, email services, and a wide range of other online content.

During its heyday, Yahoo emerged as a prominent presence on the internet, attracting a large user base seeking diverse online services. It became well-known for its popular features such as Yahoo Mail, Yahoo Search, Yahoo Finance, and Yahoo Sports.

Revenue (2016)	$4.9 billion
EBITDA (2016)	$0.9 billion
Number of employees (2016)	10,400

- **Verizon Communications:**

Verizon Communications is a telecommunications company based in the United States. Established in 2000 after the merger of Bell Atlantic and GTE, Verizon offers a diverse array of communication services to individuals, businesses, and government entities.

Renowned as one of the largest telecommunications providers in the world, Verizon delivers an extensive range of services including wireless communication, broadband internet, landline phone services, and television. The company operates a robust wireless network that ensures cellular connectivity for millions of customers nationwide.

Verizon's wireless services encompass voice calls, text messaging, and data plans tailored for smartphones, tablets, and various other devices. Their coverage extends to both urban and rural areas, renowned for its reliability and extensive reach.

In addition to wireless services, Verizon also offers high-speed internet services known as Verizon Fios. This service utilizes fiber-optic connections, delivering swift internet speeds and facilitating a variety of digital services to residences and businesses.

With a considerable customer base, Verizon Communications maintains a significant presence within the telecommunications industry. The company actively invests in network infrastructure and explores emerging technologies to effectively meet the evolving demands of its customers in an increasingly interconnected world.to meet the growing demands of its customers in an increasingly connected world.

Revenue (2016)	$125.9 billion
EBITDA (2016)	$45.2 billion
Number of employees (2016)	177,700

- **Context**

Competitive Pressure: During the early 2000s, Yahoo encountered formidable challenges as Google emerged as a strong competitor, boasting superior search technology and a targeted advertising platform. Yahoo struggled to keep pace with Google's innovative approaches, resulting in a substantial loss of market share.

Management Changes and Revival Attempts: To rejuvenate the company, Yahoo underwent several CEO changes. In 2009, Carol Bartz assumed the role of CEO and implemented strategies to refocus on core businesses, reduce costs, and establish partnerships. Despite these efforts, Yahoo continued to face difficulties.

Marissa Mayer's Tenure: In 2012, Marissa Mayer, a former Google executive, took the helm as Yahoo's CEO. Under her leadership, Yahoo aimed to enhance its presence in the mobile market, acquire startups, and invest in content. However, the company encountered challenges in effectively monetizing its assets and achieving sustainable growth.

Security Breaches: Yahoo faced significant security breaches in 2013 and 2014, impacting hundreds of millions of user accounts. These incidents raised concerns about Yahoo's security practices and eroded user trust.

- **Rationale:**

Verizon's acquisition of Yahoo had several key rationales:

Digital Content and Advertising: Yahoo possessed a vast portfolio of online properties, including Yahoo News, Yahoo Finance, Yahoo Sports, as well as popular platforms like Yahoo Mail and Tumblr. Verizon recognized the potential to leverage Yahoo's digital content and advertising capabilities to enhance its own digital media and advertising business. The acquisition aimed to strengthen Verizon's position in the digital advertising market by integrating Yahoo's ad technology and user base with Verizon's existing assets.

User Base and Data: Yahoo boasted a significant user base with millions of active users across its various platforms. Verizon sought to tap into this user base and the associated data to improve its ability to deliver targeted advertising and personalized content to its customers. Acquiring

Yahoo granted Verizon access to valuable user data that could be utilized for insights, advertising optimization, and enhancing customer experiences.

Mobile and Internet Services: Through the acquisition of Yahoo, Verizon aimed to expand its mobile and internet services by integrating Yahoo's content and services into its existing offerings. Verizon recognized the opportunity to provide a more comprehensive and engaging digital experience to its wireless and broadband customers by incorporating Yahoo's popular online properties and services.

Synergies and Diversification: The acquisition of Yahoo presented Verizon with opportunities for synergies and diversification. By integrating Yahoo's assets, expertise, and technology, Verizon aimed to create new revenue streams and strengthen its position as a digital media and communications company. It allowed Verizon to diversify its business beyond traditional telecommunications services and venture into the digital content and advertising market.

4.2.2. Timeline and Defense strategies:

- July 25, 2016: Verizon announces that it is willing to make an offer for Yahoo's operating business for around $4.83 billion, targeting Yahoo's digital assets that would be integrated with its diversified portfolio.

- December 14, 2016: Yahoo discloses that two major data breaches took place in 2013 and 2014, impacting a big number of user accounts. This revelation raises concerns and doubts about the acquisition and its terms.

- February 21, 2017: Verizon and Yahoo announce that they have reached an agreement to lower the acquisition price by $350 million. The terms were negotiated at this step to take into account the negative effects of the data breaches.

- June 8, 2017: Yahoo shareholders approve the sale of Yahoo's operating business to Verizon.

- June 13, 2017: Yahoo confirms the completion of the deal and the establishment of a new entity called Oath Inc. This new company was the result of the integration of Yahoo's internet assets with AOL, a company previously acquired by Verizon.

- June 16, 2017: Marissa Mayer, the CEO of Yahoo, resigns from her position. As part of her departure, she receives a compensation package known as a "Golden Parachute," which amounts to $23 million.

The golden parachute paid to Marissa Meyer was indeed a defense strategy but more a personal one rather than a strategy to defend the company from unwanted bills. Despite the promises made by Marissa in 2012, she still did not manage to make Yahoo great again. She failed but still got away with an important payout that could have been even bigger. This goes along with the management entrenchment theory and all the theories arguing against the golden parachute method.

4.2.3. Outcome

Yahoo was indeed acquired by Verizon Communications, and the acquisition process concluded in June 2017. As a result, Yahoo's internet assets were incorporated into a newly established subsidiary named Oath. However, it is worth noting that Oath later underwent a restructuring process and eventually transformed into Verizon Media Group. This acquisition signaled the conclusion of Yahoo's status as an independent company, with its integration into Verizon's portfolio.

Regarding the mention of golden parachutes, it is important to note that they are compensation packages that are often included in executive employment contracts. These packages provide financial benefits to executives in the event of certain circumstances such as a change in ownership or control of the company. While it is true that golden parachutes can potentially incentivize CEOs to pursue actions that may lead to a company's sale or acquisition, it is not always the case, and their presence does not necessarily imply the intent to sell the company.

In the specific example you provided, Marissa Mayer, the CEO of Yahoo, did receive a compensation package referred to as a "Golden Parachute" upon her resignation. This financial arrangement was part of her employment contract and was activated upon her departure from the company. However, it is important to recognize that golden parachutes are negotiated as part of executive compensation packages and are not exclusive to situations involving potential company sales or acquisitions.

4.3. Arcelor - Mittal

4.3.1. Background of the case

- **Arcelor:**

Arcelor, founded in 2002 through a merger between Arceralia, Usinor, and Arbed, is a multinational steel manufacturing company headquartered in Luxembourg. With a robust global presence, Arcelor has established itself as a prominent leader in the steel industry. The company operates in numerous countries and offers a diverse portfolio of top-quality steel products, encompassing flat products, long products, and special products. These products cater to a wide range of industries, including automotive, construction, packaging, and energy.

Revenue (2005)	€32.6 billion
EBITDA (2005)	€4.6 billion
Number of employees (2005)	96,000

- **Mittal:**

Founded by Lakshmi Mittal, Mittal has made substantial contributions to the global steel industry. Guided by Lakshmi Mittal's leadership, Mittal Steel Company evolved into a premier steel producer on a global scale.

Revenue (2005)	€28.1 billion
Number of employees (2005)	224,000

- **Rationale:**

In 2006, Mittal decided to make an unsolicited bid to Arcelor. Lakshmi Mittal had several motivations: He wanted to create a larger steel leader benefiting from cost and revenue synergies, the combined entity would have a bigger market share and would be able to acquire even more prestigious clients. Also, this follows the trend at that moment in the steel industry where mergers and acquisitions have become more frequent.

4.3.2. Timeline and defense strategies:

- January 27th,2006: Mittal made an unsolicited bid of 22.7 billion dollars for Arcelor.

- January 29th ,2006: the offer was rejected as the two parties do not share the same vision and Arcelor directors considered the offer an undervalued one compared to the fair price of the company and the possible growth in the future.

- April 4th, 2006: As a response to this bid, Arcelor announced an unprecedented increase in the dividends to push away Mittal. The target company also made a special payment of around 6 billion dollars to shareholders as an additional defense strategy.

- May 19th, 2006: Mittal raises its offer to 32.9 billion dollars and Arcelor agreed to look at the deal. However, Arcelor was already looking for a white knight willing to save it from this hostile takeover and to create a bigger combined entity that would be harder to acquire. There were already discussions and with Severstal, a Russian steel company and Nippon steel, a Japanese company in the same sector.

- May 26th, 2006: Arcelor reaches an agreement with the Russian entity which is the second largest stteelmaker in Russia. A meeting was scheduled for end June so that the shareholders decide which offer they prefer.

- June 7th 2006: Mittal and Arcelor directors meet again but the meeting came to the same conclusion, the offer is undervalued for the target and cannot be accepted as a result.

- June 20th, 2006: Mittal exercises some pressure on Arcelor Shareholders by using financial newspapers such as Financial Times to alert to the dangerous consequences on equity ownership of the possible deal with the Russian entity.

- June 21st , Severstal proposes a new takeover offer with better terms eliminating ongoing concerns about future equity ownership by agreeing to buy fewer shares.

- June 25th, 2006: Arcelor directors finally agree to accept the enhanced offer of Mittal.

During this bidding war, the target used multiple defense strategies:

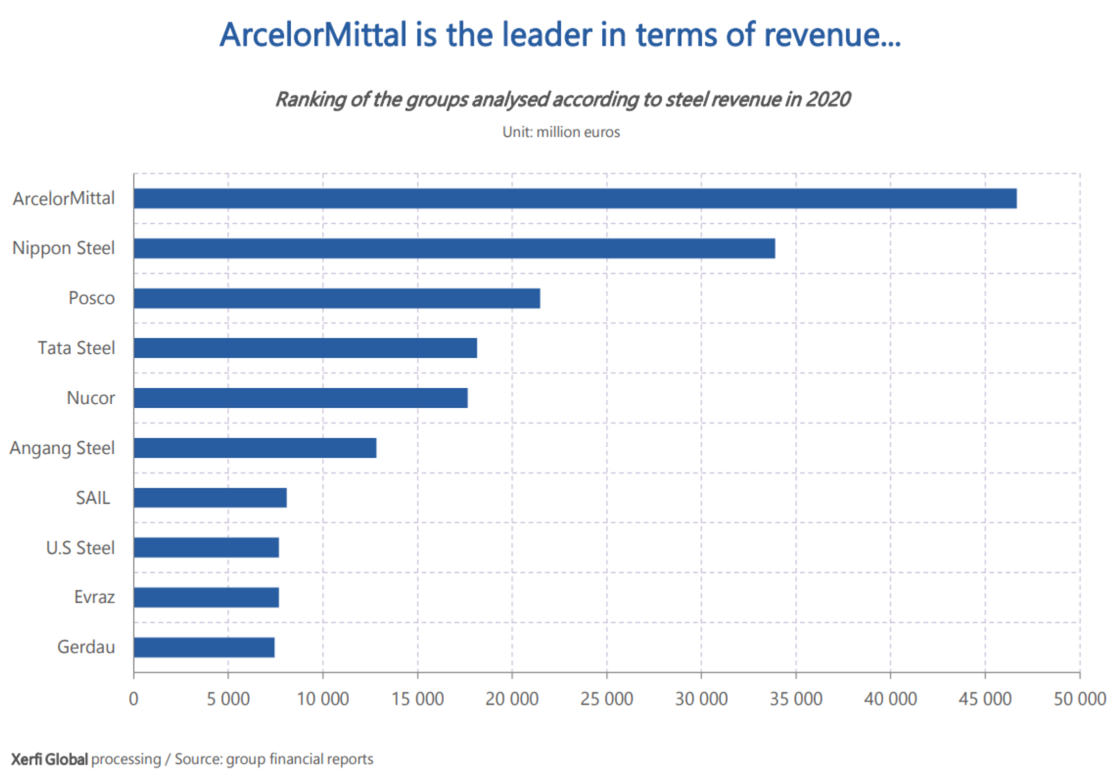
- Seeking alternative alliances by looking for a white knight: Arcelor started looking for other partnerships and alliances since the first unsolicited bid from Mittal, the strategy was to build a bigger company thanks to the merger so that it would be more difficult to acquire it for pursuers.
- Dividend increase: Arcelor made an unprecedented increase in the dividend payout just a short time after receiving the offer from Mittal. This method was used to convince the shareholders to hold Arcelor shares and reject the Mittal bid.
- Share buybacks: Arcelor repurchased its own shares from the market so that the share price increases, and the potential acquisition becomes more costly for Mittal and any other buyer.

4.3.3. Outcome

In 2006, the financial battle between Mittal Steel and Arcelor concluded with the successful acquisition of Arcelor by Mittal Steel. This landmark event led to the establishment of ArcelorMittal, a colossal steel company. Through months of negotiations, revised proposals, and rigorous examination, Arcelor's management and board of directors ultimately embraced Mittal Steel's improved offer.

The merger between Mittal Steel and Arcelor resulted in the birth of ArcelorMittal, which quickly claimed the title of the world's largest steel company at that time. This union brought together the operations, assets, and market presence of both companies, leading to substantial consolidation within the global steel industry.

The outcome of the financial war represented a significant milestone in the steel industry, shaping the competitive landscape and dynamics of the global steel market. ArcelorMittal continued to be a major player in the industry, with operations in various countries and a wide range of steel products serving different sectors.



5.Conclusion:

In conclusion, the examination of various takeover defenses has shed light on their effectiveness in protecting companies from hostile takeovers. Throughout this thesis, I explored a range of takeover defense mechanisms, including poison pills, staggered boards, golden parachutes, and white knights.

The analysis revealed that the efficiency of takeover defenses depends on several factors, such as the specific context of the target company, the industry in which it operates, and the prevailing market conditions. While certain takeover defenses have demonstrated their ability to deter hostile takeovers and provide valuable safeguards for shareholders, others have proven to be less effective or even detrimental to long-term shareholder value.

The poison pill, for instance, has emerged as a potent takeover defense strategy, providing companies with the means to protect themselves from unwanted acquirers. By diluting the acquirer's stake or imposing exorbitant costs, poison pills can discourage hostile takeover attempts and give the target company time to explore alternatives. However, it is essential for companies to carefully balance the use of poison pills, as they can also hinder potential beneficial acquisitions or impede the flow of efficient market forces.

Staggered boards have shown mixed results in their ability to protect companies from hostile takeovers. While they can provide the board of directors with additional time and bargaining power, they may also reduce accountability and responsiveness to shareholders, potentially leading to agency problems. The effectiveness of staggered boards largely depends on the independence and diligence of the board members and the alignment of their interests with those of shareholders.

Golden parachutes, designed to provide financial incentives for executives in the event of a change in control, can be seen as a double-edged sword. While they may align the interests of management with shareholders by incentivizing them to pursue strategies that maximize shareholder value, they can also create conflicts of interest and excessive compensation. It is crucial for companies to carefully structure golden parachutes to ensure they strike a balance between aligning incentives and avoiding excessive costs.

Further research is needed to delve deeper into the intricacies of takeover defenses, considering additional variables and contexts. Understanding the interplay between takeover defenses, corporate governance structures, shareholder activism, and market forces can provide valuable insights for companies.

6. Annexes

- *Broadcom Income Statement (2015, 2016, 2017)*

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
	October 29, 2017	October 30, 2016	November 1, 2015
	(In millions, except per share data)		
Net revenue	$ 17,636	$ 13,240	$ 6,824
Cost of products sold:			
Cost of products sold	6,593	5,295	2,750
Purchase accounting effect on inventory	4	1,185	30
Amortization of acquisition-related intangible assets	2,511	763	484
Restructuring charges	19	57	7
Total cost of products sold	9,127	7,300	3,271
Gross margin	8,509	5,940	3,553
Research and development	3,292	2,674	1,049
Selling, general and administrative	787	806	486
Amortization of acquisition-related intangible assets	1,764	1,873	249
Restructuring, impairment and disposal charges	161	996	137
Litigation settlements	122	—	—
Total operating expenses	6,126	6,349	1,921
Operating income (loss)	2,383	(409)	1,632
Interest expense	(454)	(585)	(191)
Loss on extinguishment of debt	(166)	(123)	(10)
Other income, net	62	10	36
Income (loss) from continuing operations before income taxes	1,825	(1,107)	1,467
Provision for income taxes	35	642	76
Income (loss) from continuing operations	1,790	(1,749)	1,391
Loss from discontinued operations, net of income taxes	(6)	(112)	(27)
Net income (loss)	1,784	(1,861)	1,364
Net income (loss) attributable to noncontrolling interest	92	(122)	—
Net income (loss) attributable to ordinary shares	$ 1,692	$ (1,739)	$ 1,364
Basic income (loss) per share attributable to ordinary shares:			
Income (loss) per share from continuing operations	$ 4.19	$ (4.46)	$ 5.27
Loss per share from discontinued operations	(0.01)	(0.29)	(0.10)
Net income (loss) per share	$ 4.18	$ (4.75)	$ 5.17
Diluted income (loss) per share attributable to ordinary shares:			
Income (loss) per share from continuing operations	$ 4.03	$ (4.57)	$ 4.95
Loss per share from discontinued operations	(0.01)	(0.29)	(0.10)
Net income (loss) per share	$ 4.02	$ (4.86)	$ 4.85

Source: www.sec.gov

- *Broadcom Balance sheet (2016, 2017)*

CONSOLIDATED BALANCE SHEETS

	October 29, 2017		October 30, 2016	
	(In millions, except share amounts)			
ASSETS				
Current assets:				
Cash and cash equivalents	$	11,204	$	3,097
Trade accounts receivable, net		2,448		2,181
Inventory		1,447		1,400
Other current assets		724		447
Total current assets		15,823		7,125
Long-term assets:				
Property, plant and equipment, net		2,599		2,509
Goodwill		24,706		24,732
Intangible assets, net		10,832		15,068
Other long-term assets		458		532
Total assets	$	54,418	$	49,966
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	1,105	$	1,261
Employee compensation and benefits		626		517
Current portion of long-term debt		117		454
Other current liabilities		681		846
Total current liabilities		2,529		3,078
Long-term liabilities:				
Long-term debt		17,431		13,188
Pension and post-retirement benefit obligations		112		531
Other long-term liabilities		11,160		11,293
Total liabilities		31,232		28,090
Commitments and contingencies (Note 14)				
Shareholders' equity:				
Ordinary shares, no par value; 408,732,155 shares and 398,281,461 shares issued and outstanding on October 29, 2017 and October 30, 2016, respectively		20,505		19,241
Non-economic voting preference shares, no par value; 22,145,603 shares and 22,804,591 shares issued and outstanding on October, 29, 2017 and October 30, 2016, respectively		—		—
Accumulated deficit		(129)		(215)
Accumulated other comprehensive loss		(91)		(134)
Total Broadcom Limited shareholders' equity		20,285		18,892
Noncontrolling interest		2,901		2,984
Total shareholders' equity		23,186		21,876
Total liabilities and shareholders' equity	$	54,418	$	49,966

Source: www.sec.gov

- *Qualcomm balance sheet (2016, 2017)*

QUALCOMM Incorporated
CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)

	September 24, 2017	September 25, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 35,029	$ 5,946
Marketable securities	2,279	12,702
Accounts receivable, net	3,632	2,219
Inventories	2,035	1,556
Other current assets	618	558
Total current assets	43,593	22,981
Marketable securities	1,270	13,702
Deferred tax assets	2,900	2,030
Property, plant and equipment, net	3,216	2,306
Goodwill	6,623	5,679
Other intangible assets, net	3,737	3,500
Other assets	4,147	2,161
Total assets	$ 65,486	$ 52,359
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 1,971	$ 1,858
Payroll and other benefits related liabilities	1,183	934
Unearned revenues	502	509
Short-term debt	2,495	1,749
Other current liabilities	4,756	2,261
Total current liabilities	10,907	7,311
Unearned revenues	2,003	2,377
Long-term debt	19,398	10,008
Other liabilities	2,432	895
Total liabilities	34,740	20,591
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Qualcomm stockholders' equity:		
Preferred stock, $0.0001 par value; 8 shares authorized; none outstanding	—	—
Common stock and paid-in capital, $0.0001 par value; 6,000 shares authorized; 1,474 and 1,476 shares issued and outstanding, respectively	274	414
Retained earnings	30,088	30,936
Accumulated other comprehensive income	384	428
Total Qualcomm stockholders' equity	30,746	31,778
Noncontrolling interests	—	(10)
Total stockholders' equity	30,746	31,768
Total liabilities and stockholders' equity	$ 65,486	$ 52,359

Source: www.sec.gov

- ***Qualcomm income statement (2015,2016,2017)***

QUALCOMM Incorporated
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Year Ended		
	September 24, 2017	**September 25, 2016**	**September 27, 2015**
Revenues:			
Equipment and services	$ 16,647	$ 15,467	$ 17,079
Licensing	5,644	8,087	8,202
Total revenues	22,291	23,554	25,281
Costs and expenses:			
Cost of revenues	9,792	9,749	10,378
Research and development	5,485	5,151	5,490
Selling, general and administrative	2,658	2,385	2,344
Other (Note 2)	1,742	(226)	1,293
Total costs and expenses	19,677	17,059	19,505
Operating income	2,614	6,495	5,776
Interest expense	(494)	(297)	(104)
Investment and other income, net (Note 2)	900	635	815
Income before income taxes	3,020	6,833	6,487
Income tax expense	(555)	(1,131)	(1,219)
Net income	2,465	5,702	5,268
Net loss attributable to noncontrolling interests	1	3	3
Net income attributable to Qualcomm	$ 2,466	$ 5,705	$ 5,271
Basic earnings per share attributable to Qualcomm	$ 1.67	$ 3.84	$ 3.26
Diluted earnings per share attributable to Qualcomm	$ 1.65	$ 3.81	$ 3.22
Shares used in per share calculations:			
Basic	1,477	1,484	1,618
Diluted	1,490	1,498	1,639
Dividends per share announced	$ 2.20	$ 2.02	$ 1.80

Source: www.sec.gov

- *Yahoo income statement selected Data (2012, 2013, 2014, 2015, 2016)*

Consolidated Statements of Operations Data:

	Years Ended December 31,				
	2012 (3)	2013 (4)	2014 (5)	2015 (6)	2016 (7)(8)
	(in thousands, except per share amounts)				
Revenue	$ 4,986,566	$ 4,680,380	$ 4,618,133	$ 4,968,301	$ 5,169,135
Total operating expenses	$ 4,420,198	$ 4,090,454	$ 4,475,191	$ 9,716,795	$ 5,814,193
Income (loss) from operations (1)	$ 566,368	$ 589,926	$ 142,942	$ (4,748,494)	$ (645,058)
Other income (expense), net (2)	$ 4,647,839	$ 43,357	$ 10,369,439	$ (75,782)	$ (53,916)
(Provision) benefit for income taxes	$ (1,940,043)	$ (153,392)	$ (4,038,102)	$ 89,598	$ 126,228
Earnings in equity interests	$ 676,438	$ 896,675	$ 1,057,863	$ 383,571	$ 363,283
Net income (loss) attributable to Yahoo! Inc.	$ 3,945,479	$ 1,366,281	$ 7,521,731	$ (4,359,082)	$ (214,321)
Net income (loss) attributable to Yahoo! Inc. common stockholders per share—basic	$ 3.31	$ 1.30	$ 7.61	$ (4.64)	$ (0.23)
Net income (loss) attributable to Yahoo! Inc. common stockholders per share—diluted	$ 3.28	$ 1.26	$ 7.45	$ (4.64)	$ (0.23)
Shares used in per share calculation—basic	1,192,775	1,052,705	987,819	939,141	949,843
Shares used in per share calculation—diluted	1,202,906	1,070,811	1,004,108	939,141	949,843
(1) Includes:					
Stock-based compensation expense	$ 224,365	$ 278,220	$ 420,174	$ 457,153	$ 491,902
Restructuring charges, net	$ 236,170	$ 3,766	$ 103,450	$ 104,019	$ 88,629
(2) Includes:					
Gain on sale of Alibaba Group shares	$ 4,603,322	$ —	$ —	$ —	$ —
Gain on sale of Alibaba Group ADSs	$ —	$ —	$ 10,319,437	$ —	$ —

- *Yahoo Balance sheet selected Data (2012, 2013, 2014, 2015, 2016)*

Consolidated Balance Sheets Data:

	December 31,				
	2012 (1)	2013 (2)	2014 (3)	2015 (4)	2016
	(In thousands)				
Cash and cash equivalents	$ 2,667,778	$ 2,077,590	$ 2,664,098	$ 1,631,911	$ 1,119,469
Marketable securities	$ 3,354,600	$ 2,919,804	$ 7,558,304	$ 5,201,073	$ 6,790,632
Alibaba Group equity securities	$ —	$ —	$ 39,867,789	$ 31,172,361	$ 33,680,879
Alibaba Group Preference Shares	$ 816,261	$ —	$ —	$ —	$ —
Working capital	$ 4,362,481	$ 3,685,545	$ 4,929,438	$ 6,229,939	$ 6,838,736
Goodwill	$ 3,826,749	$ 4,679,648	$ 5,152,570	$ 808,114	$ 415,809
Investments in equity interests	$ 2,840,157	$ 3,426,347	$ 2,489,578	$ 2,503,229	$ 3,192,884
Total assets	$ 17,103,253	$ 16,804,959	$ 61,707,336	$ 45,203,966	$ 48,083,079
Income taxes payable related to the sale of Alibaba Group ADSs	$ —	$ —	$ 3,282,293	$ —	$ —
Long-term deferred tax liabilities related to Alibaba Group equity securities	$ —	$ —	$ 16,154,906	$ 12,611,867	$ 13,633,988
Long-term liabilities	$ 1,207,418	$ 2,334,050	$ 2,251,855	$ 2,235,299	$ 2,077,591
Total Yahoo! Inc. stockholders' equity	$ 14,560,200	$ 13,074,909	$ 38,741,837	$ 29,043,537	$ 31,049,283

Source: Annual report

- *<u>Verizon selected financial data (2012, 2013, 2014, 2015, 2016)</u>*

Selected Financial Data

(dollars in millions, except per share amounts)

	2016	2015	2014	2013	2012
Results of Operations					
Operating revenues	**$ 125,980**	$ 131,620	$ 127,079	$ 120,550	$ 115,846
Operating income	**27,059**	33,060	19,599	31,968	13,160
Net income attributable to Verizon	**13,127**	17,879	9,625	11,497	875
Per common share — basic	**3.22**	4.38	2.42	4.01	.31
Per common share — diluted	**3.21**	4.37	2.42	4.00	.31
Cash dividends declared per common share	**2.285**	2.230	2.160	2.090	2.030
Net income attributable to noncontrolling interests	**481**	496	2,331	12,050	9,682
Financial Position					
Total assets	**$ 244,180**	$ 244,175	$ 232,109	$ 273,184	$ 222,720
Debt maturing within one year	**2,645**	6,489	2,735	3,933	4,369
Long-term debt	**105,433**	103,240	110,029	89,188	47,428
Employee benefit obligations	**26,166**	29,957	33,280	27,682	34,346
Noncontrolling interests	**1,508**	1,414	1,378	56,580	52,376
Equity attributable to Verizon	**22,524**	16,428	12,298	38,836	33,157

Source: Annual report

- *Arcelor income statement (2005, 2006)*

In EUR million	2006	2005*
Revenue (Note 28)	**40,611**	**32,611**
Other operating income	760	707
Own work capitalised and increase and decrease in finished and unfinished goods	81	352
Cost of raw materials and goods for resale	- 22,692	- 15,991
Other external expenses	- 6,648	- 6,761
Staff costs (Note 22)	- 5,418	- 4,858
Impairment, depreciation and amortisation expenses	- 1,460	- 1,294
Negative goodwill	11	29
Other operating expenses	- 791	- 378
Operating result (Note 28)	**4,454**	**4,417**
Net financing costs (Note 23)	- 696	- 254
Share of profit in companies accounted for using the equity method (Note 6)	363	317
PROFIT BEFORE TAX	**4,121**	**4,480**
Tax expense (Note 24)	- 462	- 175
PROFIT FOR THE YEAR	**3,659**	**4,305**
Net profit – Group share	3,007	3,873
Net profit – Minority interest	652	432
Earnings per share in EUR (Note 15)		
– basic	4.71	6.31
– diluted	4.71	5.94

Source: Annual report

- *Arcelor Balance sheet (2005, 2006)*

Assets In EUR million, as at 31 December	2006	2005*
Non-current assets		
Intangible assets (Note 4)	1,634	193
Property, plant and equipment (Note 5)	16,770	13,767
Investments accounted for using the equity method (Note 6)	1,793	1,415
Other investments and financial assets available for sale (Note 7)	658	653
Receivables and other financial assets (Note 8)	1,132	739
Deferred tax assets (Note 24)	1,327	1,378
TOTAL NON-CURRENT ASSETS	**23,314**	**18,145**
Current assets		
Inventories (Note 9)	9,084	7,580
Trade receivables (Note 10)	4,712	3,716
Current tax assets	183	268
Other receivables (Note 11)	4,936	1,510
Cash and cash equivalents (Note 12)	2,345	4,645
Assets classified as held for sale (Note 13)	265	-
TOTAL CURRENT ASSETS	**21,525**	**17,719**
TOTAL ASSETS	**44,839**	**35,864**

Equity and Liabilities In EUR million, as at 31 December	2006	2005*
Shareholders' equity		
Subscribed capital	3,349	3,199
Share premium	5,819	5,397
Consolidated reserves	10,681	6,163
Translation reserve	- 659	149
Equity attributable to equity holders of the parent (Note 14)	**19,190**	**14,908**
Minority interest (Note 16)	**2,896**	**2,522**
TOTAL EQUITY	**22,086**	**17,430**
Non-current liabilities		
Interest-bearing liabilities (Note 17)	5,553	4,341
Employee benefits (Note 18)	2,438	1,617
Provisions for termination benefits (Note 19)	762	852
Other long-term provisions (Note 20)	972	943
Deferred tax liabilities (Note 24)	1,124	537
Other liabilities	72	140
TOTAL NON-CURRENT LIABILITIES	**10,921**	**8,430**
Current liabilities		
Trade payables	6,128	5,228
Interest-bearing liabilities (Note 17)	1,757	1,623
Tax payable	195	312
Other amounts payable (Note 21)	3,374	2,567
Provisions for termination benefits (Note 19)	11	30
Other provisions (Note 20)	289	244
Liabilities classified as held for sale (Note 13)	78	-
TOTAL CURRENT LIABILITIES	**11,832**	**10,004**
TOTAL EQUITY AND LIABILITIES	**44,839**	**35,864**

Source: Annual report

- *Mittal Income statement selected data (2001, 2002, 2003, 2004, 2005)*

	2001	2002	2003	2004	2005
	(All amounts in $ millions except per share data and percentages)				
Statement of Income Data					
Sales	$ 5,423	$ 7,080	$ 9,567	$ 22,197	$ 28,132
Cost of sales (exclusive of depreciation)	4,952	5,752	7,568	14,694	21,495
Depreciation	229	266	331	553	829
Selling, general and administrative expenses	204	298	369	804	1,062
Other operating expenses	75	62	—	—	—
Operating income / (loss)	(37)	702	1,299	6,146	4,746
Operating margin as percentage of Sales	(0.7)%	9.9%	13.6%	27.7%	16.9%
Other income (expense)—net	20	32	70	128	77
Income from equity investments	—	111	162	66	69
Financing costs:					
Net interest expense	(235)	(222)	(175)	(187)	(229)
Net gain / (loss) from foreign exchange	(18)	15	44	(20)	40
Income / (loss) before taxes, minority interest and cumulative effect of change in accounting principle	(270)	638	1,400	6,133	4,703
Net income / (loss)	(199)	595	1,182	4,701	3,365
Basic earnings / (loss) per common share after cumulative effect of change in accounting principle(1)	$ (0.31)	$ 0.92	$ 1.83	$ 7.31	$ 4.90
Diluted earnings / (loss) per common share after cumulative effect of change in accounting principle(1)	$ (0.31)	$ 0.92	$ 1.83	$ 7.31	$ 4.89
Dividends declared per share(2)	—	—	—	—	$ 0.30

- *Mittal Balance sheet selected data (2001, 2002, 2003, 2004, 2005)*

	2001	2002	2003	2004	2005
	(All amounts in $ millions except number of shares)				
Balance Sheet Data					
Cash and cash equivalents, including short-term investments and restricted cash	$ 225	$ 417	$ 900	$ 2,634	$ 2,149
Property, plant and equipment—net	4,138	4,094	4,654	7,562	15,539
Total assets	7,161	7,909	10,137	19,153	31,042
Payable to banks and current portion of long-term debt	470	546	780	341	334
Long-term debt (including affiliates)	2,262	2,187	2,287	1,639	7,974
Net Assets	1,106	1,442	2,561	5,846	10,150
Share capital(3)	539	541	533	488	2,405
Weighted average common shares outstanding (millions)	646	648	647	643	687

Source: www.sec.gov

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