

The Valuation Effects of Warrant Extensions

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ABSTRACT

In this paper, we examine the warrant price and stock price reactions to the announcement of warrant life extensions. As predicted by option-pricing theory, warrant prices increase in response to an extension. Our principal finding is that the stocks of firms making the extension announcements experience positive abnormal returns on average. We interpret the evidence as supportive of an anticipation hypothesis in which the market perceives the decision to extend the warrants' expiration date as a favorable indication for the stock price before the subsequent expiration.

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