DOES ADDING ACCOUNTING EXPERTISE MATTER? A STUDY OF AUDIT COMMITTEES IN MERGERS AND ACQUISITIONS

A Dissertation
Submitted to
the Temple University Graduate Board

In Partial Fulfillment
of the Requirements for the Degree
DOCTOR OF PHILOSOPHY

by
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July 2016

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ABSTRACT

This study examines changes in a company's audit committee accounting expertise following an M&A transaction. M&A accounting (ASC 805) is complex, nuanced, and error-prone. An M&A also involves significant operational and financial changes for the acquirer, including changes in internal control over financial reporting. Thus, an acquirer's demand for accounting expertise is likely heightened at the time of an M&A. This study provides the first insights (to my knowledge) regarding the role of accounting experts in the dynamic M&A setting. In a sample of relatively large (on average) M&As, I document that there are financial reporting benefits (reduced likelihood of restatements, higher likelihood of timely goodwill impairments, and smaller allocations of purchase price to in-process research and development) associated with changes/increases in audit committee accounting expertise. Further, my results suggest that changes/increases in audit committee accounting expertise matter more than changes/increases in other types of audit committee expertise (supervisory, industry, and M&A contextual). I document that changes/increases in audit committee accounting expertise are positively associated with accounting and business complexities. Collectively, the evidence suggests that accounting expertise is valuable in the M&A setting. This provides support for the SEC's definition (in its 2002 proposal, although not in its final 2003 rule) of audit committee financial experts as those with accounting-specific backgrounds (SEC 2002, 2003).

ACKNOWLEDGMENTS

I thank my Co-Chairs, Jagan Krishnan and Jayanthi Krishnan, for all of their guidance and support. I have learned so much about research from you both. It has been a pleasure getting to know you during my Ph.D. studies.

I thank my committee members, Sudipta Basu, Elizabeth Gordon, and Ronald Anderson for their valuable comments that have helped to improve my dissertation. I also thank Eric Press, the faculty members of both the accounting and finance departments, and my fellow Ph.D. student classmates for their friendship and support during my Ph.D. studies. I thank Temple University, the AICPA's Accounting Doctoral Scholars (ADS) program, and the Center for Audit Quality (CAQ) for financial support.

I thank my wife, Colleen, and my daughter, Suzie, for supporting me as I worked to achieve my dream of becoming an accounting professor. I also thank my mom, Leanne, who gave so much of her time and energy to support Colleen, Suzie, and I. Finally, I thank my dad, Tom, my brother, Dan, and the rest of my family for their constant encouragement.

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CHAPTER 1

INTRODUCTION

This study examines the role of audit committee accounting expertise in the mergers and acquisitions (hereafter M&As) setting. Although policy changes have given a prominent role to the oversight responsibility of corporate audit committees, the SEC does not require accounting expertise on these committees. Prior academic research suggests that accounting expertise on audit committees provides financial reporting and internal control quality benefits (e.g., Abbott, Parker, and Peters 2004; Krishnan 2005; Hoitash, Hoitash, and Bedard 2009; Dhaliwal, Naiker, and Navissi 2010; Cohen, Hoitash, Krishnamoorthy, and Wright 2014). However, little is known about whether such benefits come from accounting experts dealing with specific accounting issues (Jagolinzer, Larcker, and Taylor 2011, p. 1250). If accounting experts use their accounting knowledge in their role as monitors, the M&A setting would be one in which companies change their audit committee accounting expertise in order to deal with accounting complexities and, therefore, improve financial reporting quality. Such action is also likely because financial reporting quality is positively associated with merger success (Skaife and Wangerin 2013; Xie, Yi, and Zhang 2013).

I use the unique features of the M&A setting to investigate two research questions. First, does an increase in audit committee accounting expertise improve the quality of an acquirer's post-merger financial reporting? Second, if an audit committee's accounting expertise increases, what accounting, business, and transaction characteristics are important in explaining this increase?

The implementation of the M&A accounting standard (Accounting Standards Codification (ASC) 805) requires numerous managerial assumptions, estimates, and judgments, potentially engendering both unintentional errors and managerial manipulation. Two high profile M&As illustrate this point. In 2012, Express Scripts announced a $36.4 million M&A-related accounting error. In 2000, AOL Time-Warner was accused of a $400 million M&A-related accounting manipulation.[1] Further, Scholz (2008, 2014) documents that M&A-related restatements comprise 8-17 percent of all financial restatements.

Several factors make M&A accounting complex. First, ASC 805 requires an acquirer to revalue, to fair value, all target assets and liabilities. The excess of purchase price over the fair value of net assets is recorded as goodwill, ultimately making goodwill a function of fair value estimates. Fair value estimates are inherently complex (Laux and Leuz 2009). The PCAOB's inspections of 2013 year-end audits revealed that 49 percent of all fair-valuation-related audit deficiencies related to M&As (Chasan 2015).[2] Thus, purchase accounting can be prone to errors.[3] Second, purchase accounting provides

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[1] Express scripts "inadvertently excluded" $36.4 million "of transaction expenses [10 percent of net income] related to the Merger" (Express Scripts 2012). AOL Time Warner recorded $400 million as advertising revenue, instead of as a reduction to the acquisition's purchase price (Kirkpatrick 2003).

[2] SOX mandated the creation of the PCAOB, and required (a) all CPA firms that audit public clients to register with the PCAOB (section 102) and (b) the PCAOB to inspect all registered firms (section 104 of SOX requires annual inspections for CPA firms auditing more than 100 public clients and triennial inspections for CPA firms auditing 100 or fewer public clients) (SOX 2002).

[3] Analysis of my data indicates that the proportion of M&A companies restating their post-merger financial statements is larger (11.4 percent) than that of the population of Compustat companies (7.8 percent). Goodwill impairments recorded by acquirers

opportunities for manipulation. For example, prior to 2009, companies could boost post-merger profitability by over-allocating purchase price to in-process research and development (IPR&D) (Dowdell and Press 2004).[4] In addition, Beatty and Weber (2006) find evidence consistent with managers using the discretion provided by SFAS 142 to alter the timing of goodwill impairments. These accounting challenges created by complexities make the M&A setting both ideal and highly relevant for studying audit committee accounting expertise.

I utilize a sample of U.S. M&As obtained from Thomson One SDC for the period 1999-2014. I require that the M&A involve a public acquirer and a public target. My data indicates that, between the pre- and post-merger periods, the average number and proportion of accounting experts serving on acquirers' audit committees increases by 13.8 and 11.4 percent, respectively.

Next, to investigate the financial reporting quality benefits of increases in audit committee accounting expertise, I choose three M&A-relevant proxies: restatements, goodwill impairments, and IPR&D charge-offs. As described above, there are ample opportunities for both error and manipulation when applying the M&A accounting standard. I predict that audit committee accounting expertise will aid in preventing financial statement restatements. Further, in its 1999 exposure draft for SFAS 142

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immediately following an M&A are larger (10.5 percent of assets) than those recorded by the population of Compustat companies in non-M&A years (6.6 percent of assets) suggesting possible imprecision in the initial recording of goodwill.

[4] IPR&D represents acquired research and development (R&D) projects and, prior to 2009, it was required to be expensed at the time of M&A (Dowdell and Press 2004). Therefore, companies had an incentive to over-allocate purchase price to IPR&D. Doing so pre-empted post-merger expense recognition (e.g., intangible amortization) and lowered post-merger total assets, thereby increasing post-merger profitability measures (e.g., return-on-assets).

("Goodwill and Other Intangible Assets"), the FASB asserted that the payment of a significant premium is an indicator of potential goodwill impairment (Hayn and Hughes 2006; Olante 2013). I predict that for acquirers that overpaid for targets, audit committee accounting expertise will prompt timely goodwill impairments. Finally, as described above, acquirers (prior to 2009) had an incentive to over-allocate purchase price to IPR&D. I predict that audit committee accounting expertise will constrain over-allocations. Results are consistent with these predictions: changes/increases in audit committee accounting expertise between the pre- and post-merger periods are associated with a lower likelihood of restatement, a higher likelihood of timely goodwill impairment, and a smaller allocation of purchase price to IPR&D.

I also examine how other forms of expertise affect post-merger financial reporting quality. I document that, in addition to accounting expertise, firms engaged in M&As add other kinds of experts – specifically supervisory, legal, industry, and M&A contextual experts – to their audit committees. I examine how these other forms of expertise affect my basic findings. While the SEC's definition of audit committee financial expertise is broadly defined and includes supervisory expertise (SEC 2003a), my results suggest that changes/increases in audit committee accounting expertise matter more for financial reporting quality than changes/increases in supervisory expertise. In addition, I find evidence suggesting that changes/increases in legal expertise are just as important for post-merger financial reporting quality as changes/increases in accounting expertise.[5] Finally, in my analyses of IPR&D charge-offs, I find that changes/increases

[5] This result may be explained by the existence of legal complexities in M&As, including the potential for anti-trust scrutiny (Gole and Morris 2007).

in audit committee accounting expertise matter more than changes/increases in industry and M&A contextual expertise.

Next, I examine what explains increases in audit committee accounting expertise? Section 204 of the Sarbanes Oxley Act 2002 (SOX) requires the auditor to discuss critical accounting policies with the audit committee. Beasley, Carcello, Hermanson, and Neal (2009) report that 77 percent of surveyed audit committee members were involved in discussions of accounting assumptions, estimates and judgments. Thus, audit committee members are responsible for monitoring and discussing complex accounting issues. Further, prior literature documents, that business complexities motivate in part, the selection of accounting experts (e.g., Lee and Stone 1997; Klein 1998; Beasley and Salterio 2001; Braswell and Mauldin 2004; Krishnan and Lee 2009). Prior literature also documents that accounting expertise is positively associated with financial reporting quality (e.g., Abbott et al. 2004; Carcello, Hollingsworth, Klein, and Neal 2006; Qin 2007; Krishnan and Visvanathan 2008; Dhaliwal et al. 2010). I predict and find that both accounting and business complexities motivate changes/increases in audit committee accounting expertise. Acquirers with greater accounting complexity (proxied by industry-specific accounting error restatement frequencies and an indicator variable for the presence of acquirer pre-merger internal control problems) and greater business complexity (proxied by M&A deal size, a diversifying M&A dummy, and the number of acquirer business segments), are more likely to increase audit committee accounting expertise.

These results may be of interest to companies currently considering large M&A transactions. The M&A accounting standard is complex and is frequently misapplied

(PCAOB 2015). Recent increases in M&A activity may compound this issue, thus, heightening the importance of acquirers having accounting experts to oversee the application of M&A accounting (Fontanella-Khan, Massoudi, and Rennison 2015; Mattioli and Cimilluca 2015). Further, my study makes several contributions to both the audit committee literature and the M&A literature. First, my study is the first (to my knowledge) to examine changes in audit committees around M&As. M&As likely change an acquirer's demand for accounting expertise. Therefore, my study provides insights on (1) how changes in audit committee composition affect post-M&A financial reporting quality and (2) how M&A-related accounting and business complexities affect audit committee composition. Second, unlike prior audit committee accounting expertise studies, my study examines accounting experts at a time when they are likely applying their accounting knowledge to a specific accounting issue (i.e., the application of M&A accounting). Third, unlike recent M&A studies which are generally focused on valuation, I examine M&As from an accounting perspective. M&A accounting issues are important. As discussed above, this is illustrated by the restatement frequencies (8-17 percent of all restatements relate to M&As) noted in Scholz (2008, 2014) and the frequency of fair-valuation audit deficiencies in PCAOB inspections (49 percent of all fair-valuation-related audit deficiencies relate to M&As). Fourth, the evidence provided by my study adds to the literature on the benefits of audit committee accounting expertise. The evidence suggests that changes/increases in accounting expertise matters more than increase in other types of expertise.

The remainder of this dissertation is organized as follows. Chapter 2 provides a background discussion regarding audit committees and accounting for M&As. Chapter 3 provides a literature review. Chapter 4 develops my hypotheses. Chapters 5 and 6 discuss research design and sample selection, respectively. Chapter 7 provides results for the financial reporting benefits associated with increases in audit committee accounting expertise including fewer restatement, timelier goodwill impairments, and smaller IPR&D charge-offs. Chapter 7 also includes numerous supplemental analyses and robustness checks. Chapter 8 provides results for the research question, what explains increases in accounting expertise following an M&A. Finally, Chapter 9 provides my concluding remarks.

CHAPTER 2

BACKGROUND

2.1 Audit Committees

The SEC, AICPA, and the major United States stock exchanges have either recommended or required companies to establish audit committees since 1940.[6] In 1940, in response to the McKesson & Robbins fraud of 1938,[7] the SEC issued Accounting Series Release No. 19 (ASR 19). ASR 19 included a recommendation for companies to form audit committees (Birkett 1986); the committees' responsibilities would include overseeing the external auditor (ASR 19). Later, in 1967, the AICPA Committee also recommended that companies form audit committees stating the following:

> Audit committees composed of outside directors, who, preferably have had broad financial experience can be a constructive force in the overall review of internal controls and financial structure, and give added assurance to stockholders as to the objectivity of corporate financial statements (AICPA 1967).

In 1972 and 1976, in ASRs 123 and 126, the SEC again recommended that all publicly traded companies form audit committees composed of outside directors. By 1976, 87 percent of surveyed companies had established audit committees (Birkett 1986, 109). In 1977, the NYSE instituted a requirement (effective June 30, 1978) that, as a

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[6] Accounting Series Release No. 123 (1972), under the heading "Standing Audit Committees Composed of Outside Directors" notes that "as far back as 1917 it was urged that auditors in the United States should be appointed or selected by the stockholders in accordance with the practice in Great Britain and in Canada..." (ASR 123).

[7] McKesson & Robbins was a drug company. Its president, Frank Coster, stole approximately $2.9 million from the company by creating, and recording in the company's financial statements, fictitious foreign sales. Coster created false documents (e.g., false invoices, purchase orders, credit ratings documents, etc.) to fool company creditors and the company's external auditor, Price, Waterhouse & Co. (Chatfield and Vangermeersch 1996, 409-410).

condition of listing on the NYSE, all listed companies establish and maintain an audit committee of independent directors. Later, in 1989 and in 1999, other stock exchanges instituted the same requirement (Klein 1998; Klein 2002; Krishnan 2005). Finally in 2002, SOX specified additional requirements for audit committee composition (e.g., designation and disclosure of a financial expert serving on the audit committee) and audit committee responsibilities (e.g., oversight of the independent auditor).[8]

2.2 Accounting for M&As

Accounting Standards Codification No. 805 "Business Combinations" (ASC 805), issued in 2009 as part of the FASB's accounting standards codification project, is the current authoritative standard for M&A accounting in the U.S. ASC 805 (and previously SFAS 141R) requires that M&As be accounted for using the "acquisition method," under which, all M&As are to be treated as acquisitions and not as mergers. With a few exceptions, all identifiable assets (both tangible and intangible) and liabilities are recorded at fair value, and any excess of purchase price (including payments of equity) over the net fair value of the assets acquired and liabilities assumed is recorded as goodwill. This process is complex.[9]

Because of its complexities, the M&A accounting standard provides acquirers with a one year grace period, the measurement period, during which adjustments to

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[8] For more complete discussions of the history of audit committees, see Birkett (1986) and Rezaee (2008).

[9] Recognizing this complexity, the PCAOB recently (May 2015) commented that "…while the revised business combination accounting standards have been in place for more than five years, even senior members of the audit team may lack sufficient experience in this area…" (PCAOB 2015).

M&A-related accounting items can be made (ASC 805-25-19).[10] An acquirer is permitted to record provisional amounts in its financial statements in the year of M&A and can subsequently, retrospectively adjust those provisional amounts. However, while certain estimates can be adjusted during the measurement period (e.g., goodwill balance), others cannot. For instance, valuation allowances relating to taxes can be released during the measurement period if the release results from new information that existed at the time of acquisition. Post-merger tax reserve adjustments related to uncertain tax positions assumed in an acquisition, on the other hand, do not qualify as measurement period adjustments (Sayuk, Fricke, Naughtin, and Dugger 2012).

Application of fair valuation is both subjective and nuanced under the M&A accounting standard. An acquirer must identify, recognize, and value intangible assets that were previously unrecognized in the target's pre-merger financial statements (ASC 805-20-25-4). Thus, with respect to financial statement recognition, M&A accounting creates intangible assets.[11] Further, the valuation of acquired PP&E potentially requires a

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[10] On September 25, 2015, the FASB eliminated the need for an acquirer to retrospectively adjust prior period financial statements for measurement period adjustments. Instead, these adjustments can be recorded in the current period financial statements (i.e., the period in which the adjustment was identified) (PwC 2015; FASB 2015). While this release reduces M&A accounting complexity by eliminating the need to retrospectively adjust prior-period financial statements, it does not eliminate the M&A accounting complexity associated with subjective fair valuations and the nuanced M&A accounting standard (ASC 805).

[11] The treatment of acquired intangible assets (in the M&A setting) is opposite to the treatment of internally generated intangible assets (in non-M&A settings); internally generated intangible assets may be not recorded as an asset (Sinclair and Keller 2014). Notably, the AAA Financial Accounting Standards Committee has commented the FASB should consider the recognition of internally generated intangibles because "…current accounting standards require capitalization of economically similar intangibles acquired

manager to choose between multiple fair values. In determining the value of acquired land, an acquirer must consider the "highest and best use" of the land (McGladrey 2012).[12] Finally, because goodwill represents the excess of purchase price over the fair value of net assets, its value is a function of fair valuation.

Following the M&A, an acquirer must assign goodwill to a reporting unit and this requires judgment (McLean Group 2009). In addition, goodwill must be tested for impairment on at least an annual basis. If there are indications of impairment (i.e., triggering events), ASC 350 requires earlier testing during interim periods. Both steps in the goodwill impairment testing (discussed in more detail below) require the choice of appropriate discount rates, which are used in discounted cash flow models (Carlin and Finch 2009). Further, step two of goodwill impairment testing requires the fair value measurement of all reporting unit assets and liabilities in order to determine the "implied fair value of goodwill" (i.e., reporting unit residual value). A reliable estimate of the fair value of reporting unit assets and liabilities can be difficult to obtain, particularly for intangible assets such as patents and trademarks (Ramanna and Watts 2012; Chen, Krishnan, and Sami 2015).

There are also some exceptions to ASC 805's fair value requirement, where other standards are applied. For example, ASC 805 defers to ASC 740 – which requires the

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externally" (Maines, Bartov, Fairfield, Hirst, Iannaconi, Mallett, Schrand, Skinner, Vincent 2003).

[12] Pre-merger, the land may have served as the location of the target's manufacturing facility but, at the time of M&A, the highest and best use of the land may be to demolish the facility and sell the land. In short, there are potentially two fair values to consider for the land: (1) the fair value associated with maintaining the facility and (2) the fair value associated with demolishing the facility and selling the land. Regardless of what the acquirer intends to do with the land post-merger, it is required to recognize the highest of these fair values.

use of undiscounted amounts to measure deferred tax assets, deferred tax liabilities, and uncertain tax positions – for the accounting treatment of income tax accounts. Similarly, ASC 805 defers to ASC 710, 712, and 715 with respect to the accounting treatment for pensions. At the time of M&A, the acquirer recognizes an asset or liability for the funded status (projected benefit obligation less the fair value pension plan assets) of the target's employee benefit plan, but target balances for unrecognized prior service costs and/or actuarial gains or losses are not recorded by the acquirer (EY 2014; PwC 2014a). ASC 805 also defers to ASC 718 with respect to the accounting for target company employee stock options. To value employee stock options, ASC 718 permits the use of either the calculated value method or the intrinsic value method, neither of which is a pure fair value method (McGladrey 2012, 100).

Finally, in some cases ASC 805 either restricts or prohibits the recognition of target assets and liabilities. For example, deferred revenue liabilities are only recognized to the extent that the deferred revenue represents an obligation assumed by the acquirer (PwC 2014a, p. 2-30). As a result, a target company's deferred revenue balance is often significantly reduced or eliminated under GAAP's M&A accounting standard. Practitioners often refer to this issue as a "deferred revenue haircut" (McGladrey 2013). Similarly, an acquirer is restricted from recognizing any target deferred rent because deferred rent does not meet ASC 805's definition of an asset or liability (PwC 2014a, p. 2-31).

Collectively, the need to apply fair value accounting – in the valuation of both target company net assets and goodwill – and the presence of many accounting treatments illustrate M&A accounting complexity.

CHAPTER 3

LITERATURE REVIEW

Chapter 3 provides a review of the literature related to my two research questions: (1) does an increase in the audit committee accounting expertise improve the quality of an acquirer's post-merger financial reporting? (2) If an audit committee's accounting expertise increases, what accounting, business, and transaction characteristics are important in explaining this increase? I use three proxies for financial reporting quality: financial statement restatements, goodwill impairments, and IPR&D charge-offs. In subsections 3.1 through 3.3, I discuss the literature relevant to each of the three proxies. In subsection 3.4, I discuss the literature relevant to my second research question.

3.1 Restatements

Bens, Goodman, and Neamtiu (2012) examine the association between financial statement restatements and negative M&A announcement returns. The study argues that negative M&A announcement returns place pressure on a company's management. In particular, managers are concerned about losing their jobs when M&As are not well received by the market. This pressure, in turn, incentivizes management to manipulate the financial statements in order to give the appearance of strong post-merger financial performance, which ultimately leads to financial statement restatements. Consistent with this argument, the study finds that acquirers with more negative M&A announcement returns are more likely to subsequently restate their post-merger financial statements.

Srinivasan (2005) examines, in part, the financial statement restatement consequences for audit committee members. That is, the study asks what happens to audit committee members as a result of restatements? Are audit committee members penalized? Results indicate that audit committee members are more likely to depart companies following an overstatement of earnings. In addition, in tests that include all directors (not just audit committee members), the study finds that directors lose one quarter of their positions on other company boards.

Carcello, Neal, Palmrose, and Scholz (2011) examine whether high quality audit committees are less effective when a company's CEO is involved in the selection of high quality audit committee members. The study argues that, while current regulations (i.e., SOX, exchange listing requirements) provide rules pertaining to the selection of audit committee member (i.e., independence, financial literacy) CEO's may have informal relationships with directors. It follows, then, that it is possible for a CEO to appoint a director that appears to be independent, but may not be independent in fact. These directors may not be as effective as truly independent directors. Consistent with these arguments, the study finds (using a sample of non-GAAP restatements between 1999 and 2001) that CEO involvement in the appointment of independent audit committee members weakens the effectiveness of independent audit committees in preventing restatements.

Amoah and Tang (2010) examine the association between board and audit committee composition and the likelihood of a "restatement-induced" securities class action lawsuit. The study's sample period is between 1997 and 2002. Results indicate that general board independence (but not audit committee independence, expertise, nor audit committee meeting frequency) is negatively associated with class action lawsuits.

Schmidt and Wilkins (2013) examine the association between (a) the length of time between the initial disclosure of a restatement (in an 8-K filing) and the issuance of revised financial statements (in either an amended 10-Q or 10-K, or in a regularly schedule 10-Q or 10-K) and (b) auditor and audit committee quality (measured by Big N and audit committee financial expertise). Using a sample of restatements disclosed between 2004 and 2009, the study finds that the length of time between initial restatement disclosure and financial statement revision is shorter for companies with Big 4 auditors and for companies with more audit committee financial experts. Similarly, Archambeault, DeZoort, and Hermanson (2008) find that restatements are positively associated with audit committee member short-term stock compensation. Thus, there is evidence that audit committee composition and compensation influence restatement likelihood.

Agrawal and Chadha (2005) examine, in part, the association between audit committee financial expertise and financial statement restatements in a non-M&A setting. Using a sample of 159 restatements and a matched control sample (2000 to 2001), the study finds that the likelihood of restatement is negatively associated with audit committees that have at least one financial expert.

3.2 Goodwill Impairments

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 (SFAS 142) "Goodwill and Other Intangible Assets" (FASB 2001).[13] Prior to 2001, Accounting Principles Board Opinion No. 17 (APB 17) "Intangible Assets" provided the authoritative standards for goodwill accounting. FASB issued SFAS 142 because (a) goodwill was becoming an

[13] In 2009, this standard was codified into Accounting Standards Codification No. 350 (ASC 350) "Intangibles – Goodwill and Other" (FASB 2009).

"increasingly important" economic resource and represented "increasing proportions" of acquired assets in many transactions, and (b) financial statement users indicated that they "did not regard goodwill amortization expense as being useful information" (SFAS 142). SFAS 142, now Accounting Standards Codification No. 350 (ASC 350), made several changes to goodwill accounting. However, the most important change was the elimination of goodwill amortization. In the place of amortization, SFAS 142 required (and ASC 350 continues to require) companies to annually test goodwill for impairment.[14]

Under ASC 350, there is a two-step approach involved in testing goodwill for impairment. In the first step, the goal is to identify "potential impairment" (ASC 350-20-35-4). Fair value of the reporting unit (to which the company's goodwill balances are assigned) is compared to the unit's carrying value. Fair value can be determined using multiple valuation techniques including revenue/earnings multiples and discounted cash flows (ASC 350-20-35-23; PwC 2014a, p. 7-9). If the carrying amount exceeds fair value, the company must proceed to the second step in goodwill impairment testing, which involves determining the "implied fair value of goodwill" (ASC 350-35-14). Goodwill represents the excess of purchase price over acquired net assets. Therefore, in order to determine the implied fair value of goodwill at the time of annual impairment testing, a company must first revalue (to fair value) the reporting unit's other (i.e., non-

[14] SFAS 142/ASC 350 differ from SFAS 121/SFAS 144/ASC 360, which deal with the accounting for the impairment of long-lived assets, in the timing of impairment testing. Whereas, SFAS 121/SFAS 144/ASC 360 requires impairment testing following a triggering event SFAS 142/ASC 350 requires impairment testing on annual basis regardless of whether or not a triggering event occurred (Hayn and Hughes 2006, 228).

goodwill) assets and liabilities.[15] The excess of the reporting unit's net fair value (net of all other assets and all liabilities) represents the implied fair value of goodwill. If the carrying amount of goodwill is less than the implied fair value of goodwill a goodwill impairment is recorded in the financial statements (PwC 2014a, p. 11-41).

For the purposes of my testing, it is important to emphasize that SFAS 142 was effective for fiscal years beginning after December 31, 2001. Therefore, the first annual period with a possible SFAS 142 impairment was December 31, 2002. In addition, SFAS 142, paragraphs 55-56 provided companies with a transitional period (six months to complete the step one test; one year to complete both the step one and step two tests) during which any goodwill impairment losses recorded were recorded in the income statement below operating income. Therefore, any goodwill impairments recorded during 2002 represented non-standard impairments. As Hayn and Hughes (2006) describe, during the transitional period companies were given a "significant incentive to report to the fullest extent possible any goodwill impairment in the adoption year rather than deferring such write-offs and later reflecting them as reductions in operating income."[16, 17] For these reasons, in my goodwill analyses, I restrict the sample period to the post-2002 period (i.e., 2003-2014).

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[15] Revaluation of a reporting unit's other assets and liabilities is done for goodwill impairment testing purposes only; a reporting unit's other assets and liabilities are not revalued in the financial statements.

[16] Beatty and Weber (2006) find that riskier companies and companies with higher ERCs are more likely to record a transitional period goodwill impairment (i.e., they take a "big bath" to avoid future losses).

[17] In another study related to SFAS 142's transitional period, Jordan and Clark (2004) find, in simple univariate tests, that Fortune 100 companies recording goodwill

Hayn and Hughes (2006) examine leading indicators of goodwill impairments. The study finds, in part, that original acquisition characteristics (e.g., payment of a significant premium, a significant amount of goodwill relative to the acquisition price, use of stock as the primary form of consideration) are more powerful predictors of eventual goodwill write-offs than acquired entity segment disclosures. In addition, many companies do not record goodwill impairments until three to four years (on average) after the "economic deterioration" of the entity. Thus, for many companies goodwill impairments are not timely.

Ramanna and Watts (2012) use a sample of companies with market indications of goodwill impairment to test two explanations for goodwill impairment behavior. The private information hypothesis predicts that company management will use goodwill impairments to convey private information about future cash flows to the market. Agency theory, on the other hand, suggests that company management will be self-serving and utilize the flexibility provided by goodwill impairment testing (e.g., assumptions used in discounted cash flow models) to delay and/or prevent goodwill impairment. Their study finds that among a sample of companies with market indications of impairment, 69% do not record an impairment. Further, they find evidence that debt covenants, CEO compensation, and CEO tenure are all negatively associated with goodwill impairment, consistent with the predictions of agency theory.

Li, Shroff, Venkataraman, and Zhang (2011) find that goodwill impairments are perceived negatively by both analysts (downward forecast revisions) and investors

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impairments during the transitional period had lower profitability than those not recording goodwill impairments. They interpret these univariate results as an indication that some companies took a "big bath" during the transitional period.

(negative market reaction). Further, goodwill impairments are positively associated with future decreases in company earnings and are predicted by overpayment for a target company. Similarly, Gu and Lev (2011) find that both goodwill impairments and goodwill impairment amounts are positively associated with share overpricing.[18]

Carlin and Finch (2009) examine discount rates used in goodwill impairment testing for publicly traded Australian companies. Their study compares the disclosed discount rates (required under IAS 36) used in goodwill impairment testing to discount rates generated by a CAPM model and finds significant variation between disclosed rates and CAPM rates indicating the use of inappropriate discount rates in goodwill impairment testing for sample firms.

Finally, Shepardson (2013) finds that audit committee members' contextual experiences with goodwill impairments increase the likelihood of goodwill impairment.

3.3 In-process Research and Development (IPR&D) Charge-offs

Dowdell and Press (2004) examine how SEC scrutiny in the late 1990s affected the accounting treatment of in-process research and development (IPR&D) costs by companies involved in M&As. In 1998, The SEC's chief accountant "…publicly questioned the appropriateness of large IPR&D write-offs" (Dowdell and Press 2004, 228). The study finds that, following the SEC's question of IPR&D write-offs, mean IPR&D charges "…shrank 71% as a percentage of assets acquired…" (Dowdell and Press 2004, 227).

[18] The study measures overpricing by combining industry-adjusted P/E ratio, discretionary accruals, and prior equity issuance into two overpricing index measures via principal components analysis (PCA).

Deng and Lev (2006) investigate which IPR&D accounting treatment – asset recognition or immediate expense recognition – is most appropriate. The study argues that if IPR&D capitalization is appropriate, there should be a positive association between capitalized IPR&D assets and post-merger cash flows. The study finds evidence consistent with this prediction.

Dowdell and Lim (2015) examine the association between the passage of SFAS 141R, which prohibited immediate IPR&D expensing, and the frequency of M&As involving target companies with IPR&D. Post-SFAS 141R acquirers may be reluctant to target companies that would necessitate the recognition of IPR&D assets. The study finds limited evidence that this is the case – the proportion of M&As with IPR&D decreased in two of industries tested (SICs 3570-3861 (machinery, equipment, and instruments) and 7371-7370 (computer and data processing services)) and increased in one industry (SICs 2833-2836 (pharmaceuticals)).

3.4 Audit Committee Composition

A number of studies have examined the determinants of audit committee composition at the both the director-level and committee level. At the director level, evidence suggests that audit committee directors are more likely to be appointed if the directors have fewer other responsibilities. Specifically, directors are more likely to be appointed to the audit committee if they do not serve on other committees (e.g., compensation committee) within the same company (Vafeas 2001).

At the committee level, audit committee independence has been shown to be positively associated with the proportion of outside directors serving on the general board, litigation risk, and company size and negatively associated with institutional holdings and the presence of an outside director block-holder (director owning at least five percent of the company's shares) (Klein 1998; Krishnan and Lee 2009).[19] In addition, both audit committee independence and financial expertise have been shown to be positively associated with larger boards, more independent overall boards, and the separation of the CEO/president positions (Beasley and Salterio 2001).

Overall, the research evidence indicates that the determinants of audit committee composition include the proportion of independent directors serving on the general board, litigation risk, company size, institutional holdings, outside block-holders, overall board size, and CEO duality. In addition to examining the determinants of audit committee composition, other research has provided evidence on the benefits of having independent and expert audit committees.

The single most studied benefit of having an independent and expert audit committee is accruals quality. Generally, these audit committee/accruals studies have documented negative associations between (a) audit committee independence and audit financial expertise and (b) abnormal accruals (Klein 2002; Xie, Davidson III, and DaDalt 2003). Other accruals studies have examined the association between audit committee financial expertise type (i.e., accounting financial expertise as compared to non-accounting financial expertise) and accruals, finding negative associations between accounting financial expertise (and also joint accounting and non-accounting financial expertise) and accruals (Dhaliwal, Naiker, and Navissi 2010; Krishnan, Wen, and Zhao 2011).

[19] The interpretation for the latter set of (negative association) results is that institutional shareholders and block-holders can be thought of as corporate governance substitutes for the audit committee.

In a recent study, Cohen, Hoitash, Krishnamoorthy, and Wright (2014) introduce the idea of audit committee industry expertise (audit committee members past employment at a company in the same two-digit SIC industry). They examine this measure's association with accruals (among other measures of financial reporting outcomes). Results indicate that companies with audit committees composed of both accounting experts and industry experts (as compared to committees with just accounting experts) have lower levels of discretionary accruals.[20]

Another group of studies have examined internal control benefits. These studies have found negative associations between audit committee independence and financial expertise and the occurrence of internal control problems (Krishnan 2005; Goh 2009). Other studies have documented other benefits of independent and expert audit committees. For instance, audit committee accounting expertise is positively associated with conservative financial reporting (Krishnan and Visvanathan 2008).[21] Further, small earnings increases are negatively related to audit committee independence (Vafeas 2005).[22] Independent and expert audit committees are also less likely to have a restatement (Abbott, Parker, and Peters 2004) and more likely to receive a going concern opinion (Carcello and Neal 2000). Similarly, audit committee financial expertise is

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[20] Companies with audit committees composed of both accounting experts and industry experts are also less likely to have a restatement, pay higher audit fees, and have lower ratios of non-audit to audit fees.

[21] Audit committees have an interest in conservative reporting because it constrains managers from overcompensating themselves (i.e., aggressive reporting leads to greater compensation) and it also offsets managers' incentives to report good, but not bad, news.

[22] The study also finds that small earnings increases are negatively related to audit committee activity (number of meetings). Further, it finds that audit committee stock ownership is negatively related to the avoidance of negative earnings surprises.

positively associated with conservative forecasting (i.e., the use of range as opposed to point forecasts) (Karamanou and Vafeas 2005). Audit committee independence and financial expertise are also associated with lower cost of debt (Anderson, Mansi, and Reeb 2004); these compositional characteristics also help prevent the negative economic consequences associated with auditor resignations (Lee, Mande, and Ortman 2004). Finally, the stock market reacts positively to both the initial formation of an audit committee and the appointment of an accounting expert to the audit committee (Wild 1996; DeFond, Hann, and Hu 2005).

CHAPTER 4

HYPOTHESES DEVELOPMENT

4.1 Financial Reporting Benefits Associated with Increases in Audit Committee Accounting Expertise

Audit committee accounting expertise is positively associated with financial reporting quality and internal control quality (Klein 2002; Xie, Davidson, and DaDalt 2003; Krishnan 2005; Goh 2009; Cohen et al. 2014). In this subsection, I discuss the potential financial reporting benefits of adding accounting expertise in the M&A setting. I develop hypotheses related to three financial reporting quality proxies: restatements, timely goodwill impairments, and in-process research and development (IPR&D) charge-offs. Each of these proxies is ideally suited for studying financial reporting quality in the M&A setting.[23]

4.1.1 Restatements

A number of prior studies have examined the association between financial statement restatements and various audit committee characteristics in non-M&A settings. Multiple studies find that audit committees with more accounting expertise are less likely to have a restatement.[24] For example Abbott et al. (2004) find, for a sample of

[23] I do not use a more common measure of reporting quality, abnormal accruals, because as Bens, Goodman, and Neamtiu (2012) note, it is not an appropriate measure in the M&A setting due to the difficulty of measuring normal accruals. "The credibility of abnormal accruals as a measure of intentional misreporting is dependent on the ability to effectively measure normal (i.e., expected) accruals. Assessing 'normal' accruals for a company is a challenging task that is even more difficult in our setting, as we focus on a time when a firm is changing radically due to the M&A transaction" (p. 845).

[24] While these studies don't always refer to audit committee financial expertise as "accounting" expertise, their definitions of expertise include work experiences that are considered "accounting" experiences (i.e., members with experiences working as CPAs,

companies that restated their annual financial statements during the period 1991-1999, that companies with higher levels of audit committee accounting expertise are less likely to restate. Similarly, during the period 2000-2001, Agrawal and Chadha (2005) find a negative association between an audit committee's accounting expertise and the likelihood of an earnings restatement. Schmidt and Wilkins (2013) find that when a company does announce a restatement, those companies with higher levels of audit committee accounting expertise issue revised financial statements more quickly.[25]

To my knowledge, no study has examined the role of audit committees in the M&A setting. As discussed, the accounting and operational complexities surrounding M&As provide opportunities for managerial errors and manipulations in the preparation of post-merger financial statements. If mistakes are made in a company's post-merger accounting and those mistakes are subsequently detected by the company and/or its external auditor, a restatement must be recorded.

One recent study, Bens et al. (2012), examines managers' incentives to manipulate financial statements in the M&A setting, which can result in subsequent restatements. Bens et al. (2012) do not consider the potential role of audit committees.[26]

CFAs, CFOs, Treasurers, and/or Controllers) in subsequent audit committee studies (e.g., Dhaliwal et al. 2010; Krishnan, Wen, and Zhao 2011; Badolato, Donelson, and Ege 2014).

[25] Another study finds that that general board independence is negatively associated with class action lawsuits induced by restatements (Amoah and Tang 2010). Audit committee members are also more likely to lose their audit committee positions following a restatement (Srinivasan 2005).

[26] In addition, Bens et al. (2012) include observations from the pre-SOX period (1996-2007). My sample period is largely post-SOX (1999-2014). SOX had several audit committee composition implications. Chief among these was the requirement that a

Audit committee expertise can reduce the incidence of errors and manipulations, thus lowering the likelihood of subsequent restatements. For instance, a company's audit committee appoints and oversees the work performed by its external auditor (SEC 2003b). The external auditor's audit findings are reported to and discussed with the audit committee (PCAOB 2012). In addition, for companies listed on NASDAQ and the NYSE, audit committees must oversee the internal audit function (NASDAQ 2009; NYSE 2009; Deloitte 2015). Through these processes of appointing, monitoring, and discussing audit findings (with both the external and internal auditors), an audit committee has the ability to influence financial reporting quality. Therefore, I predict that in the M&A setting increases in audit committee accounting expertise between the pre- and post-merger periods will aid in preventing financial statement restatements.

I now formally state my hypothesis in the alternative form:

H1: The likelihood of a post-merger financial statement restatement is negatively associated with increases in audit committee accounting expertise.

4.1.2 Timely Goodwill Impairments

From a financial reporting perspective, goodwill is created exclusively through M&A transactions. It represents the excess of an M&A's transaction value over the fair value of the assets and liabilities acquired in the transaction, and is assigned to one of a company's reporting units.[27] Under current standards (ASC 350), goodwill created in an

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company disclose whether or not at least one member of the audit committee is a financial expert.

[27] A reporting unit is a component of a company for which "discrete financial information" is available and for which results are regularly reviewed by management (SFAS 142).

M&A transaction must be tested for impairment at least annually.[28] Thus, goodwill impairments represent a financial statement measure directly related to M&As.

ASC 350 requires a two-step approach to goodwill impairment testing and each step relies heavily on the use of fair values. In the first step, a company must compare – for the reporting unit to which goodwill is assigned – carrying value to fair value (ASC 350-20-35-4). If carrying value exceeds fair value (i.e., an indication of potential impairment) a company must proceed to the second impairment step. This second step involves revaluing all of the reporting unit's assets (tangible and intangible) to fair value and calculating "implied fair value of goodwill" (ASC 350-35-14).[29] If the carrying value of goodwill exceeds the implied fair value of goodwill, a goodwill impairment is recorded.

The need to use fair values in goodwill impairment testing provides opportunities for both management error and manipulation.[30] Determining reporting unit fair value – used in goodwill impairment test steps one and two – requires the estimation of projected discounted cash flows. Carlin and Finch (2009) find, for a sample of large listed Australian companies, significant variation between disclosed discount rates and independently calculated CAPM discount rates. Further, prior research finds evidence consistent with managers using the discretion provided by ASC 350 to either delay or

[28] Under certain circumstances (e.g., "deterioration in general economic conditions") goodwill must also be tested for impairment between annual tests (ASC 350-35-28).

[29] The implied fair value is calculated as follows: Implied Fair Value of Goodwill = [Reporting Unit Fair Value (i.e., from step 1)] – [Fair Value of Revalued Net Assets].

[30] There are also incentives for management error and manipulation. For example, CEO compensation is negatively affected by goodwill impairments (Darrough, Guler, and Wang 2014).

prevent the recognition of a goodwill impairment. Ramanna and Watts (2012) find that among a sample of companies with market indications of impairment, 69% do not record an impairment. Similarly, Hayn and Hughes (2006) find that many companies do not record goodwill impairments until three to four years (on average) after the "economic deterioration" of the entity.

At the time of M&A, a target company's net assets are set to fair value (ASC 805). Accordingly, the fair value of net assets used in goodwill impairment testing immediately following the M&A (i.e., in periods t and t+1 in my analyses) should closely approximate those determined at the time of M&A.[31] Therefore, immediately following an M&A, goodwill impairment step two, which compares the carrying value of goodwill to the implied fair value of goodwill, potentially reduces to a comparison of transaction value to reporting unit fair value.[32] If M&A transaction value (determined at the time of the M&A) exceeds reporting unit fair value (calculated immediately following the M&A), then a goodwill impairment may be necessary.

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[31] I assume that a target company's net assets are typically assigned to the same reporting unit as the goodwill created by the acquisition.

[32] This would be the case if the reporting unit consists only of assets and liabilities of the newly acquired target company. However, assignment of target company assets and liabilities to reporting units can be a much more complicated process and requires judgment. For example, ASC 350-20-35-40 says that companies can allocate portions of assets and liabilities to multiple reporting units. It is not possible to identify a company's reporting unit asset and liability assignment decisions. However, this likely biases against finding associations between goodwill impairment and overpayment – "Many companies decide to have one reporting unit. The advantage to this is that while one acquired company may be underperforming, another acquired company may be exceeding expectations. Thus goodwill that may be impaired from one acquisition could be covered by the other acquisition" (McLean Group 2009).

SOX section 204 and Auditing Standard No. 16 (AS 16, PCAOB 2012) require a company's auditor to discuss both critical accounting policies and critical accounting estimates with the audit committee. Thus, the judgments and estimates made by management in its impairment testing should be evaluated by the audit committee. The question of interest however, is whether the accounting expertise on the post-merger audit committee is positively associated with the timeliness of the goodwill impairment. That is, given that goodwill is impaired in the years immediately following the merger, does an increase in accounting expertise increase the likelihood of the firm recording the impairment?

Whether or not goodwill is impaired is unobservable. As discussed above, the likelihood of goodwill being impaired soon after an M&A depends partly on transaction value. An acquirer likely assesses its willingness to purchase a target company using projected discounted cash flows (Gole and Morris 2007). That is, a reasonable acquirer will not pay more than a target company's projected discounted cash flows (Shleifer and Vishny 2003; Gu and Lev 2011). Reporting unit fair value is also calculated using projected discounted cash flows. Thus, an immediate decrease in projected discounted cash flows – between the M&A transaction date and the fiscal years immediately following the M&A transaction date – would be indicative of the need for goodwill impairment. Such an immediate decrease in projected cash flows would also indicate that the acquirer overpaid for the target (i.e., the acquirer paid more than projected discounted cash flows for the target). Indeed, the FASB asserts in its 1999 exposure draft for SFAS 142 ("Goodwill and Other Intangible Assets") that the payment of a significant premium is an indicator of potential goodwill impairment (Hayn and Hughes 2006; Olante 2013).

Thus, I posit that, in the fiscal years immediately following an M&A, acquirer overpayment is a strong indicator of the need for goodwill impairment.

Therefore, I predict that, for acquirers that overpaid for targets increases in audit committee accounting expertise would prompt timely goodwill impairment following the M&A.

I now formally state my hypothesis in the alternative form:

> **H2:** For acquirers that overpaid for targets, the likelihood of a post-merger goodwill impairment is positively associated with increases in audit committee accounting expertise.

4.1.3 In-process Research and Development (IPR&D) Charge-offs

IPR&D is another accounting phenomenon specific to the M&A setting. Recognition of IPR&D, whether it be in the form of an asset or an expense (as was required by GAAP prior to 2009), occurs exclusively as part of M&A accounting.[33] In the early- to mid- 1990s companies frequently over-allocated purchase price to IPR&D in an effort to immediately recognize expense (Dowdell and Press 2004). The advantage of expensing a portion of purchase price was two-fold. First, the immediate recognition of expense preempted the possible recognition of future expense (e.g., via post-merger intangible amortization expense). Second, the immediate expensing of IPR&D decreased a company's total assets post-merger. The combination of lower post-merger IPR&D expense and lower post-merger total assets immediately improved a company's post-merger ROA (Dowdell and Press 2004; Deng and Lev 2006; Dowdell and Lim 2015). Managers of companies involved in M&As, therefore, had an incentive to manipulate post-merger profitability via the immediate expensing of IPR&D. In 2007, the FASB

[33] Specifically, FASB Interpretation No. 4 (1975) required the expensing of IPR&D.

issued SFAS 141R (FASB 2007) which prohibited companies from expensing IPR&D and was effective for M&As completed on or after January 1, 2009.[34]

Given that (1) audit committee accounting expertise is positively associated with financial reporting quality and (2) prior to 2009, managers had an incentive to manipulate post-merger profitability via IPR&D accounting, I predict that expert audit committees will constrain over allocations of purchase price to IPR&D.[35] In other words, within a pre-2009 industry specific sample (i.e., industries in which IPR&D is likely to exist), I predict that expert audit committees will be negatively associated with IPR&D charge-offs.

I now formally state my hypothesis in the alternative form:

> **H3:** The proportion of M&A transaction value allocated to IPR&D and immediately charged-off at the time of M&A is negatively associated with increases in audit committee accounting expertise.

4.2 What Explains Increases in Audit Committee Accounting Expertise Following an M&A?

A successful M&A transaction requires (1) the application of a complex accounting standard, (2) the integration of the acquirer's and target's internal controls over financial reporting, and (3) integration of the acquirer's and target's operations, which in turn can have accounting implications. SEC FAQ No. 3 provides acquirers with a one-year exemption from testing the target company's internal controls (SEC 2004). Many M&As do not succeed – it has been estimated that between 50 and 75 percent of all

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[34] This standard was codified into ASC 805 in 2009.

[35] Post-2009, IPR&D is capitalized. In this sense, IPR&D is still relevant. For example, Dowdell and Lim (2015) find evidence that the IPR&D rule change is associated with changes in acquisition frequency in certain industries.

mergers destroy shareholder value (Herd 2010). As such, in the M&A setting, accounting expertise should be valued by acquirers.

Although there is no policy requirement that audit committees include accounting experts, companies frequently appoint such experts[36], suggesting that economic factors may be driving the demand for expertise. Several studies have documented that audit committee accounting expertise can improve financial reporting and internal control quality. Audit committee accounting expertise is negatively associated with the likelihood of restatement (Abbott et al. 2004). Financial expertise that includes a type of accounting expertise (i.e., work experience as a CFO) is also associated with lower cost of debt (Anderson, Mansi, and Reeb 2004). Accounting expertise also helps prevent the negative economic consequences associated with auditor resignations (Lee, Mande, and Ortman 2004). Finally, audit committee accounting expertise is negatively associated with the incidence of internal control problems (Krishnan 2005; Hoitash et al. 2009). Overall, these studies suggest that accounting expertise is beneficial for both financial reporting and internal control quality.[37]

In general, the literature discussed above has not examined accounting complexities in the context of audit committee member selection. I conjecture that the presence of such complexities in the M&A context would make accounting expertise

[36] DeFond et al. (2005) report that 17 percent of their sample voluntarily appointed accounting experts to their audit committees even before the passage of SOX (p. 165).

[37] A number of studies have examined the importance of accounting vs. non-accounting expertise. In general, these studies have concluded that accounting expertise matters most (e.g., DeFond, Hann, and Hu 2005; Carcello et al. 2006; Qin 2007; Krishnan and Visvanathan 2008; Dhaliwal et al. 2010).

valuable.[38] Section 204 of SOX requires the auditor to discuss with the audit committee "all critical accounting policies." In addition, in a survey of audit committee members Beasley et al. (2009) revealed that 77 percent of survey participants were involved in discussions of "specific judgments/estimates/assumptions involved in implementing an accounting policy" (p. 92). Another 14 percent of survey participants said that they reviewed risks associated with mergers and acquisitions in particular (p. 92). It follows then that accounting complexity is a relevant factor to consider in explaining the selection of audit committee accounting experts in the M&A setting.

I now formally state my hypothesis in the alternative form:

> **H4a:** Increases in audit committee accounting expertise, between the pre- and post-merger periods, are positively associated with the <u>accounting complexity</u> of the post-merger company (i.e., acquirer plus target).

While the audit committee literature has not examined accounting complexities, it has examined the effect of business complexities on audit committee member selection. For example Lee and Stone (1997), find weak evidence that companies with more complex business models (i.e., companies with higher percentages of foreign revenue) are more likely to appoint accounting experts. Further, Klein (1998) finds that companies with higher ex-ante litigation risk are more likely to appoint retired audit partners to their audit committees. Krishnan and Lee (2009) find that litigation risk is positively associated with the appointment of an accounting expert. Other proxies for complexity – for example, company size (Beasley and Salterio 2001; Braswell and Mauldin 2004) and market-to-book ratio (Krishnan and Lee 2009), which proxies for the business

[38] There is some evidence that overall boards of directors can influence merger success. For example, Wu (2011) finds that when there are interlocks between acquirer and target boards, M&As are more likely to occur and have a higher completion rate.

complexities caused by growth opportunities – are also positively associated with audit committee accounting expertise.

Overall, these studies lead to the conclusion that business complexity is an important factor in determining the selection of accounting experts. I expect, therefore, that – because of the business complexities associated with an M&A – a changing company would pay special attention to the accounting expertise of its audit committee in order to secure the associated financial reporting and internal control quality benefits. In addition, I conjecture a changing company will pay special attention to accounting expertise when M&A transactions are complex.

I now formally state my hypothesis in the alternative form:

> **H4b:** Increases in audit committee accounting expertise, between the pre- and post-merger periods, are positively associated with the business/transaction complexity of the post-merger company (i.e., acquirer plus target).

CHAPTER 5

RESEARCH DESIGN

5.1 Restatements

I model the likelihood of a financial statement restatement with the following logistic regression:

$$\Pr(\text{RESTATE}) = F\{\gamma_0 + \gamma_1\text{*ACCTEXP Variable} + \gamma_2\text{*ACQ\_ACCTCOMPLEXA} + \gamma_3\text{*FIRM\_ICPROB} + \gamma_4\text{*DEALSIZE} + \gamma_5\text{*DIVERSMA} + \gamma_6\text{*SIZEMV} + \gamma_7\text{*ROA} + \gamma_8\text{*BTM} + \gamma_9\text{*LEV} + \gamma_{10}\text{*STDRET} + \gamma_{11}\text{*STOCKMA} + \gamma_{12}\text{*ACSIZE} + \gamma_{13}\text{*TGT\_LNASSETS} + \gamma_{14}\text{*BODSIZE} + \gamma_{15}\text{*BODIND} + \gamma_{16}\text{*CEOCHAIR} + \gamma_{17}\text{*PRE\_MARESTATE}\} \quad (1)$$

F{.} denotes the logistic distribution function.

All variables are defined in Appendix A. The dependent variable, RESTATE, is coded 1 if the acquirer's post-merger financial statements were subsequently restated and coded 0 otherwise. As described above, I predict that increases in audit committee accounting expertise will aid in preventing financial statement restatements. Therefore, I predict negative associations between RESTATE and ACCTEXP Variable (measured in the forms of changes and increases).

I control for both M&A and company characteristics that may influence the likelihood of restatement. M&A characteristics include STOCKMA, an indicator variable coded 1 if at least 50% (i.e., ≥ 50%) of the M&A transaction consideration was composed of stock (coded 0 otherwise; Kimbrough and Louis 2011) and DIVERSMA and DEALSIZE, both of which are defined in Appendix A. I predict a positive association between RESTATE and STOCKMA (Bens et al. 2012). I also predict positive associations between RESTATE and ACQ_ACCTCOMPLEXA, DIVERSMA, and DEALSIZE as these measures are meant to capture accounting and M&A deal complexities.

Consistent with Bens et al. (2012), I include several company specific control variables: SIZEMV, ROA, BTM, LEV, and STDRET (the precise definitions of these variables are provided in Appendix A). Dechow, Ge, Larson, and Sloan (2011) find that each of these measures is important in explaining the likelihood of a restatement. I predict a positive association between RESTATE and SIZEMV because larger firms have greater investor recognition and are under greater scrutiny (Dechow et al. 2011). I predict a negative association between RESTATE and ROA (profitability concerns motivate manipulation), but positive associations between RESTATE and BTM (BTM motivates manipulation in order to preserve equity prices), LEV (leverage motivates manipulation in order to satisfy debt covenants and to raise new debt), and STDRET (volatility represents more firm risk). Next, I predict a positive association between RESTATE and FIRM_ICPROB, a firm-level (i.e., as opposed to a firm-year) measure of the internal control issues. It is meant to capture problems in a company's information environment that may lead to errors in the financial statements (Bens et al. 2012). I also predict a positive association between RESTATE and PRE_MARESTATE, an indicator variable capturing the occurrence of a restatement (for either/both the acquirer and/or target) in the pre-merger period. I include controls for accounting complexity (ACQ_ACCTCOMPLEXA), audit committee size (ACSIZE) and target company size (TGT_LNASSETS). Finally, I control for board of director characteristics (BODSIZE, BODIND, and CEOCHAIR). Consistent with Badolato et al. (2014), I make no directional predictions for these variables.

5.2 Timely Goodwill Impairments

I model the likelihood of a goodwill impairment with the following logistic regression:

$$Pr\ (GWIMPAIR) = F\{\delta_0 + \delta_1 * \text{ ACCTEXP Variable} + \delta_2 * \text{ ACCTEXP Variable}*OVRPD + \delta_3*OVRPD + \delta_4*MTB + \delta_5*MKT\_IMPIND + \delta_6*GWPCT + \delta_7*EXPECTED\_WOPCT + \delta_8*SIZEMV + \delta_9*ROA + \delta_{10}*LOSS + \delta_{11}*LEV + \delta_{12}*LNSEGS + \delta_{13}*RETURN + \delta_{14}*STDRET + \delta_{15}*BIGN + \delta_{16}*INDEXP + \delta_{17}*ACSIZE + \delta_{18}*TGT\_LNASSETS + \delta_{19}*BODSIZE + \delta_{20}*BODIND + \delta_{21}*CEOCHAIR\} \qquad (2)$$

F{.} denotes the logistic distribution function.

All variables are defined in Appendix A. The dependent variable, GWIMPAIR, is coded 1 if the acquirer recorded a goodwill impairment in its post-merger financial statements and coded 0 otherwise.

The ACCTEXP Variable denotes audit committee accounting expertise (number of accounting experts, proportion of accounting experts, and the presence of at least one accounting expert) and is measured in the forms of changes and increases.

As described above, I posit that M&A overpayment is a primary indicator of goodwill impairment immediately following an M&A and that audit committees with increases in accounting expertise will be more likely to record an impairment. Although overpayment for a target is not directly observable, one proxy for such overpayment is the M&A revenue multiple (i.e., transaction value / target company trailing-twelve-month revenue). In practice, target company valuation is completed first via discounted cash flow models and then validated by comparing the proposed transaction's revenue multiple to the revenue multiples of other M&A transactions in the same industry (Gole and Morris 2007, 56-67). An acquirer's assessment of a target's projected discounted cash flows is not disclosed. However, M&A revenue multiples are readily available from Thomson One SDC (Amel-Zadeh and Zhang 2015).

I set an indicator variable, OVRPD, equal to 1 if an M&A's revenue multiple is in the top 25 percent of all M&A revenue multiples in the same industry; this variable is coded 0 otherwise. I predict positive associations between GWIMPAIR and both ACCTEXP Variable and OVRPD. I then interact these variables (ACCTEXP Variable and OVRPD) and predict a positive association between GWIMPAIR and the interaction term.

I also use two alternative measures for M&A overpayment: HIGHPTB_RATIO and ABNHIGH_GW. My first alternative measure, HIGHPTB_RATIO, represents high price-to-book ratio. It is another ratio commonly used to validate the appropriateness of M&A transaction values (Dong, Hirshleifer, Richardson, and Teoh 2006; Li et al. 2011; Moeller and Brady 2014), and is especially relevant to my tests because, as described above, goodwill recorded by an acquirer following a merger is defined as the difference between the transaction value and the fair value of the target company net assets acquired. Price-to-book is defined as M&A transaction value divided by the target company's pre-merger book value of assets. An acquirer is deemed to have paid a high price-to-book ratio for a target if the price-to-book ratio for the merger transaction falls in the top 25 percent of all merger transactions involving a public target (this condition is necessary for the construction of the price-to-book ratio which uses target company asset values).

My third measure of M&A overpayment is ABNHIGH_GW. This variable is coded 1 if an M&A transaction resulted in abnormally high goodwill and is based on

Paugam, Astolfi, and Ramond (2015).[39] Abnormal goodwill is measured as the residual from a goodwill expectation model. Goodwill is deemed to be abnormally high if the residual from the expectation model is greater than 0 (i.e., the M&A transaction resulted in larger than expected goodwill).[40] I predict positive associations between GWIMPAIR and the interactions between ACCTEXP Variable and HIGHPTB_RATIO and ACCTEXP Variable and ABNHIGH_GW.

My control variables are consistent with those used in prior goodwill impairments studies (e.g., Beatty and Weber 2006; Hayn and Hughes 2006; Ramanna and Watts 2012; Shepardson 2013). I predict a negative association between GWIMPAIR and an acquirer's post-merger market-to-book ratio (MTB) because firms with more growth opportunities are less likely to have impaired goodwill (Beatty and Weber 2006). I predict a positive association between GWIMPAIR and both market indications of impairment (MKT_IMPIND) and the severity of market indications of impairment (EXPECTED_WOPCT).

Next, I predict a positive association between GWIMPAIR and the GWPCT because the percentage of the acquirer's post-merger assets composed of goodwill captures the magnitude of potential goodwill write-offs (Ramanna and Watts 2012).

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[39] Paugam et al. (2015) model the goodwill recognized following a merger as a function of target company pre-merger R&D expense, advertising expense, goodwill, intangible assets, PP&E, market to book ratio, sales growth, and ROA. Variables measuring acquirer pre-merger market to book ratio, acquirer and target M&A deal announcement returns, whether the M&A was a diversifying M&A, and M&A deal size are also included in the model.

[40] Since ABNHIGH_GW is based on a regression residual, defining the threshold for abnormally high goodwill at 0 effectively splits the sample into high and low goodwill at the median value of the regression residual.

Similarly, I predict a positive (negative) association between GWIMPAIR and LOSS (ROA) because losses may indicate financial distress and, therefore, the need for impairment (Hayn and Hughes 2006). I make no directional prediction for the acquirer's post-merger number of business segments (LNSEGS) because prior research has found both positive and negative associations between GWIMPAIR and LNSEGS (e.g., Beatty and Weber 2006; Shepardson 2013). I predict a negative association between GWIMPAIR and buy-and-hold returns (RETURN) since poor market returns are indicative of an economic need for impairment (Hayn and Hughes 2006). Conversely, I predict a positive association between GWIMPAIR and return volatility (STDRET) since volatility captures firm risk (Beatty and Weber 2006). I also predict positive associations between GWIMPAIR and the presence of a Big N auditor (BIGN) or an industry expert auditor (INDEXP); both measures have been shown to be positively associated with financial reporting quality (e.g., Francis and Yu 2009). SIZEMV, LEV, ACSIZE, and TGT_LNASSETS are included to control for company (both acquirer and target) and audit committee characteristics; I make no directional predictions for these variables. Finally, consistent with prior research (e.g., Badolato et al. 2014), I control for other board of director characteristics: board size (BODSIZE), board independence (BODIND), and CEO duality (CEOCHAIR).

5.3 In-process Research and Development (IPR&D) Charge-offs

I model the proportion of transaction value allocated to in-process research and development (IPR&D) and immediately written off (at the time of M&A) with the following OLS regression:

$$IPRD\_WRITEOFF = \theta_0 + \theta_1 * \text{ACCTEXP Variable} + \theta_2 * DEALSIZE + \theta_3 * SIZEMV + \theta_4 * BTM + \theta_5 * TGT\_LNASSETS + \theta_6 * ACSIZE + \theta_7 * TGT\_ACCTCOMPLEX + \theta_8 * TGT\_LNSEGS + \theta_9 * TGTBTM + \theta_{10} * TGT\_ICPROB + \theta_{11} * LOSS + \theta_{12} * BIGN + \theta_{13} * INDEXP + \theta_{14} * TGT\_FOREIGNOPS + \theta_{15} * BODSIZE + \theta_{16} * BODIND + \theta_{17} * CEOCHAIR + \mu \tag{3}$$

All variables are defined in Appendix A. As described above, prior to January 1, 2009 (i.e., the effective date of SFAS 141R which required acquirers to capitalize IPR&D) companies had an incentive to over-allocate transaction value to IPR&D. My hypothesis predicts increases in audit committee accounting expertise will constrain over-allocation. Therefore, I predict negative associations between IPRD_WRITEOFF and ACCTEXP Variable (measured in the forms of changes and increases). I also include ACSIZE as a control variable.

I conjecture that more complex M&As may provide more opportunities for errors and manipulations via the over-allocation of purchase price to IPR&D expense. This notion is consistent with the arguments made in prior goodwill impairment studies. Namely, the complexities of goodwill impairment accounting provide opportunities for errors and manipulations (Hayn and Hughes 2006; Carlin and Finch 2009). Therefore, I include DEALSIZE as a measure of M&A deal complexity. In addition, since IPR&D is a target company phenomenon, I also include several measures of target company complexity. TGT_ACCTCOMPLEX and TGT_ICPROB are included to capture the complexity of the target's accounting and internal control environment, respectively. Similarly, TGT_LNSEGS and TGT_FOREIGNOPS are included to control for target company business complexities.

Next, I include SIZEMV, BTM, and LOSS to control for acquirer company characteristics and TGT_LNASSETS and TGTBTM to control for target company characteristics. Given the lack of prior research examining these factors in the context of IPR&D charge-offs, I make no directional predictions. I include BIGN, and INDEXP as additional controls for external audit quality. I predict that brand-name and industry expert auditors will constrain the over-allocation of transaction value to IPR&D. Finally, as above, I control for board of director characteristics (BODSIZE, BODIND, and CEOCHAIR).

5.4 Audit Committee Changes Surrounding M&As

I model the determinants of change in audit committee accounting expertise with the following OLS regression:

$$\text{Change in Accounting Expertise} = \beta_0 + \beta_1\text{*ACQ\_ACCTCOMPLEXA} + \beta_2\text{*ACQ\_ACCTCOMPLEXB} + \beta_3\text{*ACQ\_ICPROB} + \beta_4\text{*DEALSIZE} + \beta_5\text{*DIVERSMA} + \beta_6\text{*POST\_LNSEGS} + \beta_7\text{*POST\_LNEMPLOY} + \beta_8\text{*CASH\_ONLY} + \beta_9\text{*HOSTILE} + \beta_{10}\text{*PREMIUM} + \beta_{11}\text{*TENDER} + \beta_{12}\text{*TOEHOLD} + \beta_{13}\text{*ACQ\_INSTOWN} + \beta_{14}\text{*ACSIZE} + \beta_{15}\text{*ACQ\_LNASSETS} + \beta_{16}\text{*TGT\_LNASSETS} + \beta_{17}\text{*STDRET} + \beta_{18}\text{*LITRISK} + \beta_{19}\text{*BODSIZE} + \beta_{20}\text{*BODIND} + \beta_{21}\text{*CEOCHAIR} + \varepsilon \qquad (4)$$

All variables are defined in Appendix A. For my dependent variable, I construct measures capturing both the change and increase in audit committee accounting expertise. I utilize logistic regression when the dependent variable is specified in the increase form. I use BoardEx's director employment and certification data to identify accounting expertise. Details of the search terms that I used are provided in Appendix B.1. The search terms are consistent with those used in prior research (e.g., Dhaliwal et al. 2010; Krishnan et al. 2011; Badolato et al. 2014). As a point of reference, Appendix B.2 provides statistics related to the work experiences and certifications of the population of BoardEx directors. Most accounting expertise via employment is achieved through work experience as either a CFO (71%) or treasurer (23%). Similarly, most accounting expertise via certification is achieved through CPA (73%) or chartered accountant (15%) certification.

Following prior research (e.g., Krishnan et al. 2011; Cohen et al. 2014), these changes and increases are constructed in three forms: (1) the change or increase in the number of accounting experts (CHGNUM and INCNUM, respectively), (2) the change or increase in the proportion of accounting experts serving on the audit committee (CHGPROP and INCPROP, respectively), and (3) the change in the presence of at least one accounting expert serving on the audit committee (CHGPRES) or the addition of at least one accounting expert to the audit committee (EXPADD).

I measure changes (i.e., in the number, proportion, and presence of at least one audit committee accounting expert(s)) by subtracting pre-merger variable values from post-merger variable values. Given that my hypothesis specifically predicts that accounting and business complexities will result in increases in audit committee accounting expertise, I also examine the changes in dummy form to distinguish increases in accounting expertise from other changes in accounting expertise. Specifically, I define increases with dummy variables coded 1 if the variable value (i.e., number, proportion, and presence of accounting expert) increased between the pre- and post-merger periods; these dummy variables are coded 0 otherwise. I am, therefore, comparing observations with increases in accounting expertise to observations with either no change or decreases in accounting expertise.

I require M&A observations to have pre-merger data for both the acquirer and target companies to be included in my sample. This research design choice allows me to examine how target company characteristics affect an acquirer’s choice to increase audit committee accounting expertise. If an acquirer's audit committee is changing in response to an M&A, it is necessary to include target company characteristics in models of audit committee change.

Hypothesis H4 predicts that increases in audit committee accounting expertise are positively associated with measures of both accounting and business/transaction complexities. Two measures proxy for accounting complexity. ACQ_ACCT-COMPLEXA is based on Francis and Gunn (2015). This variable is coded 1 if the acquirer operates in a complex accounting industry (i.e., there exist industry specific AICPA Practice Guides and/or FASB Topic Guides). ACQ_ACCTCOMPLEXB represents the percentage of all Compustat companies, within the acquirer's two-digit SIC industry that restated their financial statements for accounting errors (in the pre-merger year). Specifically, using data from Audit Analytics, I identify accounting related restatements as those that "identified accounting rule application failures." These variables capture industry-specific accounting complexity.[41] I predict that companies operating in industries prone to accounting error will be more likely to increase audit committee accounting expertise between the pre- and post-merger periods.

I also include ACQ_ICPROB as a measure of internal control complexity. This variable is coded 1 if the acquirer, in the pre-merger period, experienced an internal

[41] Both of my accounting complexity measures are industry based measures. In addition, for a majority of my sample (67%), acquirers and targets share a common industry. As a result there are very strong correlations (ranging between 0.81 and 0.84) between acquirer accounting complexity and target accounting complexity measures. Ultimately, my hypothesis predicts that accounting complexity of the company to be formed motivates increases in accounting expertise. In other words, more accounting expertise will be needed to handle the accounting complexity of the newly merged company. For these reasons, I exclude target company accounting complexity measures from my model.

control failure. I predict, like accounting complexity, internal control complexity will motivate a company to increase its accounting expertise between the pre- and post-merger periods.

Next, I include four measures of post-merger business complexity. First, DEALSIZE, is defined as the M&A transaction value divided by pre-merger, acquirer market value of equity. It is meant to capture the relative size of the acquisition (e.g., Bens et al. 2012). An acquirer's acquisition of a larger target is considered to have added business complexity to the acquirer's post-merger business. Second, DIVERSMA, is an indicator variable coded 1 if, in the pre-merger period, the acquirer and target companies operated in different two-digit SIC industries; it is coded 0 otherwise. I consider M&As involving acquirers and targets from different industries to be more complex (Bens et al. 2012). Business integration could be more difficult if the pre-merger companies operate in different industries.

Next, POST_LNSEGS represents the natural log of 1 plus the number of business segments for the acquirer in post-merger period (i.e., post-merger period represents acquirer plus target business). The fourth business complexity POST_LNEMPLOY represents the natural log of the number of employees (in millions) that acquirer employs in the post-merger period (i.e., post-merger period represents acquirer plus target business). I consider companies that maintain more business segments and have more employees as having greater business complexity. Overall, I predict that these measures of business complexity will be positively associated with changes and increases in audit committee accounting expertise.

I also include five measures of transaction complexity: CASH_ONLY, HOSTILE, PREMIUM, TENDER, and TOEHOLD. I predict negative associations between increases in audit committee accounting expertise and CASH_ONLY (cash only transactions are less complex[42]; Rappaport and Sirower 1999), TOEHOLD (acquirers who already own a portion of the target company will have more familiarity with the target company's business). Conversely, I predict positive associations between increases in audit committee accounting expertise and HOSTILE (an acquirer in a hostile takeover will be more restricted while performing pre-merger due diligence than in a "friendly" takeover), PREMIUM (larger premiums will lead to the recognition of larger intangible asset and goodwill balances which require subjective valuations), and TENDER (tender offers often trigger hostility between the acquirer and target; Betton, Eckbo, and Thorburn 2009).

Moving next to control variables, ACQ_INSTOWN represents the pre-merger percentage of the acquirer's shares held by institutional holders. Institutional ownership may serve as a corporate governance substitute, decreasing the need for monitoring provided by audit committee accounting experts. ACSIZE represents the number of audit committee members serving the acquirer's board. To control for acquirer and target company characteristics, I also include ACQ_LNASSETS and TGT_LNASSETS. I

[42] For example, stock transactions can introduce agency conflicts between the target shareholders and the managers of the acquiring company (Jensen 1986). In addition, there is evidence that acquirers use over-valued shares to make ill-advised acquisitions (Gu and Lev 2011), which can cause target company assets to be over-valued in the acquirer's post-merger balance sheet. Finally, tax accounting can be more complicated for stock transactions than cash transactions (Burton and Levin-Nussbaum 2012).

include STDRET and LITRISK to control for firm risk. Finally, I include controls related to the composition of the overall board: BODSIZE, BODIND, CEOCHAIR.

CHAPTER 6

SAMPLE SELECTION

Table 1 summarizes my sample selection process. I start with all M&As involving both a U.S. public acquirer and a U.S. public target. I impose this sample restriction because it is important to consider the target company's impact on the post-merger company to be formed (i.e., acquirer plus target), and the data for such analysis is available for public targets only. I also require M&A transaction values to exceed $10 million (Dhaliwal, Lamoreaux, Litov, and Neyland 2016). I obtain M&A data from Thomson One SDC for the period 1999-2014.[43] The initial number of M&A transactions is 3,589. After merging the M&A data with BoardEx (via CRSP and Compustat), 1,571 M&A transactions remain.[44] I define the pre-merger period as the year t-1, and the post-merger period as the years t, and t+1, where t is the year of merger. The rationale for using two years to define the post-merger period is that (as discussed above) ASC 805 permits acquirers to make adjustments to their post-merger financial statements for up to

[43] Note that during the period 1999-2001, companies could account for mergers using the pooling-of-interest method (APB 16). The pooling-of-interest method only required the combining of book values of the acquirer and target companies. Goodwill was not recognized when acquirers used this method and there was also no need to calculate fair values. Therefore, from an accounting perspective, the pooling-of-interest method was less complicated and likely biases against my finding results. Nonetheless, I conducted robustness tests for my analyses contained in Tables 4 (restatements), 19 (IPR&D charge-offs), and 27 (changes/increases in audit committee accounting expertise). All test variable results hold in each of these analyses. The goodwill impairment analyses are for the period 2003 and later; therefore these analyses already exclude pooling-of-interest period observations.

[44] Thomson One SDC provides six-digit, historic CUSIPs (i.e., NCUSIPs) as company identifiers. BoardEx provides CIKs as company identifiers. Therefore, I use both CRSP and Compustat to match NCUSIPs to CIKs.

one-year following a merger (i.e., the measurement period).[45] Therefore, I pool years t and t+1 observations in all of my analyses. Figure 1 provides a timeline that describes the relation between the M&A transaction date and periods t-1, t, and t+1.

Panels B through E in Table 1 show the sample selection for each analysis presented. The starting sample size for any particular post-merger set of analyses – before imposing variable requirements and analysis-specific sample restrictions – is 3,142 firm-year observations (i.e., 1,571 M&As with pooled firm-year observations for periods t and t+1). After imposing variable requirements, the sample sizes for restatements and audit committee changes following an M&A are 2,458 (Panel B) and 1,535 (Panel E), respectively. For analyses involving goodwill impairments and IPR&D charge-offs, I impose additional sample restrictions.[46, 47] My sample sizes for these analyses are 1,586 (Panel C) and 491 (Panel D) firm-year observations, respectively.

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[45] During years t and t+1, I am interested in the financial statement consequences associated with misapplication of M&A GAAP (ASC 805). Measurement period adjustments, themselves, do not indicate GAAP misapplication. However, because the measurement period exists, M&A GAAP can be misapplied in either/both periods t and t+1.

[46] The reduction in sample size for the goodwill analyses occurs because I restrict the sample period to the post-2002 period (i.e., 2003-2014). The current goodwill accounting standard (SFAS 142/ASC 350) became effective for fiscal years beginning after December 31, 2001 (FASB 2001). Therefore, the first annual period with a possible SFAS 142/ASC 350 impairment was December 31, 2002. In addition, SFAS 142, paragraphs 55-56 provided companies with a transitional period (six months to complete the step one test for goodwill impairment; one year to complete both the step one and step two tests) during which any goodwill impairment losses were recorded in the income statement below operating income. Therefore, any goodwill impairments recorded during 2002 represented non-standard impairments (Beatty and Weber 2006; Hayn and Hughes 2006; Jordan and Clark 2004).

[47] The IPR&D sample is significantly reduced because I restrict my sample observations to specific industries and to the pre-2009 period. In-process research and development

Table 2 presents descriptive statistics for the M&A transactions included in the sample. Looking at Panel A, the mean and median M&A transaction values are $2,037.5 million and $365.4 million, respectively. As described above, I limit the sample to M&As involving U.S. public acquirers and U.S. public targets. As a result, the sample contains M&As in which acquirers experience significant change. The average percentage change in size (pre- vs. post-M&A acquirer assets) is 73.1 percent (untabulated). The mean pre-merger assets for the acquirer and target are $27,823.5 million and $3,623.5 million, respectively. On average, the proportion of target assets to acquirer assets (pre-M&A) is 30.3 percent (untabulated). Finally, 32.8 percent of all M&As involve acquirers that operate in different industries from targets (untabulated). Panel B presents the breakdown of the sample of M&As by year. The largest frequency and the largest annual total transaction value for M&As occurs in 2000-2001, which roughly coincides with the dot-com bubble (Ljungqvist and Wilhelm 2003). M&A activity (both frequency and total transaction value) fell in 2002, which is consistent with the overall slowdown in global M&A deal activity in that year (Martin 2003; Reuters 2013). The second largest annual total transaction value and the second largest frequency of M&As occurs in 2006-2007, which coincides with the largest global M&A deal years in history (Mattioli and Cimilluca 2015; IMAA 2015).

(IPR&D) often represents a significant portion of an M&A's transaction value in IPR&D relevant industries (PwC 2014b). In addition, in 2009, SFAS 141R removed the incentive to over-allocate purchase price to IPR&D. Therefore, I restrict my IPR&D analysis to relevant industries (i.e., SICs 35-38 and 73; Dowdell and Lim 2015) and relevant years (i.e., 1999-2008).

CHAPTER 7

FINANCIAL REPORTING BENEFITS ASSOCIATED WITH INCREASES IN AUDIT COMMITTEE ACCOUNTING EXPERTISE

Table 3 presents descriptive statistics for my analyses of the financial reporting benefits associated with increases in audit committee accounting expertise.[48] Looking at the dependent variables, 11.5 percent of the sample experiences a restatement in the period immediately following an M&A,[49] which is consistent with Bens et al. (2012)'s findings. Further, 10.7 percent of the sample experiences a goodwill impairment in the period immediately following an M&A, which is consistent with that reported in Hayn & Hughes (2006). The average proportion of transaction value allocated to IPR&D and immediately written-off is 7.0 percent.

As described above, I specify my test variable – change in audit committee accounting expertise – in six different forms. Descriptive statistics for each of these variables are presented in Table 3. For the restatements sample, the change in the average number and proportion of audit committee experts (CHGNUM and CHGPROP) is 0.107 and 0.022, respectively between the pre- and post-merger periods, indicating an overall increase in both measures. Consistent with this, 15.1 and 21.6 percent of the sample increases the number (INCNUM) and proportion (INCPROP) of accounting experts between the pre- and post-merger periods, respectively. Finally, the average change in presence of at least one accounting expert (CHGPRES) is 0.048, while 7.7

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[48] In all analyses, continuous variables are winsorized at the top and bottom 1 percent of each distribution.

[49] Scholz (2014) reports a restatement frequency of 7.5 percent for the population of Compustat companies (p. 21).

percent of the sample adds an accounting expert (EXPADD) in the post-merger period after not having an accounting expert in the pre-merger period. The trends in these variables is similar for the goodwill impairment sample, and generally higher for the IPR&D charge-off sample.

In addition to audit committee accounting expertise, there is evidence in prior research indicating that other forms of audit committee expertise are positively associated with financial reporting quality. For example, financial reporting quality has been found to be positively associated with both legal expertise (Krishnan et al. 2011) and industry expertise (Cohen et al. 2014). Further, Shepardson (2013) finds evidence that goodwill impairments are more likely for companies that have audit committee directors with experience in goodwill impairment analyses (i.e., contextual expertise).

Following the passage of SOX in 2002, the SEC requires all public companies to disclose whether or not their audit committees have at least one member with financial expertise. What is notable about this requirement is that the SEC's definition of financial expertise allows audit committee directors with experiences in either practicing accounting (e.g., directors who have CPAs or who have worked as auditors, CFOs, etc.) or supervising those practicing accounting (e.g., directors who have worked as a CEOs or company presidents, etc.) to qualify as audit committee financial experts (SEC 2003a).[50]

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[50] SOX included a requirement for the SEC to define audit committee financial expertise. Listed companies would then be required to disclose whether or not their audit committees had at least one financial expert as defined by the SEC (SOX Section 407). In 2002, the SEC initially proposed a narrow definition of audit committee financial expertise that was limited to individuals who had experience in accounting and auditing (SEC 2002). However, in its final rule the SEC controversially included non-accounting (i.e., finance and supervisory) financial expertise in its definition of audit committee financial expertise (SEC 2003a). The rationale for expanding the definition to non-

Given the evidence in prior research and the SEC's definition of audit committee financial expert, in the following subsections I examine the associations between financial reporting quality and changes and increases in all of these forms of audit committee expertise: accounting, supervisory, legal, industry, and M&A contextual expertise. I also aggregate all other forms of audit committee expertise (i.e., all non-accounting) into a single "alternate expertise" variable.[51] I then compare the effects of audit committee accounting expertise on financial reporting quality to those of audit committee non-accounting expertise. Descriptive statistics for changes in these other forms of audit committee expertise are presented in Table 3. Control variable descriptive statistics are also presented in Table 3 and are generally consistent with prior research (e.g., Badolato et al. 2014; Beatty and Weber 2006; Bens et al. 2012; Shepardson 2013).

7.1 Restatements

Table 4 presents the estimates for equation (1), the analysis of financial restatements in the post-M&A period. For all columns, the dependent variable (RESTATE) is coded 1 if the acquirer restated its post-merger financial statements and 0 otherwise. Columns 1-3 and 4-6 report results using the changes and increases forms of my test variables, respectively. Throughout this study, I use one-sided tests when signs are predicted and two-sided tests otherwise.

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accounting expertise was based on comments received by the SEC indicating that the "…proposed definition was too restrictive…several [commenters] expressed concern[s] that many companies, especially small ones, would have a difficult time attracting an audit committee member who would qualify as an expert…" (SEC 2003a).

[51] When constructing this alternate expertise variable, I include audit committee members who have tax expertise as experts. There are very few (0.03 percent) audit committee directors in the BoardEx population that qualify as tax experts, which prevents me from conducting an individual set of analyses for audit committee tax expertise. Nonetheless, tax issues are important in the M&A setting (Sayuk, Fricke, Naughtin, and Dugger 2012).

Hypothesis H1 predicts that increases in audit committee accounting expertise will aid in the prevention of restatements. Consistent with this prediction, I find negative associations between restatements and changes/increases in audit committee accounting expertise in all columns, suggesting that changes/increases in accounting expertise are associated with fewer financial statement restatements in the financial statement periods immediately following an M&A. Further, this result holds after controlling for pre-merger financial reporting quality, measured by the occurrence of a pre-merger restatement (PRE_MARESTATE). PRE_MARESTATE is positively associated with the likelihood of a post-merger restatement.

Consistent with prior research (e.g., Bens et al. 2012), the existence of firm-level internal control issues (FIRM_ICPROB) and higher return volatility (STDRET) are positively associated with the likelihood of restatement Finally, acquirers with larger audit committees are more likely to restate, while those with more independent boards (BODIND) are less likely to restate.

In subsections 7.1.1 through 7.1.5 below, I examine whether the associations reported above – between changes/increases in audit committee accounting expertise and the likelihood of post-merger restatement – is affected by other forms of expertise. As described at the beginning of this chapter, prior research (e.g., Krishnan et al. 2011; Shepardson 2013; Cohen et al. 2014) has found positive associations between financial reporting quality and other forms of audit committee expertise. Further, the SEC's definition of audit committee financial expertise includes supervisory expertise (SEC 2003a).

As such, I examine (1) whether the inclusion of changes/increases in other forms of expertise weakens the associations noted above and (2) whether there are interactive effects between changes/increases in accounting expertise and other forms of expertise. I examine the following other forms of audit committee expertise in turn: supervisory, legal, industry, and M&A contextual. Table 3 shows the descriptive statistics for each of these other forms of expertise. Recall from above, that 15.1 and 21.6 percent of my sample experienced increases in the number and proportion audit committee accounting expertise, respectively. Relative to accounting expertise, companies in my sample experienced larger increases in supervisory expertise (19.2 and 25.8 percent, respectively), but smaller increases in legal (5.7 and 9.0 percent, respectively), industry (3.9 and 6.1 percent, respectively), and M&A contextual (14.7 and 9.0 percent, respectively) expertise. The SEC stated that its motivation for including supervisory expertise in its definition of audit committee financial expertise was to allow companies (particularly smaller companies) to attract qualified audit committee members (SEC 2003a). The descriptive evidence – companies in my sample experienced larger increases in the more broadly defined supervisory expertise than in the more narrowly defined accounting expertise – suggests that companies utilized the SEC's broad definition to attract qualified audit committee members following an M&A.[52] I also aggregate all non-accounting forms of expertise and calculate changes/increases for this alternate measure of expertise (further details of this measure are provided in subsection

[52] The descriptive statistics for my sample are also consistent with those for the population of BoardEx directors. That is, directors qualified as supervisory experts (16.2 percent) are more common than those qualified as accounting experts (6.6 percent).

7.1.5 below). 27.9 percent of my sample increased the proportion of audit committee members with some form of alternate expertise.

For each other form of expertise, I present two models: the first includes the changes/increases in the other form of expertise (i.e., supervisory, legal, industry, M&A contextual, and alternate in turn) as an additional test variable and the second includes both the changes/increases in the other form of expertise and interactions of the changes/increases in accounting expertise and the other form expertise.

7.1.1 Restatements: Accounting and Supervisory Expertise

In this subsection, I analyze the effect of changes/increases in supervisory expertise. I consider a director to be a supervisory expert if he/she has experience working as a CEO, Chairman, and/or President (Dhaliwal et al. 2010; Krishnan et al. 2011; Badolato et al. 2014). The top of Table 5 presents the estimates for equation (1) with changes/increases in audit committee supervisory expertise added as a second test variable. As in Table 4, the dependent variable is RESTATE and columns 1-3 and 4-6 report results using the changes and increase forms of my test variables, respectively. I predict negative associations between post-merger restatement and both changes/increases in audit committee accounting and supervisory expertise. Consistent with this prediction and the results presented in Table 4, I find negative associations between restatements and changes/increases in audit committee accounting expertise in all columns. I do not, however, find any association between post-merger restatement and changes/increases in supervisory expertise. Further, Wald test results (presented in the middle of Table 5), which test for the equality of accounting and supervisory expertise coefficients, indicate that changes/increases in accounting expertise have a significantly more negative effect on the likelihood of post-merger restatement than changes/increases in supervisory expertise (Wald tests are significant in columns 1-5). My findings for changes/increases in supervisory expertise are consistent with the findings of Dhaliwal et al. (2010), Krishnan and Visvanathan (2008), and Krishnan et al. (2011) who find no associations between financial reporting quality (measured using accruals quality and conservatism) and levels of supervisory expertise.

At the bottom of Table 5, I examine the possibility that the effect of changes/increases in accounting expertise is affected by changes/increases in supervisory expertise. That is, the two forms of expertise may reinforce each other and potentially amplify the effects on financial reporting quality. Thus I include, in addition to the ACCTEXP Variable and SUPEXP Variable, interactions between the two variables (i.e., ACCTEXP Variable*SUPEXP Variable). I find some evidence in column 3 of a negative association between changes/increases in joint accounting and supervisory expertise and the likelihood of restatement.

7.1.2 Restatements: Accounting and Legal Expertise

In this subsection, I examine whether changes/increases in audit committee legal expertise are associated with the likelihood of post-merger restatement. I consider a director to have legal expertise if he/she has held any of the following job titles: lawyer, general counsel, director – law, and/or attorney. In addition, I consider a director to have legal expertise if he/she holds any of the following qualifications: JD, LLM, LLD, DCL, DL, JSD, and/or SJD (Krishnan et al. 2011). Table 6 presents the estimates for equation (1), but with changes/increases in audit committee legal expertise added as a second test variable. The dependent variable is RESTATE and I predict negative associations with changes/increases in both accounting and legal expertise. Results indicate that changes/increases in both accounting (all columns at the top of Table 6) and legal expertise (columns 1-4 and 6 at the top of Table 6) are negatively associated with the likelihood of restatement. Further, Wald tests indicate that the effects of changes/increases in accounting expertise are indistinguishable from those of legal expertise (Wald tests are insignificant in all columns). The bottom of Table 6 examines the effects of changes/increases in joint audit committee accounting and legal expertise. I find negative associations between RESTATE and changes/increases in accounting expertise (columns 1-4 and 6) and legal expertise (columns 1-3 and 6). I do not find any associations for changes/increases in joint accounting and supervisory expertise.

7.1.3 Restatements: Accounting and Industry Expertise

Table 7 presents estimates for equation (1), but with changes/increases in audit committee industry expertise added as a second test variable. An acquirer's director is considered to be an industry expert if he/she is employed or was employed by another company in the same industry (two-digit SIC) as the acquirer (Cohen et al. 2014). Results indicate that changes/increases in audit committee accounting expertise (significant in all columns at the top of Table 7), but not industry expertise, are negatively associated with the likelihood of post-merger restatement. However, I find only limited evidence that changes/increases in accounting expertise have a more negative effect on the likelihood of restatement than changes/increases in industry expertise (in the middle of Table 7, the Wald test is significant in column 3). At the bottom of Table 7, I find no evidence that changes/increases in joint accounting and industry expertise (ACCTEXP Variable*INDEXP Variable) are associated with the likelihood of restatement. However, I find consistent evidence that changes/increases in accounting expertise (ACCTEXP Variable; significant in all columns) and limited evidence that changes/increases in industry expertise (INDEXP Variable; significant in column 4) are negatively associated with the likelihood of post-merger restatement.

7.1.4 Restatements: Accounting and M&A Expertise

Table 8 adds changes/increases in audit committee M&A expertise to equation (1) as a second test variable. I consider an acquirer's director to have M&A expertise if he/she is employed or was employed by another company that was involved in a merger (Compustat variable AQC). Shepardson (2013) finds that when audit committee directors have goodwill impairment contextual expertise, goodwill impairments are more likely. Similarly, I predict here that when audit committee members have contextual expertise in M&A accounting (as indicated by employment at another company that has been involved in a merger), post-merger restatements will be less likely. In Table 8, I find consistent evidence that changes/increases in audit committee accounting expertise (ACCTEXP Variable; significant in all columns in the top portion and columns 1-4 in the bottom portion of Table 8) are negatively associated with the likelihood of restatement. However, I find only limited evidence that changes/increases in audit committee M&A expertise matter. At the bottom of Table 8, I find that restatements are negatively associated with an increase in the proportion of joint accounting and M&A expertise (column 5). Further, Wald tests, which are reported in the middle of Table 8, provide some evidence that changes/increases in audit committee accounting expertise matter more than changes/increases in audit committee M&A expertise (Wald tests are significant in columns 2 and 5).

7.1.5 Restatements: Accounting and Alternate Expertise

Table 9 examines changes/increases in all non-accounting audit committee expertise. Specifically, I create a variable (ALTEXP Variable) which aggregates changes/increases in audit committee supervisory, legal, industry, and M&A expertise. As described above, I also include changes/increases in audit committee tax expertise, which could not be analyzed on its own due to an insufficient number of tax expert observations, in my audit committee alternate expertise variable. An audit committee member is considered to be an alternate expert if he/she has any non-accounting expertise (i.e., supervisory, legal, industry, M&A, and/or tax expertise).[53] I then calculate changes/increases in an acquirer's audit committee's number, proportion, and presence of such alternate experts between the pre- and post-merger periods. In Table 9, I find that changes/increases in both accounting (ACCTEXP Variable; significant in all columns in both the top and bottom portions of Table 9) and alternate expertise (ALTEXP Variable; significant in columns 1-2, and 4 in both the top and bottom portions of Table 9) are important in preventing post-merger restatements. I find no evidence that joint accounting and alternate expertise matters (ACCTEXP Variable*ALTEXP Variable; insignificant in all columns at the bottom of Table 9) and some evidence that changes/increases in accounting expertise matters more than changes/increases in alternate expertise (Wald tests, presented in the middle of Table 9, are significant in columns 3 and 6).

[53] For example, if an audit committee member has worked as a CEO (one example of work experience that would qualify him/her as a supervisory expert) I consider the member to be an alternate expert. In short, any work experience or qualification that would qualify an audit committee member as either a supervisory, legal, industry, M&A, or tax expert would also qualify the audit committee member as an alternate expert.

Overall, the results in Tables 5-9 support the results reported in Table 4: changes/increases in accounting expertise are positively associated with post-merger financial reporting quality, as measured by the incidence of post-merger restatements. In addition, changes/increases in legal expertise are (a) negatively associated with the likelihood of post-merger restatement and (b) matter just as much as changes/increases in accounting expertise. Similar to accounting complexities, M&As involve legal complexities (e.g., merger agreements must be drafted by an acquirer's lawyers; M&A transactions larger than $53 million are subject to antitrust scrutiny, etc.; Gole and Morris 2007), which may explain the importance of changes/increases in audit committee legal expertise.

By contrast, changes in other forms of expertise – supervisory, industry, and M&A contextual – are either not associated or weakly associated with the likelihood of restatement. The SEC's definition of audit committee financial expertise is broadly defined and includes supervisory expertise, but my evidence suggests that accounting expertise matters more in preventing post-merger restatements than supervisory expertise.

7.1.6 Restatements: Change in Restatement

Table 10 presents a robustness test related to the results presented in Table 4. In Table 4, the dependent variable, RESTATE, is a level variable and the test variables are change variables. Although I control for pre-merger restatement in Table 4, it is possible pre-merger restatements may be influencing the incidence of post-merger restatements, which could then affect the results presented. To address this concern, in Table 10 I use a new dependent variable, CHG_RESTATE, and regress it on my test variable. CHG_RESTATE, which measures the change in restatements between the pre-merger and post-merger years, is the difference between RESTATE and PRE_MARESTATE. Recall that PRE_MARESTATE (RESTATE) is coded 1 if either the acquirer and/or target pre-merger financial statements were subsequently restated (if the acquirer post-merger financial statements were subsequently restated); coded 0 otherwise. The results presented in Table 10 are qualitatively similar to those presented in Table 4: there are, significant, negative associations between changes in restatement and changes in accounting expertise in columns 1-3.

7.2 Timely Goodwill Impairments

Table 11 presents the estimates for equation (2), the analysis of the timeliness of goodwill impairments. The dependent variable in all columns is GWIMPAIR, an indicator variable capturing the occurrence of a goodwill impairment immediately following an M&A (i.e., in either year t or t+1). As above, the audit committee accounting expertise test variables are specified as changes (columns 1-3) and as increases (columns 4-6). Hypothesis H2 predicts that in the presence of a goodwill impairment indicator, goodwill impairments will be more likely – and, therefore, timelier – when there are increases in audit committee accounting expertise. As described above, I identify M&A overpayment (OVRPD) as a primary indicator of goodwill impairment immediately following an M&A.[54] Thus, H2 predicts a positive association between goodwill impairments and the interactions of changes/increases in accounting expertise and overpayment. Results are consistent with this prediction (columns 1-2 and 4-5).

[54] As part of the overall board, audit committee members are involved in the transaction value negotiation process (Gole and Morris 2007, 17). An audit committee with more financial, and specifically valuation, expertise may pay a more reasonable price in an acquisition. However, this type of expertise is distinct from accounting expertise and outside of the scope of my analyses.

Collectively, these results provide some evidence, consistent with H2, that changes/increases in accounting expertise induce companies to record timelier goodwill impairments. The results for the control variables are consistent with both predictions and prior goodwill impairment studies (e.g., Beatty and Weber 2006; Shepardson 2013).

7.2.1 Goodwill Impairments: High Price-to-Book Ratio

In Table 12 I replace the OVRPD variable, used in Table 11 and discussed in subsection 7.2 above, with my second proxy for M&A overpayment, HIGHPTB_RATIO. This variable represents an indicator variable coded 1 if the acquirer paid a high price-to-book ratio and coded 0 otherwise. The definition of and the rationale for using this variable is provided in subsection 5.2 above. As an additional robustness check, I also exclude observations for which the acquirer was involved in multiple mergers in the same year (i.e., to avoid cofounding effects of unrelated mergers on post-merger goodwill impairments).[55] This reduces my sample size to 1,309 observations. When the variable OVRPD is replaced with the variable HIGHPTB_RATIO in Table 12, results are qualitatively similar to those presented in Table 11 (i.e., the interaction between the ACCTEXP Variable and HIGHPTB_RATIO is positive and significant in columns 2, 3, and 6).

7.2.2 Goodwill Impairments: Abnormally High Goodwill

In Table 13 I replace the OVRPD variable with my third proxy for M&A overpayment, ABNHIGH_GW. This variable is based on Paugam et al. (2015) and is coded 1 if an M&A transaction resulted in abnormally high goodwill (as measured by

[55] All results for my test variables presented in Table 11 are robust to this additional sample restriction (i.e., results for the ACCTEXP Variable*OVRPD interaction remain positive and significant in columns 1-2 and 4-5).

regression residuals values, from a goodwill expectation model, greater than 0); coded 0 otherwise.[56] This variable is discussed in more detail in subsection 5.2. The estimation of Paugam et al.'s goodwill expectation model requires the measurement of the amount of goodwill generated by each M&A transaction. To accomplish this, I use Compustat quarterly data and compare balance sheet goodwill for each acquirer in the quarter preceding the acquisition to that of the quarter following the acquisition. To ensure that the change in goodwill relates solely to the M&A sample observation, I exclude acquirer quarters in which more than one company was acquired. Estimation of the expectation model also requires the collection of additional data. These additional sample restrictions reduce my sample size to 929 observations for the purposes of estimating the models presented in Table 13.[57] Consistent with the results presented in Table 11, I find positive and significant coefficients for the interaction of the ACCTEXP Variable and ABNHIGH_GW in columns 1 and 4-6.

7.2.3 Goodwill Impairments: Accounting and Supervisory Expertise

In subsections 7.2.3 through 7.2.7, I add different forms of changes/increases in audit committee expertise to equation (2) – my empirical model for goodwill impairments. These analyses are similar to those performed for post-merger restatements above (i.e., in subsections 7.1.1 through 7.1.5). The different forms of audit committee

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[56] As described above, defining ABNHIGH_GW in this way effectively splits the observations in my sample at the median value of the regression residuals. When I define ABNHIGH_GW as those values equal to or greater than the 75th percentile of regression residual values, the interaction of ACCTEXP Variable and ABNHIGH_GW remains significant and positive in columns 5 and 6.

[57] The most significant observation losses occur for target company sales growth and acquirer and target deal announcement returns data requirements.

expertise examined include accounting (all 7.2 subsections), supervisory (subsection 7.2.3), legal (subsection 7.2.4), industry (subsection 7.2.5), M&A contextual (subsection 7.2.6) and alternate (subsection 7.2.7) expertise and are defined in the same way as above. In these analyses, I use the variable HIGHPTB_RATIO as my primary indicator of goodwill impairment and interact it with each of the audit committee expertise variables. I do this because a limited portion (1.5 percent) of my sample has an OVRPD value of 1, which prevents model estimation when using two sets of interactions in a single model.

Table 14 adds changes/increases in audit committee supervisory expertise to equation (2). Results indicate that interactions between HIGHPTB_RATIO and changes/increases in accounting expertise (ACCTEXP Variable*HIGHPTB_RATIO; significant in columns 2-3 and 6), but not supervisory expertise (SUPEXP Variable*HIGHPTB_RATIO; insignificant in all columns), are positively associated with goodwill impairments. In addition, Wald tests (presented at the bottom of Table 14) provide some evidence of more positive associations for accounting expertise interactions than supervisory expertise interactions (Wald tests significant in columns 2 and 3).

7.2.4 Goodwill Impairments: Accounting and Legal Expertise

In Table 15, I add changes/increases in audit committee legal expertise to equation (2). Results indicate that interactions between HIGHPTB_RATIO and changes/increases in accounting expertise (columns 2-3 and 6), but not legal expertise, are positively associated with goodwill impairments. However, Wald tests (presented at the bottom of Table 15) are insignificant.

7.2.5 Goodwill Impairments: Accounting and Industry Expertise

In Table 16, I add changes/increases in audit committee industry expertise to equation (2). Results indicate that interactions between HIGHPTB_RATIO and changes/increases in accounting expertise (columns 2-3 and 6) and industry expertise (column 5), are positively associated with goodwill impairments. Wald tests, however, provide only limited evidence of more positive associations for ACCTEXP Variable*HIGHPTB_RATIO than for INDEXP Variable*HIGHPTB_RATIO (Wald test significant in column 3).

7.2.6 Goodwill Impairments: Accounting and M&A Expertise

In Table 17, I add changes/increases in audit committee M&A expertise to equation (2). Results indicate that interactions between HIGHPTB_RATIO and changes/increases in accounting expertise (columns 2-3 and 6), but not M&A expertise, are positively associated with goodwill impairments. Wald tests provide limited evidence of more positive associations for accounting expertise interactions than M&A expertise interactions (Wald tests are significant in columns 3 and 6).

7.2.7 Goodwill Impairments: Accounting and Alternate Expertise

In Table 18, I add changes/increases in audit committee alternate expertise to equation (2). Interactions between HIGHPTB_RATIO and changes/increases in accounting expertise (significant in columns 2-4 and 6), but not alternate expertise (insignificant in all columns), are positively associated with goodwill impairments. However, Wald tests provide only limited evidence that accounting expertise interactions matter more than alternate expertise interactions (Wald test is significant in column 6).

Collectively, the results in Tables 14-18 are consistent with the results reported in Table 11. That is, changes/increases in accounting expertise are positively associated with timely goodwill impairments following an M&A. Similar to results reported above for restatements, the results here for goodwill impairments suggest that changes/increases in audit committee accounting expertise are more important than changes/increases in supervisory expertise. These results are in opposition to the SEC's decision to broadly define audit committee financial expertise and to include supervisory expertise in its definition (SEC 2003a). Unlike the results reported above for restatements, I do not find that legal expertise is associated with the likelihood of goodwill impairments. Changes in the remaining forms of audit committee expertise – industry and M&A contextual – are not associated with the likelihood of goodwill impairment immediately following an M&A.

7.3 In-process Research and Development (IPR&D) Charge-offs

Table 19 presents the estimates for equation (3), the analysis of in-process research and development (IPR&D) charge-offs. For all columns, the dependent variable (IPRD_WRITEOFF) represents the proportion of M&A transaction value allocated to IPR&D and immediately written-off. As before, I present results for my audit committee accounting expertise test variables specified as changes (columns 1-3) and increases (columns 4-6). Hypothesis H3 predicts that increases in audit committee accounting expertise will constrain over-allocations of transaction value to IPR&D, suggesting negative associations between IPRD_WRITEOFF and changes/increases in audit committee accounting expertise. The results in all columns are consistent with this prediction. Changes/Increases in audit committee accounting expertise constrain over-allocations of M&A transaction value to IPR&D (ACCTEXP Variable is significant in all columns). Results for the control variables indicate that IPRD_WRITEOFF is positively associated with larger M&A transactions (DEALSIZE), larger acquirers (SIZEMV), larger acquirer book-to-market ratios (BTM), poor acquirer financial performance (LOSS) and negatively associated with target size (TGT_LNASSETS) and accounting complexity (TGT_ACCTCOMPLEX).

In subsections 7.3.1 through 7.3.5 below, I add changes/increases in other forms of audit committee expertise to equation (3). Equation (3) represents my empirical model for IPR&D Charge-offs. As in subsections 7.1.1 through 7.1.5 (which examined the associations between post-merger restatements and changes/increases in other forms of audit committee expertise) I include accounting (all 7.3 subsections), supervisory (subsection 7.3.1), legal (subsection 7.3.2), industry (subsection 7.3.3), M&A subsection (7.3.4), and alternate (subsection 7.3.5) expertise in my analyses below.

7.3.1 IPR&D Charge-offs: Accounting and Supervisory Expertise

In Table 20, I add supervisory expertise to equation (3). I predict that increases in audit committee accounting and supervisory expertise will constrain over-allocations of transaction value to IPR&D. Results indicate that changes/increases in audit committee accounting expertise (ACCTEXP Variable significant in all columns in both the top and bottom portions of Table 20), but not supervisory expertise (SUPEXP Variable insignificant in all columns in both the top and bottom portions of Table 20), constrain over-allocations of M&A transaction value to IPR&D. In addition, F-tests (presented in the middle of Table 20) indicate more positive associations for accounting expertise than for supervisory expertise (F-tests are significant in all columns). The bottom of Table 20 examines the effects of changes/increases in joint accounting and supervisory expertise on IPR&D charge-offs. Results indicate that changes/increases in accounting expertise (all columns) and joint accounting and supervisory expertise (column 5), but not changes/increases in supervisory expertise (insignificant in all columns), constrain over-allocations of M&A transaction value to IPR&D.

7.3.2 IPR&D Charge-offs: Accounting and Legal Expertise

In Table 21, I add legal expertise to equation (3). I predict that changes/increases in audit committee accounting and legal expertise will constrain over-allocations of transaction value to IPR&D. Results indicate that changes/increases in both audit committee accounting (ACCTEXP Variable significant in all columns in the top portion of Table 21) and legal expertise (LEGEXP Variable significant in columns 1-3 and 6 in the top portion of Table 21) constrain over-allocations of M&A transaction value to IPR&D. F-tests (presented in the middle of Table 21) are insignificant. The bottom portion of Table 21 examines the effects of changes/increases in joint accounting and legal expertise on IPR&D charge-offs. Results again indicate that changes/increases in accounting expertise (all columns) and legal expertise (columns 1-4 and 6), but not changes/increases in joint accounting and legal expertise, constrain over-allocations of M&A transaction value to IPR&D. Collectively, these results provide evidence, that changes/increases in both accounting and legal expertise constrain over-allocations of M&A transaction value to IPR&D. In addition, I do not find any evidence that changes/increases in accounting expertise matters more than changes/increases in legal expertise, or vice versa.

7.3.3 IPR&D Charge-offs: Accounting and Industry Expertise

In Table 22, I add industry expertise to equation (3). I predict that changes/increases in audit committee accounting and industry expertise will constrain over-allocations of transaction value to IPR&D. Results indicate that changes/increases in audit committee accounting expertise (in the top portion of Table 22, ACCTEXP Variable is significant in all columns), but not industry expertise (in the top portion of Table 22, INDEXP Variable is insignificant in all columns), constrain over-allocations of M&A transaction value to IPR&D. In addition, F-tests (presented in the middle of Table 22) indicate more positive associations for accounting expertise than for industry expertise (F-tests are significant in all columns). The bottom of Table 22, examines the effects of changes/increases in joint accounting and industry expertise on IPR&D charge-offs. Results again indicate that changes/increases in accounting expertise (all columns), but neither changes/increases in industry expertise nor joint accounting and industry expertise, constrain over-allocations of M&A transaction value to IPR&D. These results provide evidence, that changes/increases in accounting expertise – but not changes/increases in industry expertise – constrain over-allocations of M&A transaction value to IPR&D. In addition, the evidence suggests that changes/increases in accounting expertise matter more than changes/increases in industry expertise.

7.3.4 IPR&D Charge-offs: Accounting and M&A Expertise

In Table 23, I add M&A expertise to equation (3). I predict that increases in audit committee accounting and M&A expertise will constrain over-allocations of transaction value to IPR&D. Results indicate that changes/increases in audit committee accounting expertise (in the top portion of Table 23, ACCTEXP Variable is significant in all columns), but not M&A expertise, constrain over-allocations of M&A transaction value to IPR&D. In addition, F-tests (presented in the middle of Table 23) indicate more positive associations for accounting expertise than for M&A expertise (F-tests are significant in columns 2-3 and 6). The bottom of Table 23 examines the effects of changes/increases in joint accounting and M&A expertise on IPR&D charge-offs. Results indicate that changes/increases in accounting expertise (all columns) and M&A expertise (column 4), but not joint accounting and M&A expertise, constrain over-allocations of M&A transaction value to IPR&D. These results provide evidence, that changes/increases in accounting expertise – but not changes/increases in M&A expertise – constrain over-allocations of M&A transaction value to IPR&D. In addition, I find some evidence that changes/increases in accounting expertise matter more than changes/increases in M&A expertise.

7.3.5 IPR&D Charge-offs: Accounting and Alternate Expertise

In Table 24, I add alternate expertise to equation (3). I predict that increases in audit committee accounting and alternate expertise will constrain over-allocations of transaction value to IPR&D. Results indicate that changes/increases in audit committee accounting expertise (in the top portion of Table 24, ACCTEXP Variable is significant in all columns), but not alternate expertise (in the top portion of Table 24, ALTEXP Variable is insignificant in all columns), constrain over-allocations of M&A transaction value to IPR&D. In addition, F-tests (presented in the middle of Table 24) indicate more positive associations for accounting expertise than for alternate expertise (F-tests are significant in columns 2-3 and 6). The bottom of Table 24 examines the effects of changes/increases in joint accounting and alternate expertise on IPR&D charge-offs.

Results indicate that changes/increases in accounting expertise (all columns) and changes/increases in joint accounting and alternate expertise (column 5), but not changes/increases in alternate expertise, constrain over-allocations of M&A transaction value to IPR&D.

Collectively, the results presented in Tables 20-24 suggest that changes/increases in audit committee accounting expertise are positively associated with post-merger financial reporting quality as measured by the proportion of M&A transaction value allocated to IPR&D expense. Consistent with the results reported for restatements and goodwill impairments above, the evidence also indicates that (a) changes/increases in audit committee accounting expertise matter more than changes in supervisory expertise and (b) changes/increase in audit committee legal expertise matter just as much as changes/increases in accounting expertise. In contrast to the results reported for restatements and goodwill impairments, I also find evidence here that changes/increases in audit committee accounting expertise matter more than changes/increases in industry and M&A contextual expertise.

7.4 Acquirers' Selection of Targets

The results presented in the subsections above suggest that changes/increases in audit committee accounting expertise are positively associated with post-merger financial reporting quality. However, it is possible that an acquirer's pre-merger audit committee accounting expertise is associated with the selection of target companies with higher financial reporting quality. This selection of better targets, by acquirers, could then lead to higher post-merger financial reporting quality. While the tests performed above have examined financial reporting quality in change forms (Table 10 for restatements;

goodwill impairments and IPR&D charges-offs are by definition change variables since they cannot be recorded prior to a merger), I, nonetheless, conducted a robustness test to examine the impact of pre-merger acquirer audit committee accounting expertise on the selection of target companies.

In Panel A of Table 25, I first conduct t-tests comparing target pre-merger discretionary accruals (TGT_DACC), target pre-merger performance adjusted discretionary accruals (TGT_PADACC), and target pre-merger absolute performance adjusted discretionary accruals (TGT_ABS_PADACC) for acquirers with high and low amounts pre-merger audit committee accounting expertise.[58] Results for both TGT_DACC and TGT_PADACC in column (6) (i.e., t-tests for high and low amount of acquirer pre-merger proportions of audit committee accounting expertise) indicate that acquirers with more audit committee accounting expertise select target companies with lower amounts of discretionary accruals. Results for t-tests presented in column 3 (acquirers with high and low pre-merger numbers of audit committee accounting expertise) and column 9 (acquirers with and without at least one pre-merger audit committee accounting expert) are insignificant.[59] However, these tests do not control for other variables that affect the selection of a target.

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[58] For both the number and proportion of acquirer pre-merger audit committee accounting expertise, high accounting expertise is defined as a number or proportion greater than the median number or proportion. The presence or the non-presence of at least one accounting expert on an acquirer's audit committee is the basis for comparison in the final t-test.

[59] Note that the t-tests presented in columns 1-3 match those presented in columns 7-9. This is because, a high number of accounting expertise (columns 1-3) is defined as a number of audit committee accounting experts above the median, and the median number of accounting experts is one.

In Panel B of Table 25, I conduct a multivariate analysis of an acquirer's selection of a target. The dependent variables are TGT_DACC (columns 1-3), TGT_PADACC (columns 4-6), and TGT_ABS_PADACC (columns 7-9). The test variables are the acquirer's pre-merger number of experts (columns 1, 4, and, 7), proportion of experts (columns 2, 5, and 8), and the presence of at least one expert (columns 3, 6, and 9). Control variables are consistent with Xie et al. (2013). Variable requirements limit my sample size to 661 observations. If acquirers with more pre-merger audit committee accounting expertise do indeed pick target companies with higher pre-merger financial reporting quality, I would expect negative associations between the dependent variables and the accounting expertise variables (i.e., lower discretionary accrual values). Inconsistent with this argument, I do not find evidence that acquirer's with more pre-merger audit committee accounting expertise select targets with higher financial reporting quality. The accounting expertise variables are insignificant in all columns. Thus, I do not find evidence here that acquirers with more audit committee accounting expertise pick targets with higher financial reporting quality.[60]

[60] Note that when I exclude the TOBINQ variable from the analyses, which allows me to increase my sample size to 947 observations, the ACCTEXP Variable remains insignificant in all columns. In addition, the ACCTEXP Variable remains insignificant (with both 661 and 947 observation sample sizes) when: (a) I define the dependent variables as 0/1 variables for low and high amounts of TGT_DACC, TGT_PADACC, and TGT_ABS_PADACC, (b) I define the ACCTEXP Variable as a 0/1 variable for low and high amounts of audit committee accounting expertise, and (c) I define both the dependent variables and test variables as described in (a) and (b).

CHAPTER 8

WHAT EXPLAINS INCREASES IN AUDIT COMMITTEE ACCOUNTING EXPERTISE FOLLOWING AN M&A

Table 26 presents descriptive statistics for the analysis of increases in audit committee accounting expertise following an M&A. Panel A presents descriptive statistics for the audit committee accounting expertise variables. In the pre-merger period (i.e., year t-1) the mean number (NUM_ACCTEXP) and proportion (PROP_ACCTEXP) of accounting experts serving on acquirers' audit committees were 0.843 and 21.9 percent, respectively. In the post-merger period (i.e., years t and t+1) the number of accounting experts and the proportion of accounting experts rose to 0.959 and 24.4 percent, respectively. Further, in the pre-merger period 61.2 percent of audit committees had at least one accounting expert (PRES_ACCTEXP). Post-merger, 67.1 percent of audit committees had a least one accounting expert.

The mean changes in the number, proportion, and presence of at least one audit committee accounting expert were 0.116, 0.025, and 0.059, respectively. Further, 16.5 and 24.8 percent of all post-merger firm-year observations experienced increases in the number and proportion of audit committee accounting expertise, respectively. Finally, 8.7 percent of all post-merger firm-year observations added an accounting expert to their audit committees after not having an accounting expert in the pre-merger period. As shown in Table 26, Panel B comparatively fewer mergers result in decreases in audit committee accounting expertise – 6, 13, and 3 percent of observations result in decreases in the number, proportion, and presence of audit committee accounting experts. Table 26, Panel C presents descriptive statistics for the test and control variables. The test variables proxy for both accounting (H4a) and business/transaction (H4b) complexities.

Next, Table 27 presents the estimates for equation (1). The dependent variables, measuring change in accounting expertise from the pre- to post-merger periods, are specified in change forms in columns 1-3, and as increases in columns 4-6. Hypothesis H4a predicts positive associations between changes and increases in accounting expertise and accounting complexity. Consistent with this prediction, I find that two measures of accounting complexity, ACQ_ACCTCOMPLEXB (columns 1-2 and 4-5), and ACQ_ICPROB (columns 2 and 4-5) are positively associated with changes and increases in audit committee accounting expertise. Together, these results suggest that acquirers add accounting expertise to their audit committees to oversee the application of complex accounting.

Hypothesis H4b predicts positive associations between changes and increases in accounting expertise and business/transaction complexities. Consistent with this prediction, I find larger M&A transactions (DEALSIZE; significant in all columns), M&A transactions involving acquirers and targets operating in different industries (DIVERSMA; significant in columns 3, 4, and 6), and acquirers with a greater number of business segments (POST_LNSEGS; significant in column 5) are positively associated with changes and increases in audit committee accounting expertise. Contrary to expectations, I find that TENDER is negative and significant in all columns. Overall, acquirers appear to respond to the business complexities associated with M&As, but not transaction complexities, by adding accounting experts to their audit committees.

Looking at the results for the control variables, changes and increases in audit committee accounting expertise are negatively associated with ACQ_INSTOWN (columns 3 and 6) consistent with institutional shareholders serving as corporate governance substitutes for audit committee accounting expertise. Further, acquirers are less likely to add accounting expertise if the target is large (column 3). In addition, I find that acquirers operating in more litigious industries are more inclined to add accounting expertise (columns 1 and 4). Finally, I find acquirers with large boards (BODSIZE; significant in columns 1 and 4-6) and more independent boards (BODIND; significant in all columns) are less inclined to add accounting expertise.

CHAPTER 9

CONCLUSION

This study examines changes in a company's audit committee accounting expertise surrounding an M&A. I posit that the M&A setting is one in which audit committee members with accounting backgrounds would be valuable because audit committees are charged with monitoring both the application of the complex M&A accounting standard and the financial and operational integration of the acquirer and target companies. Anecdotal evidence suggests that companies find the M&A standard to be challenging. The PCAOB's inspections of 2013 year-end audits revealed that 49 percent of all fair-valuation-related audit deficiencies related to M&As (Chasan 2015). Similarly, during the periods 1997-2006 and 2003-2012, 17 percent and 8 percent of all restatements, respectively, related to M&As (Scholz 2008, 2014).

While previous research has examined audit committee accounting expertise, no study has examined its role in situations where implementation of an accounting standard is paramount. I investigate two research questions: Does an increase in audit committee accounting expertise improve the quality of an acquirer's post-merger financial reporting? What accounting, business, and transaction characteristics are important in explaining this increase?

Using a sample of large M&As (i.e., U.S. public acquirers and U.S. public targets during the period 1999-2014; average transaction value of $2.0 billion), I document that 16 percent of my sample experiences increases in the number of audit committee members with accounting expertise, around a merger. I then examine the potential financial reporting quality benefits of increases in audit committee accounting expertise.

I find that changes/increases in audit committee accounting expertise are negatively associated with both the likelihood of post-merger restatement and the amount of transaction value allocated to IPR&D and positively associated with the timeliness of goodwill impairments. Collectively, the results suggest that on average companies respond to the complexities of M&A accounting by adding accounting experts to their audit committees, and that doing so provides financial reporting quality benefits. Further, the evidence suggests that adding accounting experts is more important than adding supervisory, industry, and/or M&A contextual experts.

Next, I predict and find positive associations between increases in accounting expertise and measures of both accounting complexity (i.e., proportion of companies within an acquirer's industry that restate their financial statements because of accounting errors and an indicator variable for the presence of acquirer pre-merger internal control problems) and business complexity (i.e., M&A deal size, a diversifying M&A indicator, and the number of acquirer business segments).

My findings have important implications for companies currently involved in M&As and for companies currently considering how to best structure their audit committees. Unlike recent M&A studies, which have focused on M&A deal characteristics (e.g., deal premiums, likelihood of deal completion, and acquirer and target shareholder returns), I examine M&As from an accounting perspective. My study documents increases in audit committee accounting expertise around M&As and the benefits associated with those increases. The results suggest that companies currently considering large and complex M&As will likely benefit by increasing audit committee accounting expertise, potentially lowering the incidence of post-merger misstatements. I also contribute to the audit committee literature, because as discussed above, I examine accounting expertise at a time when they are likely applying their accounting knowledge to a specific accounting issue (i.e., the application of M&A accounting). Finally, the evidence provided by my study adds to the literature on the benefits of audit committee accounting expertise. The results are also consistent with the SEC's initial proposal to narrowly define audit committee financial expertise as accounting-specific expertise.

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APPENDIX A: VARIABLE DEFINITIONS

Variable Name	Variable Definition
RESTATE	An indicator variable coded 1 if the acquirer's post-merger financial statements were subsequently restated; coded 0 otherwise. For example, suppose an M&A transaction occurred on June 1, 2010 and the acquirer's first set of financial statements following the M&A pertained to period ending December 31, 2010. If at some point following initial release of its financial statements, the acquirer announced that its December 31, 2010 financial statements required restatement, RESTATE is coded 1 and coded 0 otherwise. Therefore, RESTATE captures a restatement of the post-merger financial statements rather than the announcement of a restatement.[b]
GWIMPAIR	An indicator variable coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise.[c]
IPRD_WRITEOFF	The proportion of M&A transaction value allocated to in-process research and development and immediately written-off (i.e., IPR&D expense / transaction value).[c, d]
NUM_ACCTEXP	The <u>number</u> of audit committee members with accounting expertise serving on the acquirer's post-merger board.[a]
PROP_ACCTEXP	The <u>proportion</u> of audit committee members with accounting expertise serving on the acquirer's post-merger board.[a]
PRES_ACCTEXP	An indicator variable coded 1 if <u>at least one</u> audit committee member, serving on the acquirer's post-merger board, had accounting expertise; coded 0 otherwise.[a]
CHGNUM	Change, between the pre- and post-merger periods, in the <u>number</u> of audit committee members with accounting expertise.[a]
CHGPROP	Change, between the pre- and post-merger periods, in the <u>proportion</u> of audit committee members with accounting expertise.[a]
CHGPRES	Change, between the pre- and post-merger periods, in the <u>presence</u> of audit committee members with accounting expertise.[a]
INCNUM	An indicator variable coded 1 if the <u>number of accounting experts</u> on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
INCPROP	An indicator variable coded 1 if the <u>proportion of accounting experts</u> on the audit committee increased between pre-merger and post-merger periods; coded 0 otherwise.[a]
EXPADD	An indicator variable coded 1 if the audit committee did not have an accounting expert pre-merger and <u>added an accounting expert</u> post-merger; coded 0 otherwise.[a]
SUP_CHGNUM	Change, between the pre- and post-merger periods, in the number of audit committee members with <u>supervisory</u> expertise.[a]
SUP_CHGPROP	Change, between the pre- and post-merger periods, in the proportion of audit committee members with <u>supervisory</u> expertise.[a]
SUP_CHGPRES	Change, between the pre- and post-merger periods, in the presence of audit committee members with <u>supervisory</u> expertise.[a]

APPENDIX A: VARIABLE DEFINITIONS (CONTINUED)

Variable Name	Variable Definition
SUP_INCNUM	An indicator variable coded 1 if the number of supervisory experts on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
SUP_INCPROP	An indicator variable coded 1 if the proportion of supervisory experts on the audit committee increased between pre-merger and post-merger periods; coded 0 otherwise.[a]
SUP_EXPADD	An indicator variable coded 1 if the audit committee did not have a supervisory expert pre-merger and added an accounting expert post-merger; coded 0 otherwise.[a]
LEG_CHGNUM	Change, between the pre- and post-merger periods, in the number of audit committee members with legal expertise.[a]
LEG_CHGPROP	Change, between the pre- and post-merger periods, in the proportion of audit committee members with legal expertise.[a]
LEG_CHGPRES	Change, between the pre- and post-merger periods, in the presence of audit committee members with legal expertise.[a]
LEG_INCNUM	An indicator variable coded 1 if the number of legal experts on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
LEG_INCPROP	An indicator variable coded 1 if the proportion of legal experts on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
LEG_EXPADD	An indicator variable coded 1 if the audit committee did not have a legal expert pre-merger and added a legal expert post-merger; coded 0 otherwise.[a]
IND_CHGNUM	Change, between the pre- and post-merger periods, in the number of audit committee members with industry expertise.[a]
IND_CHGPROP	Change, between the pre- and post-merger periods, in the proportion of audit committee members with industry expertise.[a]
IND_CHGPRES	Change, between the pre- and post-merger periods, in the presence of audit committee members with industry expertise.[a]
IND_INCNUM	An indicator variable coded 1 if the number of industry experts on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
IND_INCPROP	An indicator variable coded 1 if the proportion of industry experts on the audit committee increased between pre-merger and post-merger periods; coded 0 otherwise.[a]
IND_EXPADD	An indicator variable coded 1 if the audit committee did not have an industry expert pre-merger and added an industry expert post-merger; coded 0 otherwise.[a]
M&A_CHGNUM	Change, between the pre- and post-merger periods, in the number of audit committee members with M&A expertise.[a]
M&A_CHGPROP	Change, between the pre- and post-merger periods, in the proportion of audit committee members with M&A expertise.[a]

APPENDIX A: VARIABLE DEFINITIONS (CONTINUED)

Variable Name	Variable Definition
M&A_CHGPRES	Change, between the pre- and post-merger periods, in the presence of audit committee members with M&A expertise.[a]
M&A_INCNUM	An indicator variable coded 1 if the number of M&A experts on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
M&A_INCPROP	An indicator variable coded 1 if the proportion of M&A experts on the audit committee increased between pre-merger and post-merger periods; coded 0 otherwise.[a]
M&A_EXPADD	An indicator variable coded 1 if the audit committee did not have an M&A expert pre-merger and added a M&A expert post-merger; coded 0 otherwise.[a]
ALT_CHGNUM	Change, between the pre- and post-merger periods, in the number of audit committee members with alternate forms of expertise: supervisory, legal, tax, industry, and/or M&A expertise.[a]
ALT_CHGPROP	Change, between the pre- and post-merger periods, in the proportion of audit committee members with alternate forms of expertise: supervisory, legal, tax, industry, and/or M&A expertise.[a]
ALT_CHGPRES	Change, between the pre- and post-merger periods, in the presence of audit committee members with alternate forms of expertise: supervisory, legal, tax, industry, and/or M&A expertise.[a]
ALT_INCNUM	An indicator variable coded 1 if the number of alternate experts (supervisory, legal, tax, industry, and/or M&A experts) on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
ALT_INCPROP	An indicator variable coded 1 if the proportion of alternate experts (supervisory, legal, tax, industry, and/or M&A experts) on the audit committee increased between the pre-merger and post-merger periods; coded 0 otherwise.[a]
ALT_EXPADD	An indicator variable coded 1 if the audit committee did not have an alternate expert (supervisory, legal, tax, industry, and/or M&A expert) pre-merger and added an alternate expert post-merger; coded 0 otherwise.[a]
ACQ_ ACCTCOMPLEXA	An indicator variable coded 1 if acquirer operates in a complex accounting industry based on Francis and Gunn (2015); coded 0 otherwise (Francis and Gunn consider an industry to have complex accounting if there exists industry specific AICPA Practice Guides or FASB Topic Guides) (a measure of accounting complexity).[c]
FIRM_ICPROB	A firm-level (i.e., as opposed to a firm-year) measure of the internal control issues. An indicator variable coded 1 if the acquirer, at any time during the sample period (1999-2014), reported an internal control issue (either/both a significant deficiency or material weakness).[b]
DEALSIZE	M&A transaction value divided by pre-merger, acquirer market value of equity (a measure of business/transaction complexity).[c, d]

APPENDIX A: VARIABLE DEFINITIONS (CONTINUED)

Variable Name	Variable Definition
DIVERSMA	An indicator variable coded 1 if, pre-merger, the acquirer and target had two different, two-digit SIC codes; coded 0 otherwise (a measure of business/transaction complexity).[c, d]
SIZEMV	The natural log of the acquirer's post-merger market value of equity (in millions).[c]
ROA	The acquirer's post-merger net income (in millions) divided by its post-merger total assets (in millions).[c]
BTM	Acquirer's post-merger book-to-market ratio.[c]
LEV	Acquirer's post-merger total liabilities (in millions) divided by its post-merger total assets (in millions).[c]
STDRET	Standard deviation of the acquirer's daily stock market returns for the one-year period ending on the fiscal-year-end date corresponding to the post-merger period.[f]
STOCKMA	An indicator variable coded 1 if at least 50% (i.e., ≥ 50%) of the M&A transaction consideration was composed of stock; coded 0 otherwise.[d]
ACSIZE	The number of audit committee members serving on the acquirer's post-merger board.[a]
TGT_LNASSETS	Natural log of the target's pre-merger assets (in millions).[c]
BODSIZE	The number of directors on the acquirer's post-merger board of directors.[a]
BODIND	The percentage of directors on the acquirer's post-merger board of directors that are independent.[a]
CEOCHAIR	An indicator variable coded 1 if the CEO is also the chair of the post-merger board of directors; coded 0 otherwise.[a]
PRE_MARESTATE	An indicator variable coded 1 if either the acquirer and/or target pre-merger financial statements were subsequently restated; coded 0 otherwise.[b]
OVRPD	An indicator variable coded 1 if the acquirer overpaid for the target (relative to the population of M&As in the same industry); coded 0 otherwise. An acquirer is considered to have overpaid if the revenue multiple (i.e., Transaction Value / Target Company's Trailing Twelve Months' Revenue) is in the top 25 percent of all (population of all Thomson One SDC M&As) revenue multiples (same two-digit SIC industry).[c, d]
MTB	Acquirer's post-merger market-to-book ratio (market value / book value of assets).[c]
MKT_IMPIND	An indicator variable coded 1 if acquirer's post-merger market-to-book ratio is less than one; coded 0 otherwise.[c]
GWPCT	The percentage of the acquirer's post-merger assets composed of goodwill (i.e., post-merger goodwill (in millions) divided by post-merger total assets (in millions)).[c]

APPENDIX A: VARIABLE DEFINITIONS (CONTINUED)

Variable Name	Variable Definition
EXPECTED_ WOPCT	A measure of the percentage of goodwill expected to be written-off, but not actually written off post-merger (based on Beatty and Weber 2006). It captures the severity of the warning signal provided by a market based impairment indicator, market value vs. book value of equity. The measure is calculated as the difference between post-merger book value of equity and the post-merger market value of equity and is scaled by post-merger goodwill. The variable's values are restricted to the range 0% to 100%. If the company has $0 post-merger goodwill, the percentage is set to 0% (i.e., the company could not have written off any additional goodwill if no goodwill is recorded in the post-merger financial statements). If the expected write-off amount exceeds the amount of post-merger goodwill, the percentage is set to 100% (i.e., based strictly on market indications of impairment, the company could have written off all of the remaining goodwill recorded in its post-merger financial statements). Higher percentage values of EXPECTED_WOPCT indicate that more goodwill impairment could have been recorded; therefore, the warning from the market based impairment indicator is more severe.[c]
LOSS	An indicator variable coded 1 if the acquirer's post-merger net income is less than zero; coded 0 otherwise.[c]
LNSEGS	Natural log of 1 plus the acquirer's post-merger number of business segments.[c]
RETURN	Acquirer's post-merger buy and hold return for the one year period ending on the fiscal-year-end date corresponding to the post-merger period.[f]
BIGN	An indicator variable coded 1 if the acquirer employed a Big N auditor (i.e., PwC, EY, Deloitte, KPMG, or Arthur Andersen) post-merger; coded 0 otherwise.[b]
INDEXP	An indicator variable coded 1 if the acquirer's post-merger auditor industry (two-digit SIC) market share exceeded 30%.[b, c]
TGT_ ACCTCOMPLEX	A measure of the target's pre-merger accounting complexity. The percentage of companies within the target's two-digit SIC industry that restated their financial statements in the calendar year.[b, c]
TGT_LNSEGS	Natural log of 1 plus the target's pre-merger number of business segments.
TGTBTM	Target's pre-merger book-to-market ratio.[c]
TGT_ICPROB	An indicator variable coded 1 if the target, in the pre-merger period, experienced an internal control failure (control failure reported in either/both Audit Analytics' 302 and 404 internal control databases); coded 0 otherwise.[b]
TGT_ FOREIGNOPS	An indicator variable coded 1 if the target had foreign operations in the pre-merger period; coded 0 otherwise. If the target reports non-zero foreign exchange income/loss, pre-tax foreign income, deferred foreign income taxes, and/or foreign income taxes (Source: Compustat variables FCA, PIFO, TXDFO, TXFO) it is considered to have foreign operations.[c]

APPENDIX A: VARIABLE DEFINITIONS (CONTINUED)

Variable Name	**Variable Definition**
ACQ_ ACCTCOMPLEXB	A measure of the acquirer's pre-merger accounting complexity. The percentage of companies within the acquirer's two-digit SIC industry that restated their financial statements for accounting reasons in the calendar year (a measure of accounting complexity).[b, c]
ACQ_ICPROB	An indicator variable coded 1 if the acquirer, in the pre-merger period, experienced an internal control failure (control failure reported in either/both Audit Analytics' 302 and 404 internal control databases); coded 0 otherwise.[b]
POST_LNSEGS	Natural log of 1 plus the acquirer's post-merger number of business segments (a measure of business/transaction complexity).[c]
POST_LNEMPLOY	Natural log of the acquirer's post-merger number of employees (a measure of business/transaction complexity).[c]
CASH_ONLY	An indicator variable coded 1 if a deal is paid entirely with cash; coded 0 otherwise (a measure of business/transaction complexity).[d]
HOSTILE	An indicator variable coded one if Thomson One SDC classifies a bid as hostile; coded 0 otherwise (a measure of business/transaction complexity).[d]
PREMIUM	The percentage difference between the bid price offered and the target's trading price four calendar weeks prior.[d]
TENDER	An indicator variable coded 1 if a bid is structured as a tender offer; coded 0 otherwise (a measure of business/transaction complexity).[d]
TOEHOLD	An indicator variable coded 1 if the acquirer had an ownership stake in the target at the time of the M&A transaction announcement; coded 0 otherwise (a measure of business/transaction complexity).[d]
ACQ_INSTOWN	The percentage of the acquirer's pre-merger stock owned by institutional shareholders. [e]
ACQ_LNASSETS	Natural log of the acquirer's pre-merger assets (in millions).[c]
LITRISK	An indicator variable coded 1 if the acquirer operates in one of the following litigious industries: SIC codes 2833-2836 (pharmaceuticals), 3570-3577 (computers), 3600-3674 (electronics), 7371-7379 (programming), or 8731-8734 (R&D); coded 0 otherwise (Francis, Philbrick, and Schipper 1994; Krishnan et al. 2011).[c]
CHG_RESTATE	The change in restatement between the pre- and post-merger periods. PRE_MARESTATE is coded 1 if either the acquirer and/or target pre-merger financial statements were subsequently restated; coded 0 otherwise. RESTATE is coded 1 if the acquirer post-merger financial statements were subsequently restated; coded 0 otherwise. CHG_RESTATE, therefore, is the difference between RESTATE and PRE_MARESTATE.[b]
HIGHPTB_RATIO	An indicator variable coded 1 if the acquirer paid a high price-to-book ratio (relative to the population of M&As involving public target companies); coded 0 otherwise. An acquirer is considered to have paid a high price-to-book ratio (i.e., the natural log of transaction value divided by target company assets) if the ratio paid is in the top 25 percent of all ratios.[c, d]

APPENDIX A: VARIABLE DEFINITIONS (CONTINUED)

Variable Name	Variable Definition
ABNHIGH_GW	A measure of abnormally high goodwill generated by an M&A. The measure is based on Paugam, Astolfi, and Ramond (2015). Abnormal goodwill is measured as the residual from a goodwill expectation model. Goodwill is deemed to be abnormally high if the residual from the expectation model is greater than 0 (i.e., the M&A transaction resulted in larger than expected goodwill). Thus ABNHIGH_GW is coded 1 for residuals greater than 0; coded 0 otherwise.[c, f]
TGT_DACC	Target discretionary accruals.[c]
TGT_PADACC	Target performance-adjusted discretionary accruals.[c]
TGT_ABS_ PADACC	Target performance-adjusted absolute discretionary accruals.[c]
TOBINQ	Target's market-to-book value of assets, where market assets are defined as total assets plus market value of common stock minus book value of common equity and deferred taxes (all variable values in millions).[c]
PPE	Property, plant, and equipment to assets ratio of the target (in millions).[c]
CASH	Natural logarithm of cash and cash equivalents of the target (in millions).[c]
SIZE	Natural logarithm of market value of equity of the target (in millions).[c]
BLOCK	Coded 1 if at least one institutional investor holds more than 5 percent of the target's stock; coded 0 otherwise.[e]
AGE	Number of years the target has been covered by CRSP.[f]

Data Sources: [a] BoardEx; [b] Audit Analytics; [c] Compustat; [d] Thomson One SDC; [e] Thomson Reuters Institutional (13f) Holdings; [f] CRSP.

APPENDIX B: BOARDEX DIRECTOR EXPERTISE

Appendix B.1
BoardEx Accounting Expertise Search Terms

Audit Partner[b, c]	CPA[a, b, c]
Auditor[b, c]	Certified Public Accountant[a, b, c]
Manager – Audit[b, c]	Forensic Certified Public Accountant[a, b, c]
Senior Audit Manager[b, c]	CFA[b]
Senior Auditor[b, c]	Chartered Financial Analyst[b]
Senior Director – Audit[b, c]	Certified European Financial Analyst[b]
Chartered Accountant[c]	Certified Forensic Financial Analyst[b]
CFO[a, b, c]	Chartered Accountant[b, c]
Treasurer[b]	Certified General Accountant
Controller[a, b, c]	Certified Management Accountant
Chief Accounting Officer[b, c]	Chartered Certified Accountant[c]
CAO[b, c]	Fellow Chartered Accountant[c]

[a] Consistent with Dhaliwal et al. (2010)
[b] Consistent with Krishnan et al. (2011)
[c] Consistent with Badolato et al. (2014)

Appendix B.2
BoardEx Population: Director Experiences and Director Certifications

Expertise from Employment	
CFO	71%
Treasurer	23%
Controller	11%
Auditor	4%
CAO	2%
Less: Simultaneous Overlapping Experience	-11%
Expertise from Certification	
CPA	73%
Chartered Accountant	15%
CFA and Other Certifications	12%

TABLE 1
Sample Selection

Panel A: M&A Observations

	Total
M&As (U.S. public acquirer and U.S. public target; 1999-2014)	3,589
Less:	
Thomson company identifier conversion via CRSP and Compustat	(1,331)
Missing acquirer BoardEx data	(648)
M&As with transaction value < $10.0 million	(39)
Total M&A Observations	**1,571**

Panel B: Restatements

	Total
Total M&A observations (1,571 per Panel A*2 for pooled periods t and t+1)	3,142
Less:	
Missing data	(684)
Total for Restatements	**2,458**

Panel C: Timely Goodwill Impairments

	Total
Total M&A observations (1,571 per Panel A*2 for pooled periods t and t+1)	3,142
Less:	
Pre-2003 observations (SFAS 142 was effective for fiscal years ending after December 31, 2001; plus 12 month transitional period in which impairments could be recorded below operating income)	(928)
Missing data	(628)
Total for Timely Goodwill Impairments	**1,586**

TABLE 1 (CONTINUED)
Sample Selection

Panel D: In-process Research and Development (IPR&D) Charge-offs

	Total
Total M&A observations (1,571 per Panel A*2 for pooled periods t and t+1)	3,142
Less:	
Post-2008 observations (SFAS 141R required IPR&D capitalization beginning in 2009)	(764)
Non-IPR&D industries (IPR&D analyses restricted to 2-digit SICs 35-38 and 73; all observations from outside these industries were excluded)	(1,546)
Missing data	(341)
Total for IPR&D Charge-offs	**491**

Panel E: What Explains Increases in Audit Committee Accounting Expertise Following an M&A?

	Total
Total M&A observations (1,571 per Panel A*2 for pooled periods t and t+1)	3,142
Less:	
Missing data	(1,607)
Total for Audit Committee Increases Surrounding M&As	**1,535**

TABLE 2
Descriptive Statistics: M&A Transactions

Panel A: M&A Transaction Value and Acquirer and Target Assets

	Mean	**25th Percentile**	**Median**	**75th Percentile**
$ Transaction Value (in Millions)	2,037.5	110.7	365.4	1,329.5
$ Acquirer Assets (in Millions)	27,823.5	1,131.8	4,245.6	18,560.4
$ Target Assets (in Millions)	3,623.5	104.0	396.0	1,361.9
N	1,571			

Panel B: M&As by Year

Merger Year	**N**	**Total Transaction Value ($ in Millions)**	**Mean Transaction Value ($ in Millions)**
1999	50	161,955.1	3,239.1
2000	173	519,490.6	3,002.8
2001	155	458,638.2	2,959.0
2002	78	95,534.0	1,224.8
2003	126	117,592.3	933.3
2004	127	223,164.8	1,757.2
2005	124	236,045.1	1,903.6
2006	122	357,128.3	2,927.3
2007	145	245,900.2	1,695.9
2008	99	142,645.1	1,440.9
2009	57	133,518.5	2,342.4
2010	81	144,863.3	1,788.4
2011	56	99,939.5	1,784.6
2012	70	130,066.8	1,858.1
2013	84	113,043.4	1,345.8
2014	24	21,356.1	889.8
Total	1,571	3,200,881.3	2,037.5

TABLE 3
Descriptive Statistics: Financial Reporting Benefits

	Restatements			Goodwill Impairments			IPR&D Charge-offs		
	Mean	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**
Dependent Variables									
RESTATE	0.115	0.000	0.319						
GWIMPAIR				0.107	0.000	0.309			
IPRD_WRITEOFF							0.070	0.000	0.216
Test Variables									
CHGNUM	0.107	0.000	0.494	0.109	0.000	0.519	0.196	0.000	0.559
CHGPROP	0.022	0.000	0.117	0.023	0.000	0.123	0.046	0.000	0.139
CHGPRES	0.048	0.000	0.322	0.041	0.000	0.334	0.059	0.000	0.359
INCNUM	0.151	0.000	0.358	0.161	0.000	0.368	0.230	0.000	0.421
INCPROP	0.216	0.000	0.412	0.241	0.000	0.428	0.336	0.000	0.473
EXPADD	0.077	0.000	0.267	0.077	0.000	0.267	0.096	0.000	0.295
Other Types of Audit Committee Expertise									
SUP_CHGNUM	0.093	0.000	0.641	0.134	0.000	0.636	0.087	0.000	0.661
SUP_CHGPROP	0.018	0.000	0.149	0.029	0.000	0.158	0.015	0.000	0.163
SUP_CHGPRES	0.031	0.000	0.354	0.049	0.000	0.346	0.026	0.000	0.360
SUP_INCNUM	0.192	0.000	0.394	0.221	0.000	0.415	0.195	0.000	0.397
SUP_INCPROP	0.258	0.000	0.438	0.288	0.000	0.453	0.254	0.000	0.436
SUP_EXPADD	0.079	0.000	0.269	0.086	0.000	0.280	0.080	0.000	0.268
LEG_CHGNUM	-0.011	0.000	0.402	-0.016	0.000	0.390	-0.013	0.000	0.393
LEG _CHGPROP	-0.004	0.000	0.090	-0.004	0.000	0.095	-0.005	0.000	0.099
LEG _CHGPRES	-0.008	0.000	0.307	-0.009	0.000	0.303	-0.016	0.000	0.294
LEG _INCNUM	0.057	0.000	0.233	0.054	0.000	0.227	0.051	0.000	0.221
LEG _INCPROP	0.090	0.000	0.287	0.083	0.000	0.275	0.082	0.000	0.274
LEG _EXPADD	0.043	0.000	0.203	0.042	0.000	0.200	0.036	0.000	0.185
IND_CHGNUM	0.012	0.000	0.265	0.020	0.000	0.252	0.008	0.000	0.308
IND _CHGPROP	0.001	0.000	0.064	0.004	0.000	0.067	0.001	0.000	0.079
IND _CHGPRES	0.007	0.000	0.225	0.016	0.000	0.215	0.002	0.000	0.239
IND _INCNUM	0.039	0.000	0.193	0.040	0.000	0.195	0.046	0.000	0.210
IND _INCPROP	0.061	0.000	0.240	0.062	0.000	0.242	0.072	0.000	0.259

TABLE 3 (CONTINUED)
Descriptive Statistics: Financial Reporting Benefits

	Restatements			Goodwill Impairments			IPR&D Charge-offs		
	Mean	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**
IND _EXPADD	0.029	0.000	0.168	0.032	0.000	0.175	0.030	0.000	0.170
M&A_CHGNUM	0.108	0.000	0.485	0.124	0.000	0.508	0.155	0.000	0.568
M&A _CHGPROP	0.023	0.000	0.117	0.028	0.000	0.129	0.037	0.000	0.151
M&A _CHGPRES	0.060	0.000	0.338	0.066	0.000	0.347	0.082	0.000	0.382
M&A _INCNUM	0.147	0.000	0.354	0.171	0.000	0.377	0.206	0.000	0.405
M&A _INCPROP	0.190	0.000	0.392	0.214	0.000	0.411	0.260	0.000	0.439
M&A _EXPADD	0.089	0.000	0.284	0.095	0.000	0.294	0.117	0.000	0.322
ALT_CHGNUM	0.126	0.000	0.735	0.158	0.000	0.729	0.129	0.000	0.777
ALT_CHGPROP	0.022	0.000	0.165	0.030	0.000	0.166	0.024	0.000	0.177
ALT_CHGPRES	0.028	0.000	0.274	0.030	0.000	0.261	0.021	0.000	0.268
ALT_INCNUM	0.235	0.000	0.424	0.254	0.000	0.435	0.250	0.000	0.434
ALT_INCPROP	0.279	0.000	0.449	0.306	0.000	0.461	0.291	0.000	0.454
ALT_EXPADD	0.052	0.000	0.222	0.049	0.000	0.216	0.046	0.000	0.210
Control Variables									
ACQ_ACCTCOMPLEXA	0.615	1.000	0.487						
FIRM_ICPROB	0.639	1.000	0.480						
DEALSIZE	0.298	0.132	0.433				0.275	0.110	0.405
DIVERSMA	0.338	0.000	0.473						
SIZEMV	8.405	8.288	1.926	8.430	8.270	1.934	8.347	8.163	2.038
ROA	0.014	0.022	0.107	0.021	0.028	0.094			
BTM	2.676	1.226	3.323				1.091	0.852	0.954
LEV	0.614	0.612	0.228	0.606	0.591	0.227			
STDRET	0.025	0.021	0.014	0.023	0.020	0.013			
STOCKMA	0.426	0.000	0.495						
ACSIZE	4.063	4.000	1.161	3.992	4.000	0.998	3.690	4.000	0.839
TGT_LNASSETS	5.976	5.963	1.804	6.065	6.097	1.830	5.063	4.978	1.517
BODSIZE	10.941	10.000	3.345	10.748	10.000	3.090	9.609	9.000	2.307
BODIND	0.758	0.778	0.136	0.788	0.813	0.112	0.782	0.800	0.106
CEOCHAIR	0.586	1.000	0.493	0.562	1.000	0.496	0.513	1.000	0.500

TABLE 3 (CONTINUED)
Descriptive Statistics: Financial Reporting Benefits

	Restatements			Goodwill Impairments			IPR&D Charge-offs		
	Mean	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**	**Mean**	**Median**	**Std. Dev.**
PRE_MARESTATE	0.131	0.000	0.337						
OVRPD				0.015	0.000	0.122			
MTB				1.024	0.837	0.877			
MKT_IMPIND				0.586	1.000	0.493			
GWPCT				0.219	0.197	0.166			
EXPECTED_WOPCT				0.045	0.000	0.175			
LOSS				0.184	0.000	0.388	0.291	0.000	0.455
LNSEGS				1.163	0.693	0.522			
RETURN				0.064	0.035	0.373			
BIGN				0.914	1.000	0.281	0.941	1.000	0.236
INDEXP				0.277	0.000	0.277	0.275	0.000	0.447
TGT_ACCTCOMPLEX							0.135	0.118	0.057
TGT_LNSEGS							0.777	0.693	0.246
TGTBTM							0.994	0.694	1.083
TGT_ICPROB							0.141	0.000	0.348
TGT_FOREIGNOPS							0.699	1.000	0.459
N	2,458			1,586			491		

All variables are defined in Appendix A.

TABLE 4
Financial Reporting Benefits: Restatements

	Pred.	Dependent Variable: RESTATE					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-3.766*** (-5.54)	-3.689*** (-5.42)	-3.713*** (-5.47)	-3.733*** (-5.50)	-3.730*** (-5.49)	-3.705*** (-5.46)
ACCTEXP Variable	−	-0.491††† (-3.22)	-1.772††† (-2.81)	-0.512†† (-2.12)	-0.466†† (-2.07)	-0.333†† (-1.76)	-0.503† (-1.61)
ACQ_ACCTCOMPLEXA	+	0.030 (0.18)	0.023 (0.14)	0.026 (0.16)	0.030 (0.18)	0.033 (0.020)	0.026 (0.16)
FIRM_ICPROB	+	1.328*** (6.37)	1.312*** (6.33)	1.310*** (6.32)	1.329*** (6.40)	1.331*** (6.41)	1.312*** (6.33)
DEALSIZE	+	0.193 (1.03)	0.174 (0.93)	0.148 (0.79)	0.174 (0.92)	0.153 (0.81)	0.148 (0.79)
DIVERSMA	+	0.119 (0.74)	0.132 (0.82)	0.130 (0.81)	0.131 (0.81)	0.135 (0.84)	0.132 (0.82)
SIZEMV	+	-0.029 (-0.45)	-0.021 (-0.32)	-0.026 (-0.40)	-0.027 (-0.42)	-0.020 (-0.31)	-0.024 (-0.37)
ROA	−	-0.755 (-1.05)	-0.835 (-1.16)	-0.748 (-1.05)	-0.738 (-1.03)	-0.780 (-1.08)	-0.732 (-1.02)
BTM	+	-0.033 (-0.86)	-0.029 (-0.77)	-0.030 (-0.81)	-0.030 (-0.78)	-0.028 (-0.75)	-0.028 (-0.75)
LEV	+	-0.715 (-1.60)	-0.667 (-1.49)	-0.606 (-1.36)	-0.705 (-1.57)	-0.651 (-1.46)	-0.618 (-1.39)
STDRET	+	10.631* (1.65)	10.275 (1.60)	10.791* (1.68)	10.818* (1.68)	10.514 (1.63)	10.867* (1.69)
STOCKMA	+	0.183 (1.10)	0.170 (1.02)	0.170 (1.02)	0.187 (1.13)	0.177 (1.06)	0.184 (1.11)
ACSIZE	?	0.296*** (3.73)	0.259*** (3.32)	0.271*** (3.47)	0.281*** (3.56)	0.263*** (3.38)	0.260*** (3.36)

TABLE 4 (CONTINUED)
Financial Reporting Benefits: Restatements

	Pred.	Dependent Variable: RESTATE					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
TGT_LNASSETS	?	0.028 (0.46)	0.028 (0.46)	0.026 (0.42)	0.028 (0.46)	0.029 (0.47)	0.025 (0.41)
BODSIZE	?	-0.024 (-0.65)	-0.022 (-0.61)	-0.022 (-0.61)	-0.023 (-0.63)	-0.023 (-0.65)	-0.021 (-0.58)
BODIND	?	-0.962* (-1.77)	-0.993* (-1.83)	-1.007* (-1.86)	-0.933* (-1.72)	-0.938* (-1.73)	-0.975* (-1.80)
CEOCHAIR	?	-0.183 (-1.20)	-0.185 (-1.21)	-0.192 (-1.26)	-0.196 (-1.29)	-0.191 (-1.26)	-0.193 (-1.27)
PRE_MARESTATE	+	2.744*** (17.73)	2.742*** (17.73)	2.716*** (17.70)	2.714*** (17.70)	2.707*** (17.70)	2.714*** (17.72)
Pseudo-R^2		0.327	0.325	0.323	0.323	0.322	0.321
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable refers to the alternate forms of the test variable, which measures changes and increases in audit committee accounting expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. RESTATE is coded 1 if the acquirer's post-merger financial statements were subsequently restated; coded 0 otherwise. All variables are defined in Appendix A.

TABLE 5
Audit Committee Accounting and Supervisory Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-3.807*** (-5.58)	-3.704*** (-5.44)	-3.685*** (-5.42)	-3.727*** (-5.49)	-3.708*** (-5.46)	-3.716*** (-5.47)
ACCTEXP Variable	-	-0.486††† (-3.19)	-1.782††† (-2.82)	-0.505†† (-2.09)	-0.482†† (-2.13)	-0.378†† (-1.96)	-0.501† (-1.60)
SUPEXP Variable	-	-0.134 (-1.10)	-0.150 (-0.29)	0.178 (0.86)	0.125 (0.66)	0.207 (1.21)	-0.023 (-0.08)
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.328	0.325	0.323	0.323	0.322	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282
Wald test: ACCTEXP Variable = SUPEXP Variable							
Chi-square		3.20*	4.16**	4.72**	3.84*	4.32**	1.28

TABLE 5 (CONTINUED)
Audit Committee Accounting and Supervisory Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
Including SUPEXP Variable and ACCTEXP Variable*SUPEXP Variable Interactions							
INTERCEPT	?	-3.776*** (-5.53)	-3.681*** (-5.40)	-3.630*** (-5.33)	-3.728*** (-5.48)	-3.722*** (-5.48)	-3.722*** (-5.47)
ACCTEXP Variable	-	-0.433††† (-2.53)	-1.575†† (-2.19)	-0.380† (-1.48)	-0.484†† (-1.89)	-0.452†† (-2.03)	-0.521† (-1.57)
SUPEXP Variable	-	-0.105 (-0.81)	-0.023 (-0.04)	0.254 (1.18)	0.123 (0.62)	0.164 (0.90)	-0.035 (-0.12)
ACCTEXP Variable * SUPEXP Variable	-	-0.233 (-0.69)	-0.781 (-0.59)	-0.511† (-1.46)	0.009 (0.02)	0.230 (0.69)	0.069 (0.18)
Control Variables		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.328	0.326	0.325	0.323	0.323	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and SUPEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and supervisory expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. RESTATE is coded 1 if the acquirer's post-merger financial statements were subsequently restated; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable and SUPEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the SUPEXP Variables and ACCTEXP Variable*SUPEXP Variable interactions. All variables are defined in Appendix A.

TABLE 6
Audit Committee Accounting and Legal Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			**Expertise Variables in Increase Form**		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-3.781*** (-5.54)	-3.717*** (-5.44)	-3.734*** (-5.47)	-3.733*** (-5.48)	-3.763*** (-5.52)	-3.674*** (-5.40)
ACCTEXP Variable	-	-0.490††† (-3.20)	-1.828††† (-2.90)	-0.528†† (-2.17)	-0.450†† (-2.00)	-0.320†† (-1.69)	-0.500† (-1.59)
LEGEXP Variable	-	-0.270† (-1.47)	-1.373†† (-1.68)	-0.473†† (-1.99)	-0.573†† (-1.67)	-0.166 (-0.64)	-0.785†† (-1.85)
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.328	0.327	0.326	0.325	0.322	0.324
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282
Wald test: ACCTEXP Variable = LEGEXP Variable							
Chi-square		0.84	0.21	0.03	0.09	0.21	0.29

TABLE 6 (CONTINUED)
Audit Committee Accounting and Legal Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Including LEGEXP Variable and ACCTEXP Variable*LEGEXP Variable Interactions							
INTERCEPT	?	-3.781*** (-5.54)	-3.733*** (-5.46)	-3.728*** (-5.46)	-3.823*** (-5.57)	-3.917*** (-5.68)	-3.758*** (-5.47)
ACCTEXP Variable	-	-0.485††† (-3.05)	-1.689††† (-2.61)	-0.514†† (-2.11)	-0.363† (-1.60)	-0.225 (-1.18)	-0.499† (-1.58)
LEGEXP Variable	-	-0.262† (-1.31)	-1.114† (-1.29)	-0.444†† (-1.81)	-0.393 (-1.12)	0.006 (0.02)	-0.742†† (-1.72)
ACCTEXP Variable * LEGEXP Variable	-	-0.064 (-0.11)	-4.395 (-0.90)	-0.302 (-0.51)	-14.139 (-0.02)	-14.264 (-0.03)	-14.810 (-0.02)
Control Variables		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.328	0.328	0.326	0.329	0.329	0.329
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and LEGEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and legal expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. RESTATE is coded 1 if the acquirer's post-merger financial statements were subsequently restated; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable and LEGEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the LEGEXP Variables and ACCTEXP Variable*LEGEXP Variable interactions. All variables are defined in Appendix A.

TABLE 7
Audit Committee Accounting and Industry Expertise: Restatements

	Pred.	**Dependent Variable: RESTATE**					
		Expertise Variables in Change Form			**Expertise Variables in Increase Form**		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-3.781*** (-5.56)	-3.705*** (-5.44)	-3.709*** (-5.45)	-3.734*** (-5.50)	-3.713*** (-5.45)	-3.710*** (-5.46)
ACCTEXP Variable	-	-0.477††† (-3.09)	-1.766††† (-2.79)	-0.528†† (-2.17)	-0.434†† (-1.88)	-0.362†† (-1.86)	-0.520†† (-1.65)
INDEXP Variable	-	-0.185 (-0.60)	-0.258 (-0.20)	0.242 (0.67)	-0.271 (-0.60)	0.190 (0.63)	0.201 (0.44)
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.327	0.325	0.323	0.323	0.322	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282
Wald test: ACCTEXP Variable = INDEXP Variable							
Chi-square		0.64	1.07	2.85*	0.09	1.95	1.49

TABLE 7 (CONTINUED)
Audit Committee Accounting and Industry Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
Including INDEXP Variable and ACCTEXP Variable*INDEXP Variable Interactions							
INTERCEPT	?	-3.785*** (-5.56)	-3.696*** (-5.41)	-3.708*** (-5.45)	-3.682*** (-5.41)	-3.722*** (-5.47)	-3.709*** (-5.46)
ACCTEXP Variable	-	-0.516††† (-3.24)	-1.974††† (-3.01)	-0.523†† (-2.13)	-0.516†† (-2.15)	-0.332†† (-1.65)	-0.527†† (-1.65)
INDEXP Variable	-	-0.385 (-1.07)	-1.099 (-0.77)	0.272 (0.64)	-1.042† (-1.43)	0.311 (0.85)	0.158 (0.28)
ACCTEXP Variable * INDEXP Variable	-	0.675 (1.02)	3.860 (1.22)	-0.088 (-0.13)	1.510 (1.69)	-0.326 (-0.56)	0.105 (0.14)
Control Variables		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.328	0.326	0.323	0.325	0.322	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and INDEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and industry expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. RESTATE is coded 1 if the acquirer's post-merger financial statements were subsequently restated; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable and INDEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the INDEXP Variables and ACCTEXP Variable*INDEXP Variable interactions. All variables are defined in Appendix A.

TABLE 8
Audit Committee Accounting and M&A Expertise: Restatements

		Dependent Variable: RESTATE					
		Expertise Variables in Change Form			**Expertise Variables in Increase Form**		
	Pred.	**CHGNUM (1)**	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-3.766*** (-5.54)	-3.697*** (-5.43)	-3.722*** (-5.48)	-3.746*** (-5.51)	-3.700*** (-5.44)	-3.714*** (-5.47)
ACCTEXP Variable	-	-0.448††† (-2.86)	-1.766††† (-2.76)	-0.511†† (-2.10)	-0.442†† (-1.89)	-0.399†† (-2.01)	-0.498† (-1.58)
M&AEXP Variable	-	-0.192 (-1.20)	-0.052 (-0.08)	-0.006 (-0.03)	-0.086 (-0.38)	0.215 (1.10)	-0.024 (-0.09)
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.328	0.325	0.323	0.323	0.323	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282
Wald test: ACCTEXP Variable = M&AEXP Variable							
Chi-square		1.06	3.09*	2.14	0.93	3.70*	1.17

TABLE 8 (CONTINUED)
Audit Committee Accounting and M&A Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
Including M&AEXP Variable and ACCTEXP Variable*M&AEXP Variable Interactions							
INTERCEPT	?	-3.765*** (-5.54)	-3.696*** (-5.43)	-3.713*** (-5.47)	-3.741*** (-5.51)	-3.702*** (-5.45)	-3.704*** (-5.46)
ACCTEXP Variable	-	-0.476††† (-2.68)	-1.882††† (-2.61)	-0.412† (-1.58)	-0.365† (-1.41)	-0.215 (-0.97)	-0.420 (-1.27)
M&AEXP Variable	-	-0.232 (-1.16)	-0.217 (-0.27)	0.123 (0.49)	0.011 (0.04)	0.432 (1.89)	0.080 (0.26)
ACCTEXP Variable * M&AEXP Variable	-	0.121 (0.34)	0.472 (0.35)	-0.369 (-1.03)	-0.285 (-0.66)	-0.606†† (-1.68)	-0.287 (-0.70)
Control Variables		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.328	0.325	0.324	0.323	0.325	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and M&AEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and M&A expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. RESTATE is coded 1 if the acquirer's post-merger financial statements were subsequently restated; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable and M&AEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the M&AEXP Variables and ACCTEXP Variable*M&AEXP Variable interactions. All variables are defined in Appendix A.

TABLE 9
Audit Committee Accounting and Alternate Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-3.822*** (-5.59)	-3.719*** (-5.45)	-3.712*** (-5.47)	-3.778*** (-5.54)	-3.741*** (-5.50)	-3.723*** (-5.49)
ACCTEXP Variable	-	-0.429††† (-2.77)	-1.689††† (-2.67)	-0.526†† (-2.17)	-0.391†† (-1.69)	-0.326†† (-1.66)	-0.504† (-1.62)
ALTEXP Variable	-	-0.263††† (-2.43)	-0.744† (-1.60)	0.315 (1.09)	-0.288† (-1.51)	-0.023 (-0.13)	0.326 (0.95)
Control Variables		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.331	0.327	0.324	0.324	0.322	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282
Wald test: ACCTEXP Variable = ALTEXP Variable							
Chi-square		0.68	1.35	4.66**	0.10	1.06	3.17*

TABLE 9 (CONTINUED)
Audit Committee Accounting and Alternate Expertise: Restatements

	Pred.	Dependent Variable: RESTATE					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
Including ALTEXP Variable and ACCTEXP Variable*ALTEXP Variable Interactions							
INTERCEPT	?	-3.837*** (-5.60)	-3.744*** (-5.47)	-3.718*** (-5.47)	-3.778*** (-5.54)	-3.748*** (-5.50)	-3.723*** (-5.48)
ACCTEXP Variable	-	-0.473††† (-2.58)	-2.062††† (-2.75)	-0.550†† (-2.04)	-0.380† (-1.43)	-0.434†† (-1.88)	-0.503† (-1.48)
ALTEXP Variable	-	-0.276††† (-2.46)	-0.877†† (-1.81)	0.307 (1.05)	-0.285† (-1.47)	-0.054 (-0.30)	0.326 (0.94)
ACCTEXP Variable * ALTEXP Variable	-	0.135 (0.45)	1.159 (0.94)	0.069 (0.20)	-0.033 (-0.08)	0.291 (0.93)	-0.002 (-0.01)
Control Variables		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.331	0.328	0.324	0.324	0.323	0.322
N-Total		2,458	2,458	2,458	2,458	2,458	2,458
N-Restatements		282	282	282	282	282	282

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and ALTEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and alternate (an aggregate measure of expertise that includes supervisory, legal, tax, industry, and/or M&A expertise) expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. RESTATE is coded 1 if the acquirer's post-merger financial statements were subsequently restated; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable and ALTEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the ALTEXP Variables and ACCTEXP Variable*ALTEXP Variable interactions. All variables are defined in Appendix A.

TABLE 10
Financial Reporting Benefits: Change in Restatement

	Pred.	Dependent Variable: CHG_RESTATE					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	0.018 (0.26)	0.027 (0.39)	0.023 (0.33)	0.021 (0.30)	0.023 (0.33)	0.024 (0.34)
ACCTEXP Variable	-	-0.040††† (-2.53)	-0.168††† (-2.59)	-0.029† (-1.40)	-0.018 (-0.88)	-0.010 (-0.56)	-0.023 (-0.91)
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.009	0.009	0.007	0.007	0.006	0.007
N-Total		2,458	2,458	2,458	2,458	2,458	2,458

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable refers to the alternate forms of the test variable, which measures changes and increases in audit committee accounting expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present OLS model results. CHG_RESTATE is the change in restatement between the pre- and post-merger periods. PRE_MARESTATE is coded 1 if either the acquirer and/or target pre-merger financial statements were subsequently restated; coded 0 otherwise. RESTATE is coded 1 if the acquirer post-merger financial statements were subsequently restated; coded 0 otherwise. CHG_RESTATE, therefore, is the difference between RESTATE and PRE_MARESTATE. All variables are defined in Appendix A.

TABLE 11
Financial Reporting Benefits: Timely Goodwill Impairments

	Pred.	Dependent Variable: GWIMPAIR					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-5.336*** (-4.90)	-5.373*** (-4.94)	-5.362*** (-4.95)	-5.377*** (-4.97)	-5.360*** (-4.97)	-5.522*** (-5.07)
ACCTEXP Variable	+	-0.339 (-1.90)	-0.514 (-0.68)	-0.383 (-1.29)	-0.128 (-0.49)	0.145 (0.66)	0.219 (0.62)
ACCTEXP Variable* OVRPD	+	5.580††† (3.27)	30.575†† (1.90)	18.094 (0.03)	5.345††† (3.13)	4.160††† (2.78)	17.494 (0.03)
OVRPD	+	-1.636 (-1.45)	-1.746 (-1.53)	-1.629 (-1.45)	-1.618 (-1.44)	-1.545 (-1.37)	-1.604 (-1.43)
MTB	−	-0.733** (-2.52)	-0.715** (-2.48)	-0.705** (-2.46)	-0.742** (-2.56)	-0.771*** (-2.66)	-0.709** (-2.47)
MKT_IMPIND	+	-0.139 (-0.39)	-0.104 (-0.29)	-0.112 (-0.31)	-0.129 (-0.36)	-0.149 (-0.42)	-0.095 (-0.27)
GWPCT	+	-0.892 (-1.25)	-0.968 (-1.35)	-1.011 (-1.41)	-0.904 (-1.26)	-0.946 (-1.32)	-0.916 (-1.27)
EXPECTED_WOPCT	+	0.918** (2.04)	0.927** (2.07)	0.936** (2.09)	0.929** (2.07)	0.961** (2.15)	0.940** (2.10)
SIZEMV	?	0.227*** (2.59)	0.233*** (2.68)	0.229*** (2.62)	0.238*** (2.74)	0.237*** (2.73)	0.239*** (2.76)
ROA	−	-6.988*** (-5.59)	-6.918*** (-5.55)	-6.812*** (-5.46)	-7.022*** (-5.60)	-7.092*** (-5.62)	-6.919*** (-5.54)
LOSS	+	1.159*** (3.98)	1.157*** (3.99)	1.190*** (4.07)	1.127*** (3.88)	1.119*** (3.86)	1.152*** (3.96)
LEV	?	-1.049* (-1.74)	-0.978 (-1.63)	-0.991* (-1.65)	-1.004* (-1.66)	-0.987* (-1.64)	-0.916 (-1.52)
LNSEGS	?	1.001*** (4.38)	0.981*** (4.30)	0.975*** (4.27)	1.006*** (4.41)	1.029*** (4.55)	0.970*** (4.26)

TABLE 11 (CONTINUED)
Financial Reporting Benefits: Timely Goodwill Impairments

	Pred.	Dependent Variable: GWIMPAIR					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
RETURN	−	-0.935*** (-3.15)	-0.926*** (-3.14)	-0.919*** (-3.12)	-0.947*** (-3.20)	-0.895*** (-3.07)	-0.916*** (-3.12)
STDRET	+	19.396** (2.44)	20.096** (2.54)	19.186** (2.42)	20.170** (2.55)	20.437*** (2.59)	20.731*** (2.62)
BIGN	+	-0.124 (-0.35)	-0.087 (-0.25)	-0.120 (-0.34)	-0.084 (-0.24)	-0.061 (-0.17)	-0.040 (-0.11)
INDEXP	+	-0.197 (-0.84)	-0.161 (-0.69)	-0.154 (-0.66)	-0.189 (-0.82)	-0.169 (-0.73)	-0.156 (-0.67)
ACSIZE	?	0.140 (1.12)	0.121 (0.97)	0.136 (1.10)	0.119 (0.95)	0.094 (0.76)	0.122 (0.99)
TGT_LNASSETS	?	-0.014 (-0.19)	-0.025 (-0.33)	-0.021 (-0.29)	-0.022 (-0.30)	-0.026 (-0.35)	-0.030 (-0.41)
BODSIZE	?	-0.123** (-2.52)	-0.122** (-2.51)	-0.120** (-2.47)	-0.123** (-2.52)	-0.119** (-2.46)	-0.125** (-2.57)
BODIND	?	1.984** (2.03)	1.993** (2.05)	1.973** (2.03)	1.995** (2.06)	2.003** (2.07)	2.027** (2.09)

TABLE 11 (CONTINUED)
Financial Reporting Benefits: Timely Goodwill Impairments

	Pred.	Dependent Variable: GWIMPAIR					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
CEOCHAIR	?	0.120 (0.58)	0.097 (0.47)	0.107 (0.52)	0.082 (0.40)	0.059 (0.29)	0.088 (0.43)
Pseudo-R^2		0.372	0.371	0.373	0.368	0.366	0.372
N-Total		1,586	1,586	1,586	1,586	1,586	1,586
N-Goodwill Impairments		169	169	169	169	169	169

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable refers to the alternate forms of the test variable, which measures changes and increases in audit committee accounting expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. OVRPD is coded 1 if the acquirer overpaid for the target (relative to the population of M&As in the same industry); coded 0 otherwise. An acquirer is considered to have overpaid if the revenue multiple (i.e., Transaction Value / Target Company's Trailing Twelve Months' Revenue) is in the top 25 percent of all (population of all Thomson One SDC M&As) revenue multiples (same two-digit SIC industry). GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. All variables are defined in Appendix A.

TABLE 12
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio)

	Pred.	Dependent Variable: GWIMPAIR					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-5.111*** (-4.23)	-5.217*** (-4.31)	-4.936*** (-4.01)	-5.180*** (-4.29)	-5.272*** (-4.35)	-5.261*** (-4.23)
ACCTEXP Variable	+	-0.012 (-0.05)	0.403 (0.38)	-0.021 (-0.05)	0.133 (0.38)	0.401† (1.37)	0.351 (0.82)
ACCTEXP Variable* HIGHPTB_RATIO	+	0.457 (1.05)	3.091†† (1.65)	1.775††† (2.46)	0.555 (0.95)	0.554 (1.05)	1.838†† (2.25)
HIGHPTB_RATIO	+	0.484 (1.61)	0.446† (1.46)	0.520†† (1.75)	0.404 (1.24)	0.329 (0.95)	0.418† (1.37)
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.397	0.402	0.406	0.398	0.404	0.407
N-Total		1,309	1,309	1,309	1,309	1,309	1,309
N-Goodwill Impairments		137	137	137	137	137	137

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable refers to the alternate forms of the test variable, which measures changes and increases in audit committee accounting expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. HIGHPTB_RATIO is coded 1 if the acquirer paid a high price-to-book ratio (relative to the population of M&As involving public target companies); coded 0 otherwise. An acquirer is considered to have paid a high price-to-book ratio (i.e., the natural log of transaction value divided by target company assets) if the ratio paid is in the top 25 percent of all ratios. GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. All variables are defined in Appendix A.

TABLE 13
Financial Reporting Benefits: Timely Goodwill Impairments (Abnormally High Goodwill)

		Dependent Variable: GWIMPAIR					
		ACCTEXP Variable in Change Form			**ACCTEXP Variable in Increase Form**		
	Pred.	**CHGNUM (1)**	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-4.586*** (-3.32)	-4.889*** (-3.52)	-4.895*** (-3.52)	-4.712*** (-3.41)	-4.793*** (-3.45)	-5.159*** (-3.67)
ACCTEXP Variable	+	-0.020 (-0.06)	1.329 (1.00)	0.294 (0.50)	0.122 (0.26)	0.324 (0.84)	0.504 (0.84)
ACCTEXP Variable * ABNHIGH_GW	+	0.596† (1.37)	1.630 (0.89)	0.819 (1.12)	0.802† (1.33)	0.771† (1.47)	1.000† (1.29)
ABNHIGH_GW	+	-0.125 (-0.44)	-0.079 (-0.28)	-0.025 (-0.09)	-0.206 (-0.67)	-0.280 (-0.86)	-0.096 (-0.34)
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.397	0.401	0.400	0.399	0.406	0.404
N-Total		929	929	929	929	929	929
N-GW Impairment		117	117	117	117	117	117

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable refers to the alternate forms of the test variable, which measures changes and increases in audit committee accounting expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. ABNHIGH_GW is based on Paugam, Astolfi, and Ramond (2015). Abnormal goodwill is measured as the residual from a goodwill expectation model. Goodwill is deemed to be abnormally high if the residual from the expectation model is greater than 0 (i.e., the M&A transaction resulted in larger than expected goodwill). Thus ABNHIGH_GW is coded 1 for residuals greater than 0; coded 0 otherwise. GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. All variables are defined in Appendix A.

TABLE 14
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Supervisory Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-5.143*** (-4.22)	-5.134*** (-4.21)	-4.967*** (-4.01)	-5.177*** (-4.27)	-5.248*** (-4.32)	-5.257*** (-4.22)
ACCTEXP Variable	+	0.026 (0.10)	0.419 (0.39)	0.010 (0.02)	0.238 (0.67)	0.426† (1.40)	0.416 (0.96)
SUPEXP Variable	+	-0.166 (-0.81)	-0.162 (-0.18)	-0.234 (-0.59)	-0.384 (-1.11)	-0.092 (-0.30)	-0.413 (-0.79)
ACCTEXP Variable* HIGHPTB_RATIO	+	0.470 (1.06)	3.062† (1.63)	1.606†† (2.21)	0.514 (0.85)	0.585 (1.05)	1.757†† (2.14)
SUPEXP Variable* HIGHPTB_RATIO	+	-0.367 (-0.85)	-1.292 (-0.71)	-0.681 (-0.83)	0.083 (0.13)	-0.092 (-0.16)	0.151 (0.13)
HIGHPTB_RATIO	+	0.528†† (1.73)	0.483† (1.56)	0.515†† (1.72)	0.386 (1.14)	0.339 (0.94)	0.413† (1.33)

TABLE 14 (CONTINUED)
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Supervisory Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.401	0.404	0.409	0.400	0.404	0.408
N-Total		1,309	1,309	1,309	1,309	1,309	1,309
N-Goodwill Impairments		137	137	137	137	137	137
Wald test: ACCTEXP Variable*HIGHPTB_RATIO = SUPEXP Variable*HIGHPTB_RATIO							
Chi-square		1.61	2.71*	4.73**	0.19	0.54	1.33

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and SUPEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and supervisory expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. HIGHPTB_RATIO is coded 1 if the acquirer paid a high price-to-book ratio (relative to the population of M&As involving public target companies); coded 0 otherwise. An acquirer is considered to have paid a high price-to-book ratio (i.e., the natural log of transaction value divided by target company assets) if the ratio paid is in the top 25 percent of all ratios. GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable*HIGHPTB_RATIO and SUPEXP Variable*HIGHPTB_RATIO coefficients, are also presented at the bottom of the table. All variables are defined in Appendix A.

TABLE 15
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Legal Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-5.200*** (-4.29)	-5.260*** (-4.34)	-5.066*** (-4.08)	-5.284*** (-4.35)	-5.069*** (-4.13)	-5.214*** (-4.19)
ACCTEXP Variable	+	-0.062 (-0.25)	0.196 (0.18)	-0.103 (-0.25)	0.134 (0.39)	0.415 (1.41)	0.363 (0.85)
LEGEXP Variable	+	-0.364 (-1.12)	-1.196 (-0.86)	-0.692 (-1.67)	0.241 (0.48)	0.621† (1.46)	0.503 (0.98)
ACCTEXP Variable* HIGHPTB_RATIO	+	0.544 (1.23)	3.300†† (1.74)	1.851††† (2.54)	0.601 (1.02)	0.391 (0.72)	1.814†† (2.22)
LEGEXP Variable* HIGHPTB_RATIO	+	-0.331 (-0.40)	1.978 (0.58)	-0.047 (-0.04)	-1.162 (-0.91)	0.175 (0.23)	-12.247 (-0.02)
HIGHPTB_RATIO	+	0.468† (1.55)	0.442† (1.45)	0.494†† (1.65)	0.435† (1.33)	0.365 (1.03)	0.464† (1.51)

TABLE 15 (CONTINUED)
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Legal Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.400	0.404	0.410	0.400	0.408	0.409
N-Total		1,309	1,309	1,309	1,309	1,309	1,309
N-Goodwill Impairments		137	137	137	137	137	137
Wald test: ACCTEXP Variable*HIGHPTB_RATIO = LEGEXP Variable*HIGHPTB_RATIO							
Chi-square		0.85	0.12	1.73	1.51	0.04	0.00

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and LEGEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and legal expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. HIGHPTB_RATIO is coded 1 if the acquirer paid a high price-to-book ratio (relative to the population of M&As involving public target companies); coded 0 otherwise. An acquirer is considered to have paid a high price-to-book ratio (i.e., the natural log of transaction value divided by target company assets) if the ratio paid is in the top 25 percent of all ratios. GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable*HIGHPTB_RATIO and LEGEXP Variable*HIGHPTB_RATIO coefficients, are also presented at the bottom of the table. All variables are defined in Appendix A.

TABLE 16
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Industry Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-5.120*** (-4.21)	-5.273*** (-4.33)	-4.894*** (-3.96)	-5.188*** (-4.28)	-5.405*** (-4.42)	-5.168*** (-4.13)
ACCTEXP Variable	+	-0.036 (-0.14)	0.365 (0.34)	-0.109 (-0.27)	0.104 (0.29)	0.434 (1.44)	0.273 (0.61)
INDEXP Variable	+	0.218 (0.42)	0.687 (0.30)	0.693 (1.21)	0.188 (0.31)	-0.263 (-0.46)	0.451 (0.72)
ACCTEXP Variable* HIGHPTB_RATIO	+	0.447 (0.98)	2.977† (1.57)	1.827††† (2.49)	0.507 (0.83)	0.257 (0.45)	1.792†† (2.11)
INDEXP Variable* HIGHPTB_RATIO	+	0.007 (0.01)	1.337 (0.41)	-0.452 (-0.50)	0.247 (0.25)	1.200† (1.42)	0.168 (0.15)
HIGHPTB_RATIO	+	0.489† (1.62)	0.454† (1.49)	0.537†† (1.80)	0.394 (1.20)	0.292 (0.83)	0.409† (1.33)

TABLE 16 (CONTINUED)
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Industry Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.400	0.403	0.408	0.400	0.407	0.408
N-Total		1,309	1,309	1,309	1,309	1,309	1,309
N-Goodwill Impairments		137	137	137	137	137	137
Wald test: ACCTEXP Variable*HIGHPTB_RATIO = INDEXP Variable*HIGHPTB_RATIO							
Chi-square		0.18	0.16	3.17*	0.04	0.66	1.06

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and INDEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and industry expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. HIGHPTB_RATIO is coded 1 if the acquirer paid a high price-to-book ratio (relative to the population of M&As involving public target companies); coded 0 otherwise. An acquirer is considered to have paid a high price-to-book ratio (i.e., the natural log of transaction value divided by target company assets) if the ratio paid is in the top 25 percent of all ratios. GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable*HIGHPTB_RATIO and INDEXP Variable*HIGHPTB_RATIO coefficients, are also presented at the bottom of the table. All variables are defined in Appendix A.

TABLE 17
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and M&A Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-5.109*** (-4.21)	-5.276*** (-4.33)	-4.927*** (-4.01)	-5.116*** (-4.22)	-5.213*** (-4.27)	-5.253*** (-4.22)
ACCTEXP Variable	+	-0.036 (-0.14)	0.322 (0.30)	-0.030 (-0.07)	0.035 (0.09)	0.295 (0.93)	0.325 (0.75)
M&AEXP Variable	+	0.076 (0.28)	0.480 (0.42)	0.045 (0.11)	0.289 (0.81)	0.293 (0.88)	0.174 (0.38)
ACCTEXP Variable* HIGHPTB_RATIO	+	0.364 (0.75)	2.603† (1.31)	1.917††† (2.53)	0.594 (0.91)	0.366 (0.61)	1.971†† (2.27)
M&AEXP Variable* HIGHPTB_RATIO	+	0.186 (0.39)	1.189 (0.61)	-0.379 (-0.56)	-0.146 (-0.22)	0.333 (0.55)	-0.430 (-0.53)
HIGHPTB_RATIO	+	0.476† (1.55)	0.442† (1.41)	0.541†† (1.81)	0.435† (1.28)	0.279 (0.76)	0.458† (1.46)

TABLE 17 (CONTINUED)
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and M&A Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.398	0.404	0.406	0.399	0.407	0.407
N-Total		1,309	1,309	1,309	1,309	1,309	1,309
N-Goodwill Impairments		137	137	137	137	137	137
Wald test: ACCTEXP Variable*HIGHPTB_RATIO = M&AEXP Variable*HIGHPTB_RATIO							
Chi-square		0.05	0.20	4.01**	0.44	0.00	3.16*

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and M&AEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and M&A expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. HIGHPTB_RATIO is coded 1 if the acquirer paid a high price-to-book ratio (relative to the population of M&As involving public target companies); coded 0 otherwise. An acquirer is considered to have paid a high price-to-book ratio (i.e., the natural log of transaction value divided by target company assets) if the ratio paid is in the top 25 percent of all ratios. GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable* HIGHPTB_RATIO and M&AEXP Variable*HIGHPTB_RATIO coefficients, are also presented at the bottom of the table. All variables are defined in Appendix A.

TABLE 18
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Alternate Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-5.106*** (-4.22)	-5.258*** (-4.32)	-4.910*** (-3.98)	-5.150*** (-4.25)	-5.302*** (-4.37)	-5.251*** (-4.20)
ACCTEXP Variable	+	0.018 (0.07)	0.416 (0.39)	-0.007 (-0.02)	0.112 (0.31)	0.353 (1.16)	0.340 (0.79)
ALTEXP Variable	+	-0.093 (-0.49)	-0.081 (-0.09)	-0.303 (-0.52)	0.029 (0.09)	0.183 (0.64)	0.222 (0.37)
ACCTEXP Variable* HIGHPTB_RATIO	+	0.566 (1.21)	2.980† (1.56)	1.786††† (2.45)	0.927† (1.42)	0.497 (0.86)	1.927††† (2.33)
ALTEXP Variable* HIGHPTB_RATIO	+	-0.224 (-0.60)	0.545 (0.32)	-0.070 (-0.06)	-0.801 (-1.21)	0.076 (0.13)	-1.470 (-0.85)
HIGHPTB_RATIO	+	0.496† (1.63)	0.433† (1.40)	0.511†† (1.72)	0.497† (1.47)	0.338 (0.93)	0.448† (1.46)

TABLE 18 (CONTINUED)
Financial Reporting Benefits: Timely Goodwill Impairments (High Price-to-Book Ratio; Accounting and Alternate Expertise)

	Pred.	Dependent Variable: GWIMPAIR					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Controls		Included	Included	Included	Included	Included	Included
Pseudo-R^2		0.400	0.403	0.406	0.401	0.405	0.408
N-Total		1,309	1,309	1,309	1,309	1,309	1,309
N-Goodwill Impairments		137	137	137	137	137	137
Wald test: ACCTEXP Variable*HIGHPTB_RATIO = ALTEXP Variable*HIGHPTB_RATIO							
Chi-square		1.30	0.77	1.47	2.39	0.19	2.93*

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and ALTEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and alternate (an aggregate measure of expertise that includes supervisory, legal, tax, industry, and/or M&A expertise) expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present logit model results. HIGHPTB_RATIO is coded 1 if the acquirer paid a high price-to-book ratio (relative to the population of M&As involving public target companies); coded 0 otherwise. An acquirer is considered to have paid a high price-to-book ratio (i.e., the natural log of transaction value divided by target company assets) if the ratio paid is in the top 25 percent of all ratios. GWIMPAIR is coded 1 if the acquirer, in the post-merger period, recorded a goodwill impairment; coded 0 otherwise. Wald tests, which test for the equality of the ACCTEXP Variable*HIGHPTB_RATIO and ALTEXP Variable*HIGHPTB_RATIO coefficients, are also presented at the bottom of the table. All variables are defined in Appendix A.

TABLE 19
Financial Reporting Benefits: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-0.087 (-1.13)	-0.075 (-0.98)	-0.082 (-1.07)	-0.085 (-1.09)	-0.084 (-1.08)	-0.080 (-1.04)
ACCTEXP Variable	−	-0.033†† (-1.99)	-0.168††† (-2.57)	-0.068†† (-2.19)	-0.038†† (-1.98)	-0.039†† (-2.25)	-0.085††† (-3.38)
DEALSIZE	+	0.077*** (4.17)	0.080*** (4.24)	0.074*** (4.03)	0.075*** (3.99)	0.076*** (3.99)	0.072*** (3.86)
SIZEMV	?	0.061*** (6.07)	0.061*** (6.09)	0.061*** (6.10)	0.060*** (6.03)	0.062*** (6.04)	0.060*** (6.08)
BTM	?	0.024** (2.43)	0.025** (2.46)	0.022** (2.24)	0.026*** (2.59)	0.026*** (2.58)	0.024** (2.47)
TGT_LNASSETS	?	-0.067*** (-5.59)	-0.067*** (-5.59)	-0.067*** (-5.57)	-0.067*** (-5.56)	-0.067*** (-5.55)	-0.068*** (-5.61)
ACSIZE	?	-0.015 (-1.31)	-0.021* (-1.66)	-0.018 (-1.48)	-0.016 (-1.33)	-0.018 (-1.49)	-0.019 (-1.57)
TGT_ACCTCOMPLEX	+	-0.309* (-1.95)	-0.296* (-1.90)	-0.306* (-1.95)	-0.311** (-1.97)	-0.287* (-1.81)	-0.330** (-2.06)
TGT_LNSEGS	+	-0.003 (-0.17)	-0.005 (-0.22)	-0.006 (-0.28)	-0.003 (-0.17)	-0.001 (-0.06)	-0.002 (-0.10)
TGTBTM	?	0.005 (0.67)	0.005 (0.76)	0.007 (0.99)	0.005 (0.68)	0.005 (0.72)	0.007 (1.04)
TGT_ICPROB	+	0.038 (1.37)	0.036 (1.31)	0.037 (1.32)	0.038 (1.38)	0.038 (1.37)	0.037 (1.33)
LOSS	?	0.068*** (2.92)	0.066*** (2.84)	0.065*** (2.76)	0.069*** (3.01)	0.069*** (3.03)	0.067*** (2.92)
BIGN	−	-0.032 (-0.93)	-0.031 (-0.91)	-0.039 (-1.11)	-0.028 (-0.81)	-0.022 (-0.65)	-0.035 (-1.01)

TABLE 19 (CONTINUED)
Financial Reporting Benefits: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INDEXP	−	0.020 (0.85)	0.020 (0.87)	0.021 (0.90)	0.019 (0.81)	0.016 (0.71)	0.022 (0.95)
TGT_FOREIGNOPS	+	-0.005 (-0.21)	-0.007 (-0.26)	-0.009 (-0.35)	-0.006 (-0.23)	-0.006 (-0.25)	-0.009 (-0.36)
BODSIZE	?	0.006 (1.09)	0.006 (1.17)	0.006 (1.15)	0.006 (1.11)	0.006 (1.08)	0.007 (1.33)
BODIND	?	-0.017 (-0.25)	-0.014 (-0.21)	-0.004 (-0.05)	-0.015 (-0.22)	-0.021 (-0.31)	-0.002 (-0.03)
CEOCHAIR	?	0.007 (0.40)	0.006 (0.37)	0.008 (0.46)	0.007 (0.40)	0.007 (0.43)	0.008 (0.47)
Adjusted-R^2		0.212	0.216	0.217	0.210	0.212	0.218
N		491	491	491	491	491	491

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable refers to the alternate forms of the test variable, which measures changes and increases in audit committee accounting expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present OLS model results. IPRD_WRITEOFF is the proportion of M&A transaction value allocated to in-process research and development and immediately written-off (i.e., IPR&D expense / transaction value). All variables are defined in Appendix A.

TABLE 20
Audit Committee Accounting and Supervisory Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-0.087 (-1.12)	-0.076 (-1.00)	-0.082 (-1.08)	-0.084 (-1.07)	-0.084 (-1.08)	-0.082 (-1.08)
ACCTEXP Variable	-	-0.033†† (-1.99)	-0.167††† (-2.58)	-0.068†† (-2.21)	-0.041†† (-2.13)	-0.047††† (-2.52)	-0.084††† (-3.39)
SUPEXP Variable	-	0.004 (0.21)	0.024 (0.35)	0.004 (0.12)	0.021 (0.76)	0.039 (1.55)	0.013 (0.30)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.210	0.215	0.216	0.210	0.216	0.216
N-Total		491	491	491	491	491	491
F-Test: ACCTEXP Variable = SUPEXP Variable							
F-Statistic		2.93*	5.40**	4.50**	0.07*	7.53***	4.82**

TABLE 20 (CONTINUED)
Audit Committee Accounting and Supervisory Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Including SUPEXP Variable and ACCTEXP Variable*SUPEXP Variable Interactions							
INTERCEPT	?	-0.087 (-1.12)	-0.076 (-1.00)	-0.082 (-1.08)	-0.085 (-1.07)	-0.083 (-1.06)	-0.082 (-1.08)
ACCTEXP Variable	-	-0.035†† (-1.88)	-0.155†† (-2.10)	-0.068†† (-2.13)	-0.043†† (-2.18)	-0.036†† (-2.00)	-0.084††† (-3.19)
SUPEXP Variable	-	0.002 (0.10)	0.033 (0.36)	0.003 (0.10)	0.020 (0.60)	0.050 (1.79)	0.013 (0.26)
ACCTEXP Variable * SUPEXP Variable	-	0.006 (0.18)	-0.044 (-0.35)	0.001 (0.03)	0.005 (0.13)	-0.041† (-1.46)	0.000 (0.00)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.208	0.213	0.214	0.217	0.217	0.214
N-Total		491	491	491	491	491	491

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and SUPEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and supervisory expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present OLS model results. IPRD_WRITEOFF is the proportion of M&A transaction value allocated to in-process research and development and immediately written-off (i.e., IPR&D expense / transaction value). F- tests, which test for the equality of the ACCTEXP Variable and SUPEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the SUPEXP Variables and ACCTEXP Variable*SUPEXP Variable interactions. All variables are defined in Appendix A.

TABLE 21
Audit Committee Accounting and Legal Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
INTERCEPT	?	-0.066 (-0.87)	-0.054 (-0.70)	-0.062 (-0.83)	-0.084 (-1.08)	-0.084 (-1.08)	-0.064 (-0.84)
ACCTEXP Variable	-	-0.029†† (-1.84)	-0.160††† (-2.49)	-0.065†† (-2.04)	-0.038†† (-1.98)	-0.039†† (-2.25)	-0.083††† (-3.28)
LEGEXP Variable	-	-0.050†† (-1.76)	-0.180† (-1.55)	-0.067†† (-2.01)	-0.028 (-0.60)	-0.002 (-0.04)	-0.114††† (-3.26)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.221	0.222	0.225	0.209	0.210	0.226
N-Total		491	491	491	491	491	491
F-Test: ACCTEXP Variable = LEGEXP Variable							
F-Statistic		0.59	0.03	0.00	0.05	0.98	0.32

TABLE 21 (CONTINUED)
Audit Committee Accounting and Legal Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Including LEGEXP Variable and ACCTEXP Variable*LEGEXP Variable Interactions							
INTERCEPT	?	-0.089 (-1.15)	-0.063 (-0.83)	-0.063 (-0.84)	-0.080 (-1.04)	-0.080 (-1.03)	-0.064 (-0.84)
ACCTEXP Variable	-	-0.037†† (-2.30)	-0.185††† (-2.75)	-0.065†† (-2.02)	-0.046††† (-2.57)	-0.043††† (-2.55)	-0.083††† (-3.28)
LEGEXP Variable	-	-0.079††† (-2.77)	-0.283††† (-2.53)	-0.068†† (-2.05)	-0.077††† (-2.33)	-0.028 (-0.80)	-0.111††† (-2.92)
ACCTEXP Variable * LEGEXP Variable	-	0.162 (1.26)	0.513 (1.16)	0.004 (0.03)	0.254 (1.33)	0.133 (1.12)	-0.025 (-0.55)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.229	0.227	0.223	0.220	0.215	0.225
N-Total		491	491	491	491	491	491

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and LEGEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and legal expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present OLS model results. IPRD_WRITEOFF is the proportion of M&A transaction value allocated to in-process research and development and immediately written-off (i.e., IPR&D expense / transaction value). F- tests, which test for the equality of the ACCTEXP Variable and LEGEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the LEGEXP Variables and ACCTEXP Variable*LEGEXP Variable interactions. All variables are defined in Appendix A.

TABLE 22
Audit Committee Accounting and Industry Expertise: IPR&D Charge-offs

		Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			**Expertise Variables in Increase Form**		
	Pred.	**CHGNUM (1)**	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-0.088 (-1.14)	-0.076 (-0.99)	-0.082 (-1.06)	-0.081 (-1.03)	-0.088 (-1.13)	-0.074 (-0.96)
ACCTEXP Variable	-	-0.038†† (-2.22)	-0.168††† (-2.56)	-0.069†† (-2.21)	-0.044††† (-2.40)	-0.048††† (-2.72)	-0.088††† (-3.48)
INDEXP Variable	-	0.044 (1.76)	0.140 (1.53)	0.045 (1.38)	0.048 (1.16)	0.044 (1.52)	0.059 (1.05)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.214	0.217	0.219	0.211	0.213	0.219
N-Total		491	491	491	491	491	491
F-Test: ACCTEXP Variable = INDEXP Variable							
F-Statistic		5.34**	5.33**	7.47***	3.50*	4.59**	7.01***

TABLE 22 (CONTINUED)
Audit Committee Accounting and Industry Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Including INDEXP Variable and ACCTEXP Variable*INDEXP Variable Interactions							
INTERCEPT	?	-0.088 (-1.14)	-0.077 (-1.00)	-0.082 (-1.06)	-0.080 (-1.02)	-0.092 (-1.19)	-0.074 (-0.96)
ACCTEXP Variable	-	-0.042†† (-2.20)	-0.194††† (-2.68)	-0.069†† (-2.20)	-0.048††† (-2.38)	-0.052††† (-2.71)	-0.089††† (-3.57)
INDEXP Variable	-	0.030 (0.91)	0.039 (0.32)	0.046 (0.99)	0.027 (0.47)	0.016 (0.28)	0.053 (0.69)
ACCTEXP Variable * INDEXP Variable	-	0.049 (1.04)	0.310 (1.87)	-0.003 (-0.05)	0.065 (0.99)	0.053 (0.81)	0.019 (0.23)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.213	0.219	0.217	0.210	0.213	0.217
N-Total		491	491	491	491	491	491

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and INDEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and industry expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present OLS model results. IPRD_WRITEOFF is the proportion of M&A transaction value allocated to in-process research and development and immediately written-off (i.e., IPR&D expense / transaction value). F- tests, which test for the equality of the ACCTEXP Variable and INDEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the INDEXP Variables and ACCTEXP Variable*INDEXP Variable interactions. All variables are defined in Appendix A.

TABLE 23
Audit Committee Accounting and M&A Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-0.089 (-1.15)	-0.074 (-0.97)	-0.081 (-1.06)	-0.101 (-1.28)	-0.087 (-1.17)	-0.088 (-1.15)
ACCTEXP Variable	-	-0.032†† (-1.74)	-0.169††† (-2.44)	-0.069†† (-2.17)	-0.029† (-1.30)	-0.038†† (-1.88)	-0.083††† (-3.28)
M&AEXP Variable	-	-0.003 (-0.24)	0.003 (0.07)	0.002 (0.08)	-0.025 (-1.06)	-0.005 (-0.23)	-0.013 (-0.50)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.210	0.215	0.216	0.210	0.210	0.216
N-Total		491	491	491	491	491	491
F-Test: ACCTEXP Variable = M&AEXP Variable							
F-Statistic		1.09	3.04*	4.20**	0.01	0.95	2.93*

TABLE 23 (CONTINUED)
Audit Committee Accounting and M&A Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Including M&AEXP Variable and ACCTEXP Variable*M&AEXP Variable Interactions							
INTERCEPT	?	-0.097 (-1.25)	-0.076 (-1.00)	-0.086 (-1.12)	-0.115 (-1.46)	-0.091 (-1.23)	-0.092 (-1.21)
ACCTEXP Variable	-	-0.045†† (-1.94)	-0.208††† (-2.49)	-0.077††† (-2.24)	-0.054†† (-1.83)	-0.046†† (-1.84)	-0.095††† (-3.51)
M&AEXP Variable	-	-0.023 (-1.16)	-0.061 (-0.86)	-0.012 (-0.42)	-0.061†† (-1.95)	-0.017 (-0.61)	-0.033 (-1.03)
ACCTEXP Variable * M&AEXP Variable	-	0.044 (1.28)	0.135 (1.19)	0.026 (0.83)	0.071 (1.66)	0.024 (0.67)	0.039 (1.16)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.211	0.215	0.215	0.213	0.209	0.217
N-Total		491	491	491	491	491	491

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and M&AEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and M&A expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present OLS model results. IPRD_WRITEOFF is the proportion of M&A transaction value allocated to in-process research and development and immediately written-off (i.e., IPR&D expense / transaction value). F- tests, which test for the equality of the ACCTEXP Variable and M&AEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the M&AEXP Variables and ACCTEXP Variable*M&AEXP Variable interactions. All variables are defined in Appendix A.

TABLE 24
Audit Committee Accounting and Alternate Expertise: IPR&D Charge-offs

	Pred.	**Dependent Variable: IPRD_WRITEOFF**					
		Expertise Variables in Change Form			**Expertise Variables in Increase Form**		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	-0.086 (-1.12)	-0.074 (-0.98)	-0.084 (-1.10)	-0.089 (-1.14)	-0.083 (-1.07)	-0.081 (-1.05)
ACCTEXP Variable	-	-0.031†† (-1.80)	-0.167††† (-2.47)	-0.068†† (-2.20)	-0.033†† (-1.70)	-0.041†† (-2.23)	-0.085†† (-3.40)
ALTEXP Variable	-	-0.005 (-0.37)	-0.006 (-0.11)	0.029 (0.82)	-0.015 (-0.70)	0.006 (0.26)	0.018 (0.34)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.210	0.215	0.217	0.209	0.210	0.216
N-Total		491	491	491	491	491	491
F-Test: ACCTEXP Variable = ALTEXP Variable							
F-Statistic		1.12	3.20*	5.29**	0.23	2.04	3.70*

TABLE 24 (CONTINUED)
Audit Committee Accounting and Alternate Expertise: IPR&D Charge-offs

	Pred.	Dependent Variable: IPRD_WRITEOFF					
		Expertise Variables in Change Form			Expertise Variables in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
Including ALTEXP Variable and ACCTEXP Variable*ALTEXP Variable Interactions							
INTERCEPT	?	-0.092 (-1.21)	-0.075 (-1.00)	-0.085 (-1.11)	-0.090 (-1.14)	-0.080 (-1.02)	-0.081 (-1.04)
ACCTEXP Variable	-	-0.040†† (-1.84)	-0.202††† (-2.42)	-0.082††† (-2.35)	-0.034† (-1.33)	-0.029† (-1.32)	-0.086††† (-3.35)
ALTEXP Variable	-	-0.010 (-0.57)	-0.027 (-0.41)	0.015 (0.37)	-0.015 (-0.67)	0.009 (0.41)	0.016 (0.29)
ACCTEXP Variable * ALTEXP Variable	-	0.025 (0.94)	0.083 (0.96)	0.039 (1.41)	0.003 (0.11)	-0.029† (-1.32)	0.004 (0.15)
Controls		Included	Included	Included	Included	Included	Included
Adjusted-R^2		0.210	0.214	0.217	0.207	0.210	0.215
N-Total		491	491	491	491	491	491

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). ACCTEXP Variable and ALTEXP Variable refer to the alternate forms of the test variables, which measure changes and increases in audit committee accounting and alternate (an aggregate measure of expertise that includes supervisory, legal, tax, industry, and/or M&A expertise) expertise, used in each column: CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All columns present OLS model results. IPRD_WRITEOFF is the proportion of M&A transaction value allocated to in-process research and development and immediately written-off (i.e., IPR&D expense / transaction value). F- tests, which test for the equality of the ACCTEXP Variable and ALTEXP Variable coefficients, are presented in the middle of the table. The bottom of the table reports the results for models that include both the ALTEXP Variables and ACCTEXP Variable*ALTEXP Variable interactions. All variables are defined in Appendix A.

TABLE 25
Acquirers' Selection of Targets

Panel A: t-tests

	Number of AC Accounting Experts			Proportion of Accounting Experts			Presence of an Accounting Expert		
	High	Low	t-statistic	High	Low	t-statistic	Expert	No Expert	t-statistic
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
TGT_DACC	-0.604	-0.180	-1.24	-0.732	-0.096	-1.95*	-0.604	-0.180	-1.24
TGT_PADACC	-0.307	0.141	-1.55	-0.367	0.130	1.80*	-0.307	0.141	-1.55
TGT_ABS_ PADACC	1.017	0.787	0.82	1.104	0.717	1.45	1.017	0.787	0.82
N	436	225		378	283		436	225	

*, **, *** indicates t-test significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). High and low amounts of audit committee accounting expertise in columns 1-2 and 4-5 are based on sample medians (median number of audit committee accounting experts is 1 and median proportion is 0.25). Values equal to or greater than the median are considered to be high values of audit committee accounting expertise. Values less than the median are considered to be low values of audit committee accounting expertise. All variables are defined in Appendix A.

Panel B: Multivariate Models

		DV = TGT_DACC			DV = TGT_PADACC			DV = TGT_ABS_PADACC		
	Pred.	NUM (1)	PROP (2)	PRES (3)	NUM (4)	PROP (5)	PRES (6)	NUM (7)	PROP (8)	PRES (9)
		Coefficient (t-statistic)								
INTERCEPT	?	-1.308** (-2.54)	-1.263** (-2.43)	-1.290** (-2.43)	-0.107 (-0.30)	-0.076 (-0.21)	-0.099 (-0.27)	0.746* (1.77)	0.723* (1.68)	0.723* (1.69)
ACCTEXP Variable	-	-0.058 (-0.50)	-0.430 (-0.94)	-0.085 (-0.39)	-0.024 (-0.31)	-0.258 (-0.90)	-0.036 (-0.29)	0.113 (1.22)	0.414 (1.16)	0.139 (0.90)
TOBINQ	?	-0.262*** (-2.93)	-0.260*** (-2.92)	-0.262*** (-2.93)	-0.244*** (-3.41)	-0.243*** (-3.40)	-0.244*** (-3.41)	0.296*** (3.56)	0.294*** (3.55)	0.296*** (3.56)
PPE	?	1.951*** (4.94)	1.945*** (4.94)	1.951*** (4.94)	0.787*** (3.13)	0.782*** (3.12)	0.787*** (3.15)	-0.066 (-0.19)	-0.072 (-0.21)	-0.070 (-0.21)
CASH	?	-0.016 (-0.24)	-0.015 (-0.22)	-0.016 (-0.24)	-0.028 (-0.62)	-0.027 (-0.61)	-0.028 (-0.62)	0.029 (0.52)	0.028 (0.51)	0.029 (0.53)
SIZE	-	0.080 (0.95)	0.077 (0.92)	0.080 (0.94)	0.116** (2.44)	0.114** (2.41)	0.116** (2.44)	-0.094* (-1.81)	-0.091* (-1.74)	-0.093* (-1.79)
LEV	+	-0.432 (-1.05)	-0.452 (-1.09)	-0.436 (-1.05)	-0.652** (-2.47)	-0.666** (-2.51)	-0.654** (-2.46)	-0.096 (-0.30)	-0.085 (-0.27)	-0.093 (-0.29)

TABLE 25 (CONTINUED)
Acquirers' Selection of Targets

	Pred.	DV = TGT_DACC NUM (1)	DV = TGT_DACC PROP (2)	DV = TGT_DACC PRES (3)	DV = TGT_PADACC NUM (4)	DV = TGT_PADACC PROP (5)	DV = TGT_PADACC PRES (6)	DV = TGT_ABS_PADACC NUM (7)	DV = TGT_ABS_PADACC PROP (8)	DV = TGT_ABS_PADACC PRES (9)
		Coefficient (t-statistic)								
ROA	-	-0.944* (-1.68)	-0.934* (-1.67)	-0.943* (-1.68)	-0.694** (-2.15)	-0.686** (-2.13)	-0.693** (-2.13)	0.081 (0.30)	0.079 (0.29)	0.081 (0.30)
BLOCK	-	0.496* (1.68)	0.498* (1.70)	0.490* (1.66)	-0.018 (-0.09)	-0.016 (-0.08)	-0.021 (-0.10)	-0.447* (-1.94)	-0.449* (-1.95)	-0.438* (-1.89)
AGE	?	0.037* (1.66)	0.040* (1.75)	0.037 (1.64)	-0.012 (-0.71)	-0.010 (-0.59)	-0.012 (-0.74)	0.020 (1.03)	0.021 (1.09)	0.022 (1.15)
Adjusted-R^2		0.054	0.055	0.054	0.050	0.051	0.050	0.045	0.045	0.044
N-Total		661	661	661	661	661	661	661	661	661

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). ACCTEXP Variable refers to the alternate forms of the test variable, used in each column: acquirer pre-merger number (NUM; columns 1, 3, and 7), proportion (PROP; columns 2, 5, and 8), and presence of at least one (PRES; columns 3, 6, and 9) audit committee expert(s). All columns present logit model results. TGT_DACC is target discretionary accruals. TGT_PADACC is target performance-adjusted discretionary accruals. TGT_ABS_PADACC is target performance-adjusted absolute discretionary accruals. All variables are defined in Appendix A.

TABLE 26
Descriptive Statistics: What Explains Increases in Audit Committee Accounting Expertise Following an M&A?

Panel A: Mean Audit Committee Accounting Expertise

	Pre-M&A Period	Post-M&A Period	Change between Pre- and Post-M&A Periods [a]	Increase between Pre- and Post-M&A Periods [b]
NUM_ACCTEXP	0.843	0.959	0.116***	0.165***
PROP_ACCTEXP	0.219	0.244	0.025***	0.248***
PRES_ACCTEXP	0.612	0.671	0.059***	0.087***
N	1,535			

*, **, *** indicates t-test significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). All variables are defined in Appendix A.
[a] Mean values of the variables CHGNUM, CHGPROP, and CHGPRES.
[b] Mean values of the variables INCNUM, INCPROP, and EXPADD.

Panel B: Frequency of Decreases, No Change, and Increases in Audit Committee Accounting Expertise

	Number	Proportion	Presence
Decrease	92 (6%)	209 (13%)	44 (3%)
No Change	1,190 (78%)	946 (62%)	1,357 (88%)
Increase	253 (16%)	380 (25%)	134 (9%)
N	1,535 (100%)	1,535 (100%)	1,535 (100%)

Panel C: Test and Control Variables

	Mean	Std. Dev.	25th Percentile	Median	75th Percentile
Accounting Complexity					
ACQ_ ACCTCOMPLEXA	0.614	0.487	0.000	1.000	1.000
ACQ_ ACCTCOMPLEXB	0.100	0.056	0.059	0.086	0.134
ACQ_ICPROB	0.040	0.197	0.000	0.000	0.000
Business/Transaction Complexity					
DEALSIZE	0.294	0.404	0.039	0.134	0.367
DIVERSMA	0.333	0.471	0.000	0.000	1.000
POST_LNSEGS	2.664	2.061	1.000	1.000	4.000
POST_LNEMPLOY	2.099	1.965	0.693	2.065	3.714
CASH_ONLY	0.453	0.498	0.000	0.000	1.000
HOSTILE	0.001	0.036	0.000	0.000	0.000
PREMIUM	41.582	39.003	19.680	33.400	51.710
TENDER	0.172	0.377	0.000	0.000	0.000
TOEHOLD	0.031	0.174	0.000	0.000	0.000

TABLE 26 (CONTINUED)
Descriptive Statistics: What Explains Increases in Audit Committee Accounting Expertise Following an M&A?

	Mean	Std. Dev.	25th Percentile	Median	75th Percentile
Controls					
ACQ_INSTOWN	0.663	0.222	0.51	0.711	0.829
ACSIZE	4.073	1.072	3.000	4.000	5.000
ACQ_LNASSETS	8.572	1.968	7.247	8.518	9.970
TGT_LNASSETS	6.093	1.806	4.738	6.089	7.235
STDRET	0.022	0.012	0.013	0.019	0.026
LITRISK	0.301	0.459	0.000	0.000	1.000
BODSIZE	10.474	3.134	8.000	10.000	12.000
BODIND	0.775	0.123	0.700	0.800	0.875
CEOCHAIR	0.569	0.495	0.000	1.000	1.000
N	1,535				

All variables are defined in Appendix A.

TABLE 27
What Explains Increases in Audit Committee Accounting Expertise following an M&A?

	Pred.	Dependent Variable					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	**CHGPROP (2)**	**CHGPRES (3)**	**INCNUM (4)**	**INCPROP (5)**	**EXPADD (6)**
		Coefficient (t-statistic)					
INTERCEPT	?	0.225 (1.56)	0.095*** (2.60)	0.218** (2.43)	-1.599** (-2.09)	-1.161* (-1.78)	-0.542 (-0.56)
ACQ_ACCTCOMPLEXA	+	-0.049 (-1.55)	-0.011 (-1.42)	-0.001 (-0.04)	-0.016 (-0.09)	0.150 (1.01)	0.257 (1.08)
ACQ_ACCTCOMPLEXB	+	0.918††† (3.02)	0.152†† (2.24)	0.230 (1.25)	2.258† (1.54)	2.667†† (2.14)	-0.536 (-0.27)
ACQ_ICPROB	+	0.092 (1.11)	0.039†† (2.08)	0.042 (0.95)	0.676†† (2.10)	1.037††† (3.74)	0.294 (0.68)
DEALSIZE	+	0.133††† (2.50)	0.030††† (2.33)	0.040† (1.29)	0.635††† (2.97)	0.516††† (2.72)	0.467†† (1.68)
DIVERSMA	+	0.027 (0.91)	0.004 (0.60)	0.029† (1.54)	0.316†† (2.00)	0.019 (0.14)	0.339†† (1.68)
POST_LNSEGS	+	-0.007 (-0.84)	0.000 (-0.25)	-0.002 (-0.31)	0.048 (1.18)	0.045† (1.29)	0.025 (0.45)
POST_LNEMPLOY	+	0.001 (0.06)	-0.001 (-0.41)	-0.008 (-0.91)	-0.020 (-0.28)	0.004 (0.07)	-0.036 (-0.39)
CASH_ONLY	-	0.032 (0.99)	0.012 (1.55)	0.030 (1.47)	0.039 (0.21)	0.017 (0.11)	0.129 (0.55)
HOSTILE	+	0.184 (0.58)	0.032 (0.87)	-0.018 (-0.50)	1.079 (0.74)	1.037 (0.72)	-10.215 (-0.02)
PREMIUM	+	0.000 (-0.72)	0.000 (-1.10)	0.000 (-0.61)	-0.001 (-0.47)	-0.002 (-0.94)	-0.002 (-0.82)
TENDER	+	-0.106*** (-2.71)	-0.028*** (-3.11)	-0.059*** (-2.60)	-0.459** (-1.98)	-0.352** (-1.87)	-0.575* (-1.75)
TOEHOLD	-	-0.002 (-0.03)	-0.009 (-0.52)	-0.036 (-0.65)	-0.029 (-0.07)	-0.606† (-1.46)	-0.158 (-0.28)

TABLE 27 (CONTINUED)
What Explains Increases in Audit Committee Accounting Expertise following an M&A?

	Pred.	Dependent Variable					
		ACCTEXP Variable in Change Form			ACCTEXP Variable in Increase Form		
		CHGNUM (1)	CHGPROP (2)	CHGPRES (3)	INCNUM (4)	INCPROP (5)	EXPADD (6)
		Coefficient (t-statistic)					
ACQ_INSTOWN	-	-0.085 (-1.24)	-0.021 (-1.17)	-0.079* (-1.72)	-0.029 (-0.08)	-0.148 (-0.46)	-1.175** (-2.52)
ACSIZE	?	0.102*** (7.12)	-0.001 (-0.17)	0.035*** (3.79)	0.559*** (7.42)	0.194*** (2.98)	0.230** (2.43)
ACQ_LNASSETS	?	0.006 (0.37)	0.003 (0.93)	0.014 (1.33)	0.060 (0.67)	0.109 (1.46)	0.156 (1.39)
TGT_LNASSETS	?	0.001 (0.07)	-0.002 (-0.78)	-0.013* (-1.73)	0.013 (0.18)	-0.055 (-0.94)	-0.127 (-1.44)
STDRET	?	-3.452** (-2.53)	-0.511 (-1.49)	-1.704** (-2.12)	-15.574** (-2.12)	-7.732 (-1.32)	-14.927 (-1.54)
LITRISK	?	0.069** (2.14)	0.005 (0.61)	0.003 (0.14)	0.300* (1.67)	0.247 (1.64)	-0.095 (-0.39)
BODSIZE	?	-0.018*** (-2.97)	0.000 (-0.27)	-0.006 (-1.47)	-0.154*** (-4.29)	-0.084*** (-2.84)	-0.109** (-2.52)
BODIND	-	-0.484*** (-3.69)	-0.089*** (-2.65)	-0.263*** (-3.10)	-2.245*** (-3.50)	-0.989* (-1.79)	-1.864** (-2.34)
CEOCHAIR	+	0.032 (1.23)	0.000 (0.03)	0.000 (-0.01)	0.062 (0.40)	-0.177 (-1.37)	0.074 (0.37)
Adjusted-R^2 / Pseudo-R^2		0.063	0.025	0.022	0.121	0.067	0.069
N-Total		1,535	1,535	1,535	1,535	1,535	1,535
N-Increase in Accounting Expertise		N/A	N/A	N/A	253	380	134

*, **, *** Significant at 0.1, 0.05, and 0.01 levels, respectively (two-tailed). †, ††, ††† Significant at 0.1, 0.05, and 0.01 levels, respectively (one-tailed). Columns (1) – (3) present OLS model results, while columns (4) – (6) present logit model results. Each column uses a different form of the dependent variable (which measures changes and increases in audit committee accounting expertise): CHGNUM (column 1), CHGPROP (column 2), CHGPRES (column 3), INCNUM (column 4), INCPROP (column 5), and EXPADD (column 6). All variables are defined in Appendix A.

Figure 1: Timeline of M&A Transaction Date Relative to Periods t-1, t, and t+1

On August 5, 2010, The Boeing Company (NYSE: BA) acquired Argon ST Inc. (NASDAQ: STST) for $750.3 million. Boeing's fiscal year-end date is December 31st. Boeing manufactures commercial jetliners, military aircraft, satellites, missile defense, human space flight, and launch systems and services. Argon ST (now a Boeing subsidiary) provides command, control, communications, computers, intelligence, surveillance, and reconnaissance which support military and strategic units. The figure below depicts the timeline of the M&A transaction date relative to Boeing's fiscal-year periods t-1, t, and t+1. In addition, the measurement period is noted. During this period Boeing was permitted by GAAP (ASC 805-25-19) to retroactively adjust provisional purchase accounting estimates recorded for the Argon acquisition.